

TELEFONICA BRASIL S.A.
Form 6-K
November 27, 2013

**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 November, 2013

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)

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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

TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

SEPTEMBER 30, 2013

CE-0853/13 ING

REPORT OF QUARTERLY INFORMATION REVIEW

To the Shareholders, Board Members and Directors of

TELEFÔNICA BRASIL S.A.

São Paulo - SP

Introduction

We have reviewed the individual and consolidated interim accounting information of **TELEFÔNICA BRASIL S.A.** and subsidiaries, contained in the ITR (Quarterly Information Form), referring to the quarter ended on September 30, 2013, which comprises the balance sheet and related statements of income and of comprehensive income for the three and nine-month period then ended, and of changes in shareholders' equity and of cash flows for the nine-month period then ended, including the notes thereto.

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

Scope of review

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

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

Conclusion on individual interim information

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

Conclusion on consolidated interim information

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

Emphasis

Restatement of corresponding amounts

As mentioned in note 2, as a consequence of changes in the accounting policy introduced by the adoption of IFRS 11, the corresponding amounts, individual and consolidated, related to the balance sheet of the year ended December 31, 2012, and the interim accounting information related to the statement of income, of comprehensive income, of changes in shareholders' equity, of cash flow and of value added (supplementary information), referring to the nine-month period ended September 30, 2013, presented for comparison purposes, were adjusted and are being restated according to CPC 23 – Políticas Contábeis, Mudança de Estimativa e Retificação de Erro (Accounting Policies, Change in Estimate and Ratification of Error) and CPC 26(R1) - Apresentação das Demonstrações Contábeis (Presentation of Financial Statements). Our conclusion did not change regarding this matter.

Other matters

Interim statement of value added

We have also reviewed the individual and consolidated statement of value added (SVA), referring to the nine-month period ended September 30, 2013, the presentation of which in the interim information is required according to standards issued by CVM, regulations applicable to the preparation of the Quarterly Information – ITR and considered as supplementary information by IFRS's standards, which do not require the presentation of the SVA. These statements were submitted to the same review procedures previously described and, based on our review, we have no knowledge of any fact which could make us believe that they were not prepared, in all material aspects, in accordance with individual and consolidated interim accounting information taken as a whole.

São Paulo, November 06, 2013.

CRC Nº 2SP013002/O-3

Clóvis Ailton Madeira

CTCRC Nº 1SP106895/O-1 "S"

TELEFÔNICA BRASIL S. A.**Balance sheets****At September 30, 2013 and December 31, 2012****(In thousands of reais)**

		Company		Consolidated				Company	
ASSETS	Note	09.30.13	12.31.12	09.30.13	12.31.12	LIABILITIES AND EQUITY	Note	09.30.13	12.31.12
CURRENT ASSETS		18,192,709	6,515,094	18,531,767	16,209,181	CURRENT LIABILITIES		14,749,922	5,910,205
Cash and cash equivalents	3	8,505,037	3,079,282	8,630,208	7,133,485	Personnel, social charges and benefits	13	441,348	205,000
Short-term investments pledged as collateral	3	411,010	-	411,010	-	Trade accounts payable	14	6,073,695	2,191,000
Trade accounts receivable, net	4	5,471,495	2,150,724	5,688,339	5,512,272	Taxes, charges and contributions	15	1,520,258	529,000
Inventories	5	614,509	24,403	640,604	387,809	Loans, financing and lease	16.1	1,328,194	756,000
Taxes recoverable	6.1	2,131,226	602,328	2,160,812	2,052,421	Debentures	16.2	734,351	702,000
Judicial deposits and garnishments	7	179,085	-	179,085	126,625	Dividend and interest on equity	17	2,347,048	467,000
Derivative transactions	34	61,415	39,197	61,415	41,109	Provisions	18	541,835	334,000
Prepaid expenses	8	444,812	26,610	446,371	248,337	Derivative transactions	34	56,466	8,000
Dividend and interest on equity	17	1,140	394,105	1,140	1,140	Deferred income	19	792,674	69,000
Other assets	9	372,980	198,445	312,783	705,983	Reverse split of fractional shares		389,272	345,000
						Authorization license		76,016	
NONCURRENT ASSETS		53,315,607	51,067,347	52,983,891	54,041,911	Other liabilities	20	448,765	298,000
Short-term investments pledged as collateral	3	119,376	23,920	119,597	109,708				
Trade accounts receivable, net	4	144,866	-	241,976	93,378	NONCURRENT LIABILITIES		13,127,319	6,991,000
Taxes recoverable	6.1	382,194	549,225	382,194	738,965	Taxes, charges and	15	504,310	30,000

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Deferred taxes	6.2	-	-	200,129	1,027,888	contributions	6.2	705,652	1,216,
Judicial deposits and garnishments	7	4,169,861	3,068,256	4,193,735	3,909,268	Loans, financing and lease	16.1	3,588,380	582,
Derivative transactions	34	375,764	21,465	375,764	286,278	Debentures	16.2	3,562,418	2,253,
Prepaid expenses	8	28,042	16,720	28,678	31,396	Provisions	18	3,923,689	2,457,
Other assets	9	151,924	75,587	130,100	92,308	Derivative transactions	34	12,407	3,
Investments	10	11,044,532	21,561,061	134,154	142,881	Deferred income	19	265,928	39,
Property, plant and equipment, net	11	17,413,952	10,020,263	17,462,604	17,604,144	Post-retirement benefit plans	33	414,798	372,
Intangible assets, net	12	19,485,096	15,730,850	29,714,960	30,005,697	Other liabilities	20	149,737	35,
						TOTAL EQUITY		43,631,075	44,681,
						EQUITY		43,631,075	44,681,
						Capital	21	37,798,110	37,798,
						Capital reserves	21	2,686,897	2,686,
						Income reserves	21	1,101,699	1,100,
						Premium on acquisition of non-controlling interest	21	(70,448)	(70,4
						Other comprehensive income	21	13,272	17,
						Proposed additional dividend	21	-	3,148,
						Retained earnings	21	2,101,545	
						TOTAL LIABILITIES AND EQUITY		71,508,316	57,582,
TOTAL ASSETS		71,508,316	57,582,441	71,515,658	70,251,092			71,508,316	57,582,

TELEFÔNICA BRASIL S. A.**Income statements****Nine-month periods ended September 30, 2013 and 2012****(In thousands of reais)**

	Note	Company		Consolidated	
		2013	2012	2013	2012
OPERATING REVENUE, NET	22	14,562,788	9,634,159	25,665,195	25,012,254
Cost of services rendered and products sold	23	(8,287,473)	(5,721,941)	(13,203,611)	(12,284,293)
GROSS PROFIT		6,275,315	3,912,218	12,461,584	12,727,961
OPERATING INCOME (EXPENSES)		(3,298,820)	(612,545)	(8,976,143)	(7,933,874)
Selling expenses	24	(3,991,814)	(2,344,813)	(7,039,241)	(6,528,318)
General and administrative expenses	25	(838,181)	(529,718)	(1,680,193)	(1,596,435)
Equity pickup	10	1,831,343	2,436,034	(4,790)	(284)
Other operating income (expenses), net	26	(300,168)	(174,048)	(251,919)	191,163
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		2,976,495	3,299,673	3,485,441	4,794,087
Financial income	27	856,722	398,637	1,349,681	831,990
Financial expenses	27	(1,030,529)	(474,299)	(1,480,699)	(997,917)
INCOME BEFORE TAXES		2,802,688	3,224,011	3,354,423	4,628,160
Income and social contribution taxes	28	(318,059)	(244,688)	(869,794)	(1,650,229)
NET INCOME FOR THE PERIOD		2,484,629	2,979,323	2,484,629	2,977,931
Attributable to:					
Non-controlling interest		-	-	-	(1,392)
Controlling interest		2,484,629	2,979,323	2,484,629	2,979,323
Basic and diluted earnings per common share		2.07	2.49		
Basic and diluted earnings per preferred share		2.28	2.74		

TELEFÔNICA BRASIL S. A.**Statements of changes in equity****Period ended September 30, 2013****(In thousands of reais)**

	Capital	Premium on acquisition of non-controlling interest	Capital reserves			Income reserves		Retained earnings
			Special goodwill reserve	Capital reserve	Treasury stock	Legal reserve	Incentive reserve	
Balances at December 31, 2011	37,798,110	(29,929)	63,074	2,735,930	(79,339)	877,322	-	-
Additional dividend proposed for 2011	-	-	-	-	-	-	-	-
Expired dividends and interest on equity	-	-	-	-	-	-	-	62,340
Other changes	-	-	-	-	-	-	-	(3,240)
Repurchase of shares	-	-	-	-	(32,768)	-	-	-
Noncontrolling interest	-	(40,519)	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	2,979,323
Balance at September 30, 2012	37,798,110	(70,448)	63,074	2,735,930	(112,107)	877,322	-	3,038,423
Expired dividends and interest on equity	-	-	-	-	-	-	-	27,352
Other comprehensive income	-	-	-	-	-	-	-	(46,056)
Net income for the year	-	-	-	-	-	-	-	1,474,250

Allocation of income:									
Legal reserve	-	-	-	-	-	222,678	-	(222,678)	
Interim dividend	-	-	-	-	-	-	-	(1,122,522)	
Additional dividend proposed	-	-	-	-	-	-	-	(3,148,769)	
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	-	-	-	-	-	-	-	-	(3,148,769)
Expired dividends and interest on equity	-	-	-	-	-	-	-	59,045	
Tax incentives – July to September 2013	-	-	-	-	-	-	1,699	(1,699)	
Other comprehensive income	-	-	-	-	-	-	-	(430)	
Net income for the period	-	-	-	-	-	-	-	2,484,629	
Interim interest on equity	-	-	-	-	-	-	-	(440,000)	
Balance at September 30, 2013	37,798,110	(70,448)	63,074	2,735,930	(112,107)	1,100,000	1,699	2,101,545	
Outstanding shares (in thousands) VPA – equity value of Company's shares									

TELEFÔNICA BRASIL S. A.**Cash flow statements**

Nine-month periods ended September 30, 2013 and 2012
(In thousands of reais)

	Company		Consolidated	
	2013	2012	2013	2012
Cash generated by operating activities				
Income before taxes	2,802,688	3,224,011	3,354,423	4,628,160
Items not affecting cash				
Expenses (revenues) not representing changes in cash	1,888,273	217,247	5,655,164	4,615,151
Depreciation and amortization	2,709,578	1,970,491	4,214,142	4,054,760
Foreign exchange variation on loans	33,701	4,424	61,193	5,226
Monetary variations	42,847	(10,723)	49,703	(12,453)
Equity pick-up	(1,831,343)	(2,436,034)	4,790	284
Gain (loss) on assets write-off/disposal	(47,192)	12,059	(130,967)	(413,829)
Provision for impairment of accounts receivable	313,128	211,155	569,342	507,740
Provision (reversal) of accounts payable	(4,265)	126,092	(88,542)	(223,910)
Provision (write-offs and reversals) for impairment of inventory	(9,381)	(1,696)	908	19,379
Pension plans and other post-employment benefits	19,881	(3,517)	19,737	(10,193)
Provisions for tax, labor, civil and regulatory contingencies	320,076	167,386	486,879	302,537
Interest expenses	335,885	184,055	443,033	387,693
Reversal of provision for demobilization	855	(188)	17,107	(6,969)
Provisions for customer loyalty programs	1,064	-	7,834	13,505
Other	3,439	(6,257)	5	(8,619)
(Increase) decrease in operating assets:	(712,481)	130,966	(1,816,859)	(335,817)
Trade accounts receivable	(618,183)	(285,383)	(894,007)	(599,485)
Inventories	(134,273)	6,716	(253,703)	(11,408)
Taxes recoverable	(47,488)	590,933	(375,759)	557,964
Other current assets	187,722	(36,618)	(297,503)	(29,433)
Other noncurrent assets	(100,259)	(144,682)	4,113	(253,455)
Increase (decrease) in operating liabilities:	53,111	(817,138)	(379,645)	(2,258,649)
Personnel, social charges and benefits	25,391	(4,550)	29,736	(30,259)
Trade accounts payable	70,813	(427,130)	306,503	(795,973)
Taxes, charges and contributions	439,147	(123,265)	703,028	(69,753)
Interest paid	(307,443)	(150,380)	(431,732)	(321,332)
Income and social contribution taxes paid	-	(9,484)	(807,878)	(868,344)
Other current liabilities	(200,473)	(91,294)	(155,621)	(98,444)
Other noncurrent liabilities	25,676	(11,035)	(23,681)	(74,544)
Total cash from operating activities	4,031,591	2,755,086	6,813,083	6,648,845
Net cash provided by (used in) investing activities				

Advance for future capital contribution in subsidiaries	(65,250)	-	-	-
Additions to PP&E and intangible assets (net of donations)	(2,644,160)	(1,556,884)	(4,657,961)	(3,535,618)
Cash received from sale of PP&E items	41,268	6,274	430,085	596,993
Cash from investing activities	-	7,551	-	10,069
Capital increase in subsidiaries	-	(23,638)	-	-
Redemption of (short-term) investments in guarantee	(143,195)	-	(386,401)	-
Dividends and interest on equity received	1,320,449	1,208,218	-	8,217
Effect of cash and cash equivalents per merger/split-off	3,371,178	-	-	-
Total cash from (used in) investing activities	1,880,290	(358,479)	(4,614,277)	(2,920,339)
Net cash from (used in) financing activities				
Payment of loans, financing and debentures	(444,903)	(742,766)	(669,566)	(1,061,553)
Loans and debentures raised	1,551,019	2,000,000	1,569,015	2,815,302
Derivative agreements payment, net	(7,498)	(7,944)	(16,788)	(41,012)
Payments referring to grouping of shares	(237)	-	(237)	-
Dividends and interest on equity - paid	(1,584,507)	(1,573,713)	(1,584,507)	(1,573,713)
Acquisition of noncontrolling interest	-	(44,172)	-	(44,172)
Repurchase of treasury stock	-	(32,768)	-	(32,768)
Total cash from (used in) financing activities	(486,126)	(401,363)	(702,083)	62,084
Increase in cash and cash equivalents	5,425,755	1,995,244	1,496,723	3,790,590
Cash and cash equivalents at beginning of period	3,079,282	826,902	7,133,485	2,889,543
Cash and cash equivalents at end of period	8,505,037	2,822,146	8,630,208	6,680,133
Changes in cash and cash equivalents for the period	5,425,755	1,995,244	1,496,723	3,790,590

TELEFÔNICA BRASIL S. A.**Statements of comprehensive income****Nine-month periods ended September 30, 2013 and 2012****(In thousands of reais)**

	Company		Consolidated	
	2013	2012	2013	2012
Net income for the period	2,484,629	2,979,323	2,484,629	2,977,931
Unrealized losses with investments available for sale	(11,476)	(5,781)	(11,476)	(5,781)
Taxes	3,902	1,966	3,902	1,966
	(7,574)	(3,815)	(7,574)	(3,815)
Cumulative translation adjustments – operations in foreign currency	6,843	4,271	6,843	4,271
Other comprehensive income to be reclassified o gains (losses) for subsequent periods	(731)	456	(731)	456
Actuarial losses and limitation effect of the assets of surplus plans	(55)	-	(651)	-
Taxes	19	-	221	-
	(36)	-	(430)	-
Gains (losses) – derivative transactions	(5,741)	-	(5,741)	7,649
Taxes	1,952	-	1,952	(2,601)
	(3,789)	-	(3,789)	5,048
Interest in comprehensive income of subsidiaries	(394)	5,048	-	-
Other comprehensive income not to be reclassified o gains (losses) for subsequent periods	(4,219)	5,048	(4,219)	5,048
Comprehensive income for the period	2,479,679	2,984,827	2,479,679	2,983,435
Attributable to:				
Non-controlling interest	-	-	-	(1,392)
Controlling interest	2,479,679	2,984,827	2,479,679	2,984,827
Basic and diluted earnings per common share	2.07	2.49		
Basic and diluted earnings per preferred share	2.28	2.74		

TELEFÔNICA BRASIL S. A.**Statements of value added****Nine-month periods ended September 30, 2013 and 2012****(In thousands of reais)**

	Company		Consolidated	
	2013	2012	2013	2012
Revenues	19,470,099	12,850,875	34,908,173	33,908,114
Sale of products and services	19,535,212	12,868,683	35,043,750	33,999,085
Other revenues	248,015	193,347	433,765	416,769
Provision for impairment	(313,128)	(211,155)	(569,342)	(507,740)
Inputs acquired from third parties	(8,171,220)	(5,661,059)	(13,334,703)	(11,974,355)
Cost of products, goods and services sold	(5,231,630)	(3,937,051)	(8,033,301)	(7,255,728)
Materials, electric power, outsourced services and other	(2,980,887)	(1,753,378)	(5,406,127)	(5,166,022)
Loss/recovery of assets	41,297	29,370	104,725	447,395
Gross value added	11,298,879	7,189,816	21,573,470	21,933,759
Retentions	(2,709,578)	(1,970,491)	(4,214,142)	(4,054,760)
Depreciation and amortization	(2,709,578)	(1,970,491)	(4,214,142)	(4,054,760)
Net value added produced	8,589,301	5,219,325	17,359,328	17,878,999
Value added received in transfer	2,688,065	2,834,672	1,344,891	831,707
Equity pickup	1,831,343	2,436,034	(4,790)	(284)
Financial income	856,722	398,638	1,349,681	831,991
Total value added to be distributed	11,277,366	8,053,997	18,704,219	18,710,706
Distribution of value added	11,277,366	8,053,997	18,704,219	18,710,706
Personnel, social charges and benefits	978,297	627,877	1,734,518	1,565,597
Direct remuneration	655,804	406,712	1,121,573	1,000,119
Benefits	257,377	162,900	515,006	463,709
Unemployment compensation fund contribution tax (FGTS)	65,116	58,265	97,939	101,769
Taxes, charges and contributions	5,552,035	3,594,480	10,953,195	11,684,761
Federal	1,733,553	1,057,842	3,803,552	4,563,037
State	3,774,646	2,491,544	7,062,702	7,046,201
Municipal	43,836	45,094	86,941	75,523
Debt remuneration	1,787,037	545,101	2,962,343	2,028,270
Interest	1,007,805	472,996	1,455,729	995,100
Rent	779,232	72,105	1,506,614	1,033,170
Equity remuneration	2,484,629	2,979,323	2,484,629	2,977,931
Interest on equity capital	440,000	-	440,000	-
Retained profit	2,044,629	2,979,323	2,044,629	2,979,323

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Noncontrolling shareholder interest	-	-	-	(1,392)
Other	475,368	307,216	569,534	454,147
Provisions for labor and civil contingencies, net	475,368	307,216	569,534	454,147

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

1. OPERATIONS

a. Shareholding controlling interest

Telefônica Brasil S.A. (Company or Telefônica Brasil) is headquartered at Avenida Engenheiro Luiz Carlos Berrini, nº 1376, in the city of São Paulo, State of São Paulo, Brazil. The Company is a member of Telefonica Group (Group), the telecommunications industry leader in Spain and which is also present in several European and Latin American countries. At September 30, 2013 and December 31, 2012, Telefónica S.A., holding company of the Group, held total direct and indirect interest in the Company of 73.81%, excluding treasury stock, 91.76% of which are common shares and 64.60% are preferred shares.

b. Subsidiaries

Information on investees is as follows:

Vivo S.A. (Vivo): Until June 30, 2013, Vivo was engaged in SMP services, including activities necessary or useful for the performance of said services, in conformity with the authorizations granted to it. This entity was spun off and the portions thereof were merged into the Company and TData on July 1, 2013 (Note 1c).

A. Telecom S.A. (ATelecom): Until June 30, 2013, ATelecom was engaged in management of telecommunication service rendering and installation, operation and maintenance of Internet, Intranet and Extranet solutions, commercial representation, mediation, intermediation and distribution of assets, sale, representation, rental and maintenance of telecommunication and general IT systems, equipment and devices, advisory services and technical support on specification, implementation and maintenance of new voice, data and image systems, import and export of assets and services useful to the performance of the main activity and to holding interest in capital of other entities, Brazilian or foreign, as a partner,

shareholder or member. This entity was spun off and the portions thereof were merged into the Company and TData on July 1, 2013 (Note 1c).

Telefônica Data S.A. (TData): This entity is engaged in rendering and operating telecommunication services, as well as preparing, implementing and installing projects related to the operation of integrated corporate solutions, advisory services on telecommunications, activities related to the rendering of technical support services, sale, rental and maintenance of telecommunication equipment and networks.

Telefônica Sistema de Televisão S.A. (TST): Until June 30, 2013, this entity was engaged in the provision of the Multichannel Multipoint Distribution Service (MMDS) type pay television services, in addition to general telecommunication and Internet services. TST was merged into the Company on July 1, 2013 (Note 1c).

Ajato Telecomunicações Ltda. (Ajato): Until June 30, 2013, Ajato was engaged in the rendering of telecommunication and IT services, sale, rental business, import, export, maintenance and repair of this equipment. This entity was merged into TST on July 1, 2013 (Note 1c).

GTR-T Participações e Empreendimentos S.A. (GTR-T): Until June 30, 2013, GTR-T was engaged in holding interest in other companies engaged in rendering pay and cable television services, telecommunications in general, production, acquisition, licensing, import and distribution of own or third-party television programs, replacement parts and equipment, management and operation of telecommunication and pay television service platforms. This entity was merged into TST on July 1, 2013 (Note 1c).

Telefônica Brasil S. A.

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(In thousands of reais, unless otherwise stated)

TVA Sul Paraná S.A. (Sul Paraná): Until June 30, 2013, Sul Paraná was engaged in rendering pay and cable television services, telecommunications in general, production, acquisition, licensing, import and distribution of own or third-party television programs, replacement parts and equipment, management, updating and operation of telecommunication and pay television service platforms, and editing publications. Sul Paraná was merged into TST on July 1, 2013 (Note 1c).

Lemontree Participações S.A. (Lemontree): Until June 30, 2013, Lemontree was engaged in holding interest in other companies engaged in rendering pay and cable television services, telecommunications in general, production, acquisition, licensing, import and distribution of own or third-party television programs, replacement parts and equipment, management, updating and operation of telecommunication and pay television service platforms, and management and sale of data. This entity was merged into TST on July 1, 2013 (Note 1c).

Comercial Cabo TV São Paulo S.A. (CaTV): Until June 30, 2013, CaTV was engaged rendering pay and cable television services, advisory and consultancy services on telecommunications in general, production, acquisition, licensing, import and distribution of own or third-party television programs, replacement parts and equipment, management, updating and operation of telecommunication and pay television service platforms, and operation of publicity and advertising of all types. This entity was merged into TST on July 1, 2013 (Note 1c).

Aliança Atlântica Holding B.V. (Aliança): Entity headquartered in Amsterdam, Holland, with 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, Company of the Portugal Telecom group which renders pay television services, Internet, distribution of audiovisual contents, cinema and telecommunication services. This equity interest was disposed of on May 8, 2012.

Companhia AIX de Participações (AIX): This entity is engaged in holding interest in Refibra consortium, and activities related to the direct and indirect operation of activities related to the construction, completion and operation of underground networks or optical fiber ducts.

Companhia ACT de Participações (ACT): This entity is engaged in holding interest in Refibra consortium, and 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 entities, as well as the percentage of interest held by the Company as of September 30, 2013 and December 31, 2012 are as follows:

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)**September 30, 2013

<u>Investees</u>	Direct ownership interest		Indirect ownership interest		Total interest held
	Investor	Interest held	Investor	Interest held	
<u>Wholly-owned subsidiaries</u>					
TData	Telefônica Brasil	100.00%	-	-	100.00%
<u>Jointly controlled entities</u>					
Aliança	Telefônica Brasil	50.00%	-	-	50.00%
AIX	Telefônica Brasil	50.00%	-	-	50.00%
ACT	Telefônica Brasil	50.00%	-	-	50.00%

December 31, 2012

<u>Investees</u>	Direct ownership interest		Indirect ownership interest		Total interest held
	Investor	Interest held	Investor	Interest held	
<u>Wholly-owned subsidiaries</u>					
Vivo	Telefônica Brasil	100.00%	-	-	100.00%
TData	Telefônica Brasil	100.00%	-	-	100.00%
ATelecom	Telefônica Brasil	100.00%	-	-	100.00%
TST	Telefônica Brasil	100.00%	-	-	100.00%
Ajato	-	-	TSTV	100.00%	100.00%
GTR-T	Telefônica Brasil	100.00%	-	-	100.00%
Sul Paraná	Telefônica Brasil	79.29%	GTR-T	20.71%	100.00%
Lemontree		100.00%	-	-	100.00%

CaTV	Telefônica Brasil Telefônica Brasil	78.48%	Lemontree	21.52%	100.00%
<u>Jointly controlled entities</u>					
Aliança	Telefônica Brasil	50.00%	-	-	50.00%
AIX	Telefônica Brasil	50.00%	-	-	50.00%
ACT	Telefônica Brasil	50.00%	-	-	50.00%

c. Corporate Restructuring

In order to simplify the Company's current organizational structure, the rationalization of services provided by its subsidiaries and concentration of service provision on two operating entities, namely the Company and its wholly-owned subsidiary, TData, on March 15, 2012, the Company filed with ANATEL a request for previous approval of corporate restructuring, which became legally feasible due to legislation changes applicable to Fixed Switched Telephone Service Concession Arrangement (STFC) operators through Law No. 12485.

This corporate restructuring was approved by ANATEL under the Act No. 3043, of May 27, 2013, published in the Federal Official Gazette (DOU) of May 29, 2013, with the conditions thereunder.

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

The corporate restructuring was accomplished through spin-offs and mergers of subsidiaries and 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 Law of Telecommunications - LGT (such activities, jointly and generally, referred to as SVAs), provided by the various wholly owned subsidiaries/subsidiaries were concentrated in TData and telecommunication services were unified in the Company.

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

The partial or total spin-offs, as the case may be, and the incorporation of net assets of the companies involved all occurred on the same date and had the same base date (April 30, 2013), as follows: the Company merged (i) the spun-off net assets of TData acquisition, arising from its partial spin-off, corresponding to the activities related to the provision of service of Multimedia Communication Service (SCM); (ii) the spun-off net assets of Vivo, arising from their total spin off, corresponding to the use of SMP, 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 spun-off net assets of ATelecom, arising from their total spin off, corresponding to the activities related to the provision of conditional access services (SEAC) (through the DTH technology) and SCM; and (iv) TST, which concentrated the activities related to the provision of SEAC and SCM before its merger with the Company.

The corporate structure before the corporate restructuring is summarized as follows:

Below, we briefly describe the steps of spin offs and mergers of companies involved in the Company's corporate restructuring process.

- Merger of Lemontree, GTR-T, Ajato, CaTV and Sul Paraná by TST: Immediately before the merger of TST by the Company, however on the same date, TST merged its subsidiary Ajato and entities Lemontree and GTR-T, the Company's wholly-owned subsidiaries and respective subsidiaries, Sul Paraná and CaTV. These entities were evaluated under the provisions of article 227 of Law No. 6404/76, based on respective book values as at April 30, 2013, *ad referendum* of TST general meeting. Merger thereof resulted in a capital increase by R\$102,512 in TST, under the terms of the Merger Protocol of these entities and of TST. After merged into TST, Lemontree, GTR-T, Ajato, CaTV and Sul Paraná ceased to exist. Except for the Company and TST, aforementioned companies did not have any shareholders; therefore, the merger of these companies did not result in any refund to or protection of noncontrolling shareholders of the companies involved.

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(In thousands of reais, unless otherwise stated)

- Merger of TST by the Company: TST was evaluated under the provisions of article 227 of Law No. 6404/76, based on the corresponding book values at April 30, 2013. Considering the merger of Lemontree, GTR-T, Ajato, CaTV and Sul Paraná by TST immediately before the merger of TST by the Company, the total amount of net assets of TST (corresponding to the sum of net assets of TST and net assets of the companies merged into it) incorporated by the Company totaled R\$226,106.
- Merger of spun-off net assets of TData: TData was spun-off in order to segregate the net asset related to the SCM portion from its equity. The portion of the net assets of TData merged by the Company was evaluated under the terms of article 227 of Law No. 6404/76, based on respective book values at April 30, 2013, *ad referendum* of the Company's general meeting. TData net assets spun-off totaled R\$34,724.
- Merger of the portion of spun-off net assets of Vivo: Vivo was fully spun off, in order to segregate the exploration activities of SMP, SCM and STFC in local, domestic and international long distance calls in regions I and II of PGO, whose net asset were merged by the Company. The SVAs and other services not considered telecommunication services were merged by TData and Vivo ceased to exist. The portion of the net assets of Vivo merged into the Company was evaluated under the terms of article 227 of Law No. 6404/76, based on respective book values at April 30, 2013, *ad referendum* of the Company's general meeting. Referred to portion of net assets totaled R\$10,228,352.
- Merger of the portion of spun-off net assets of ATelecom: ATelecom was fully spun off in order to segregate corresponding net assets related to the SVAs provided by ATelecom, which were merged by TData. The net assets of ATelecom's remaining activities were merged into the Company and ATelecom ceased to exist. The portion of the net assets of ATelecom transferred to the Company was evaluated under the terms of article 227 of Law No. 6404/76, based on respective book values at April 30, 2013, *ad referendum* of the Company's general meeting. Referred to portion of net assets totaled R\$348,624.

The merger of companies and net assets previously described did not result in capital increase or issue of new Company shares; accordingly, the corporate restructuring did not result in any changes in the current

interest held by Company shareholders.

There is no question of substituting 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 to be spun off/ merged. Accordingly, an equity valuation report at market price was not prepared for calculating the substitution ratio of shares held by noncontrolling shareholders provided for by article 264 of Law No. 6404/76 and item VI, paragraph 1, article 2 of CVM Ruling No. 319/99, as recent understanding of the Brazilian Securities and Exchange Commission (CVM) already demonstrated in the consultations drawn up in similar restructuring processes as CVM Rule No. 559, of November 18, 2008.

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The mergers of companies and spun-off portions as previously described were carried out without interruption in relation to operations and telecommunication services provided to their customers, and such services were entirely succeeded by the Company.

Company General Shareholders' Meeting held on July 1, 2013 approved aforementioned corporate restructuring and the organization chart is now as follows:

d. 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 authorizations, 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 data communication, including broadband internet (Multimedia Communication Service - SCM), mobile telephone services (Personal Mobile Services – SMP), all over the country, and pay TV services, to wit (i) by satellite all over the country; (ii) MMDS technology in the cities of São Paulo, Rio de Janeiro, Curitiba and Porto Alegre, through December 2013, as a result of the waiver signed by the Company, the effects of which will become effective 18 months after June 5, 2012, as a condition for the Company to participate in the 4G auction, held on June 12 and 13, 2012; and (iii) cable in the cities of São Paulo, Curitiba, Foz do Iguaçu and Florianópolis.

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 Law of Telecommunications (“Lei Geral das Telecomunicações” - LGT), amended by Laws No. 9986, of July 18, 2000 and No. 12485, of September 12, 2011 (Notes 1.c.1 and 1.c.2). Operation thereof is subject to regulations and supplementary plans issued.

d.1) STFC service concession arrangement

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(In thousands of reais, unless otherwise stated)

The Company is an STFC operator to render land-line services in the local network and national long distance calls originated in sector 31 of region 3, which comprises the state of São Paulo (except for cities comprising sector 33), established in the General Service Concession Plan (PGO/2008).

The Company's current STFC service concession arrangement was executed on June 30, 2011, is effective from July 1, 2011 to December 31, 2025, and was granted for valuable consideration. This arrangement provides for the possibility of amendments on December 31, 2015 and December 31, 2020. This condition allows ANATEL to set up new requirements and goals for universal and quality of telecommunication services, considering the conditions in place at the time.

The service concession arrangement establishes that all assets owned by the Company and that are indispensable to the provision of the services described in referred to arrangement are considered reversible assets and 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 September 30, 2013, estimated residual value of reversible assets was R\$7,392,817 (R\$6,911,508 at December 31, 2012), which comprised switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

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

d.2) Authorizations and frequencies related to mobile telephone services

Frequency authorizations granted by ANATEL for mobile telephone services may be renewed only once, over a 15-year period, through payment 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.

In August 2013, the Company and ANATEL executed the authorization terms for the nonexclusive use of radiofrequency blocks, on a primary basis, as a result of the realignment of the “L” band in sub-bands from 1,975 MHz to 1,980 MHz for the mobile station transmission and from 2,165 MHz to 2,170 MHz for nodal station transmission.

These authorizations were issued for the remaining terms established under item 1.9 of Public Notice No. 002/2007/SPV-Anatel, of October 23, 2007, for valuable consideration, associated to the authorization for the rendering of SMP, amendment No. 01 to authorization No. 078/2012/PVCP/SPV-Anatel of August 14, 2013, published in the Federal Official Gazette of August 16, 2013, effective until April 29, 2023, and may be extended only once, over a 15-year period. Effectiveness of these authorizations is subject to the compliance with the requirements provided for in the agreements.

The Company paid R\$450,974 for referred to authorizations, which were recorded under intangible assets (Note 12) and will be amortized over the remaining periods of the licenses.

e. Share trading on stock exchanges

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(In thousands of reais, unless otherwise stated)

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.1) Shares traded on BM&F Bovespa

On September 21, 1998, the Company started trading its shares on the BM&F Bovespa, under tickers TLPP3 and TLPP4, for common and preferred shares, respectively.

In the Special Shareholders' Meeting of Vivo Participações S.A. (Vivo Part.) and Telecomunicações de São Paulo S. A. (Telesp) held on October 3, 2011, the merger of Vivo Part. into Telesp was approved. On the same date, its corporate name changed to Telefonica Brasil S.A. and on October 6, 2011, the Company changed its ticker codes to VIVT3 and VIVT4 for common and preferred shares, respectively, and the stock exchange code to Telefonica Brasil.

e.2) Shares traded on NYSE

On November 16, 1998, the Company started trading ADS on NYSE, which currently has the following main characteristics:

- Type of shares: preferred
- Each ADS represents 1 (one) preferred share.
- Shares are traded as ADS under tickle "VIV" on NYSE.

- Foreign depository bank: *Citibank N.A.*
- Custodian bank in Brazil: *Citibank N.A.*

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

TELCO S.p.A. (in which Telefónica S.A. held 46.2% interest) has 22.4% interest with voting rights in Telecom Italia and is the controlling shareholder of this company.

On September 24, 2013, Telefónica S.A. and the other TELCO S.p.A. shareholders entered into an agreement, under which Telefónica S.A. subscribed and paid in a capital increase amounting to 324 million Euros in TELCO S.p.A., receiving class “C” shares with no voting rights, thus increasing the total interest held by Telefónica S.A. to 66%, but maintaining the 46.2% interest held in shares with voting rights.

In the second phase of this agreement, Telefónica S.A. will contribute capital amounting to 117 million Euros in TELCO S.p.A., receiving class “C” shares with no voting rights, thus increasing the total interest held by Telefónica S.A. to 70%, but maintaining the 46.2% interest held in shares with voting rights.

As from January 2014, subject to approvals provided by regulatory agencies and antitrust authorities in significant markets (including Brazil and Argentina), Telefónica S.A. will be able to choose whether to (i) fully or partly convert the shares with no voting rights into common class C shares with voting rights, and (ii) purchase the remaining shares with voting rights of TELCO S.p.A. held by other shareholders. As such, Telefónica S.A. will be able to hold 100% interest in TELCO S.p.A. and become the controlling shareholder of Telecom Italia, holding 22.4% interest with voting rights.

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Telefónica S.A. holds indirect interest in the Company and Telecom Italia holds indirect interest in TIM S.A. (TIM), a telecommunications company in Brazil. Neither Telefónica S.A., nor the Company or any other affiliate of Telefónica S.A. interfere in, are involved with or have decision-making power over TIM operations in Brazil and are lawfully and contractually forbidden to exert any type of political power derived from indirect interest held as concerns operations in Brazil, directly related to TIM operations. TIM (Brazil) and the Company compete in all markets in which they operate in Brazil under permanent competitive tension and, in this context, as well as in relation to the other economic agents in the telecommunications industry, referred to entities maintain usual and customary contractual relations with one another (many of which are regulated and inspected by ANATEL) and/or which, when applicable, are informed to ANATEL and Brazil's Administrative Council for Economic Defense (CADE), concerning the commitments assumed before these agencies so as to guarantee total independence of their operations.

2. BASIS OF PREPARATION AND PRESENTATION OF INTERIM FINANCIAL STATEMENTS

Company interim financial statements for the nine-month period ended September 30, 2013 are presented in thousands of reais (unless otherwise stated) and were prepared under a going concern assumption.

These interim financial statements compare the quarters ended September 30, 2013 and 2012, except for the balance sheets, which compare Company financial position as of September 30, 2013 to the financial position as of December 31, 2012.

Authorization to issue these interim financial statements was provided by Company management in a meeting held on October 28, 2013, which was approved by the Board of Directors in a meeting held on November 6, 2013.

The individual and consolidated interim financial statements were prepared and are presented in accordance with Technical Pronouncement CPC 21 (R1) – Interim Financial Reporting and IAS 34 – Interim Financial Reporting, issued by the Brazilian Financial Accounting Standards Board (CPC) and the International Accounting Standards Board (IASB), respectively.

For the individual interim financial statements, CPC practices differ from IFRS solely with respect to measurement of investments in the subsidiary under the equity method, while such investments would be measured at cost or fair value for IFRS purposes.

The Company and its subsidiary have no seasonal operations.

These financial statements were 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, 2012, in addition to the new pronouncements, interpretations and amendments, as follows:

New IFRS and International Financial Reporting Interpretations Committee (IFRIC) with no significant impact on the financial position presented in these interim financial statements:

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

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(In thousands of reais, unless otherwise stated)

IAS 1 – Presentation of financial statements – Presentation of items in Other Comprehensive Income: IAS 1 Revisions changed the grouping of items recorded in Other comprehensive income. Items potentially reclassifiable (or “recycled”) to profit or loss subsequently (for instance, net gains from hedge transactions of net investments, exchange rate variation differences due to translation of foreign transactions, net changes in cash flow hedge or gains from sale of assets classified as held for sale) should be disclosed separately from items which will never be reclassified (for instance, actuarial gains or losses in defined benefit plans). These amendments became effective for annual periods beginning on or after July 1, 2012 and only affect presentation. There are no impacts on the financial position or performance of the Company and its subsidiary.

IAS 19 Employee benefits (Revision): The IASB issued revisions to IAS 19, which include from basic changes, such as exclusion of the corridor approach and the concept of expected returns on plan assets to simple clarifications on appreciation, depreciation and reformulation. This amendment became effective for annual periods beginning on or after July 1, 2013 and has no significant impact on the financial position or performance of the Company and its subsidiary.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011): As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to investments in associates. This amendment became effective for annual periods beginning on or after January 1, 2013. The application of this amendment has no significant impacts on the financial position or performance of the Company and its subsidiary.

IFRS 1 – Accounting for Government Grants (Revised IFRS 1): These revisions establish first-time application of IAS 20 Accounting for Government Grants and Disclosure requirements prospectively to government loans existing as of the transition date to IFRS. Entities may opt to retroactively apply IFRS 9 (or IAS 39, as the case may be) and IAS 20 requirements to government loans, had the information required for that purpose been obtained upon initial recognition of these loans. This exception would release companies adopting the standard for the first time from the obligation to retroactively measure government loans at an interest rate lower than market rate. These amendments became effective for annual periods beginning on or after January 1, 2013. These revisions have no impacts on the financial position or performance of the Company and its subsidiary upon first-time application.

IFRS 7 - Disclosures - Offsetting a Financial Asset and a Financial Liability – IFRS 7 revisions require entities to disclose information on enforceable rights to offset and related agreements (guarantee agreements, among others). Disclosures provide users with useful information so as to assess the effect of offsetting agreements on an entity’s financial position. The new disclosures are required for all recognized financial instruments which are offset in accordance with IAS 32 Financial Instruments – Presentation. The new disclosures are also required for recognized financial instruments which are subject to a principal offset agreement or a similar agreement, whether or not they are offset in accordance with IAS 32. This revision came into effect for annual periods beginning on or after January 1, 2013. Referred to amendments only affect presentation and will have no impacts on the financial situation or performance of the Company and its subsidiary.

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IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements: IFRS 10 replaces part of IAS 27 - Consolidated and Separate Financial Statements, which deals with the accounting of consolidated financial statements. Amended IAS 27 addresses the matters raised in Interpretation SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a sole control model, applicable to all entities, including special purpose entities. The changes introduced by IFRS 10 will require that Management make use of significant judgment so as to determine which entities are subsidiaries and, therefore, mandatorily consolidated by a parent company, comparatively to the requisites of IAS 27. This standard became effective for annual periods beginning on or after January 1, 2013. The Company analyzed IFRS 10 and did not identify any significant impacts on the quarterly financial information.

IFRS 12 Disclosure of interest in other entities: IFRS 12 includes all requirements previously included in IAS 27 relating to consolidated financial statements, as well as all the disclosure requirements previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investments in Associates. These requirements are related to the interest held by an entity in subsidiaries, joint arrangements, associates and structured entities. This standard became effective for annual periods beginning on or after January 1, 2013, only affects presentation and will have no significant impact on the financial position or performance of the Company and its subsidiary.

IFRS 13 – Fair Value Measurement: IFRS 13 provides a sole guideline in IFRS for all fair value measurements. IFRS 13 does not change the requirement regarding when an entity should mandatorily use fair value, but rather it provides guidance on how to measure fair value under IFRS, when fair value is required or allowed. This standard became effective for annual periods beginning on or after January 1, 2013 and has no significant impact on the Company upon first-time application.

IAS 34 Interim Financial Statements: This change aligns the disclosure requirements for total assets of the segment with total liabilities of the interim financial statement segment. This explanation also ensures the alignment of interim disclosures with annual disclosures. These improvements are applicable to annual periods beginning on or after January 1, 2013 and have no significant impact on the Company upon

first-time application.

New IFRS and International Financial Reporting Interpretations Committee (IFRIC) with significant impact on the financial position presented in these interim financial statements:

IFRS 11 superseded IAS 31, Reporting of Interests in Joint Ventures and SIC-13, Jointly Controlled Entities (JCE) - Nonmonetary Contributions by Venturers. IFRS 11 ruled out the possibility to account for jointly controlled entities (JCE) based on proportionate consolidation. Instead, JCEs which fall into the *joint venture* definition shall be accounted for under the equity method. This standard will have no impact on Company financial position, and eliminated the proportional consolidation of Aliança, AIX and ACT. With application of this standard, the investments of the Entity in aforementioned entities are recorded based on the equity method. This standard became effective for annual periods beginning on or after January 1, 2013 and shall be retrospectively applied to joint arrangements held at the date of first-time application.

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To facilitate understanding of the effects arising from application of this standard, consolidated information of the balance sheet as of December 31, 2012 and the income statement for the nine-month period ended September 30, 2012, with corresponding adjustments and some reclassifications made for better presentation of the consolidated information, are as follows:

	Balance sheet disclosed as of December 31, 2012	Adjustments for adoption of IFRS 11 and Reclassifications	Balance sheet as of December 31, 2012, disclosed as of September 30, 2013
ASSETS			
Current assets			
Cash and cash equivalents	7,196,079	(62,594)	7,133,485
Trade accounts receivable, net	5,513,436	(1,164)	5,512,272
Inventories	387,809	-	387,809
Dividend and interest on equity	-	1,140	1,140
Taxes recoverable	2,052,423	(2)	2,052,421
Judicial deposits and garnishments	126,625	-	126,625
Derivative transactions	41,109	-	41,109
Prepaid expenses	248,337	-	248,337
Other assets	706,124	(141)	705,983
Total current assets	16,271,942	(62,761)	16,209,181
Noncurrent assets			
Short-term investments pledged as collateral	109,708	-	109,708
Trade accounts receivable, net	93,378	-	93,378
Taxes recoverable	738,965	-	738,965
Deferred taxes	1,029,598	(1,710)	1,027,888
Judicial deposits and garnishments	3,909,474	(206)	3,909,268
Derivative transactions	286,278	-	286,278
Prepaid expenses	31,396	-	31,396
Other assets	140,105	(47,797)	92,308
Investments	23,683	119,198	142,881
Property, plant and equipment, net	17,610,851	(6,707)	17,604,144
Intangible assets, net	30,009,289	(3,592)	30,005,697
Total noncurrent assets	53,982,725	59,186	54,041,911
Total assets	70,254,667	(3,575)	70,251,092

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

	Balance sheet disclosed as of December 31, 2012	Adjustments for adoption of IFRS 11 and Reclassifications	Balance sheet as of December 31, 2012, disclosed as of September 30, 2013
<u>LIABILITIES AND EQUITY</u>			
Current liabilities			
Personnel, social charges and benefits	416,355	(103)	416,252
Trade accounts payable	5,889,377	(309)	5,889,068
Taxes, charges and contributions	1,781,480	(230)	1,781,250
Loans, financing and lease (a)	1,255,323	14,799	1,270,122
Debentures	702,215	-	702,215
Dividend and interest on equity	467,831	-	467,831
Provisions	496,790	-	496,790
Derivative transactions	29,586	-	29,586
Deferred income	734,573	-	734,573
Reverse split of fractional shares	389,510	-	389,510
Authorization license	994,977	-	994,977
Other liabilities (a)	379,454	(14,836)	364,618
Total current liabilities	13,537,471	(679)	13,536,792
Noncurrent liabilities			
Taxes, charges and contributions	488,749	-	488,749
Deferred taxes	1,216,651	-	1,216,651
Loans, financing and lease (a)	3,756,001	18,460	3,774,461
Debentures	2,253,690	-	2,253,690
Provisions (b)	3,846,899	(393,262)	3,453,637
Liabilities with post-retirement benefit plans (b)	-	392,269	392,269
Derivative transactions	26,545	-	26,545
Deferred income	303,362	-	303,362
Other liabilities (a)	144,179	(20,363)	123,816
Total noncurrent liabilities	12,036,076	(2,896)	12,033,180
Equity	44,681,120	-	44,681,120
Total liabilities and equity	70,254,667	(3,575)	70,251,092

(a) Finance lease amounts were reclassified from "Other obligations" to the specific account "Loans, financing and finance lease".

(b) Actuarial liabilities of post-employment benefit plans were reclassified from "Provisions" to a specific line "Obligations with post-employment benefit plans".

	Income statement for the 3Q12, disclosed as of September 30, 2012	Adjustments for adoption of IFRS 11 and Reclassifications	Income statement for the 3Q12, disclosed as of September 30, 2013
Net operating revenue	25,021,083	(8,829)	25,012,254
Cost of sales (a)	(12,283,715)	(578)	(12,284,293)
Gross profit	12,737,368	(9,407)	12,727,961
Selling expenses	(6,528,318)	-	(6,528,318)
General and administrative expenses	(1,604,454)	8,019	(1,596,435)
Other operating income, net	191,005	158	191,163
Equity pickup	-	(284)	(284)
Income before financial income (expenses)	4,795,601	(1,514)	4,794,087
Financial income	832,324	(334)	831,990
Financial expenses	(997,917)	-	(997,917)
Income before taxes	4,630,008	(1,848)	4,628,160
Income and social contribution taxes	(1,652,077)	1,848	(1,650,229)
Net income for the period	2,977,931	-	2,977,931

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)**

New IFRS and International Financial Reporting Interpretations Committee (IFRIC) not yet effective as of September 30, 2013:

IAS 32 Offsetting a Financial Asset and a Financial Liability – IAS 32 Revisions These revisions explain the meaning of the term “currently has a legally enforceable right to offset”. Also, these revisions clarify the adoption of IAS 32 offsetting criteria for settlement systems (such as settlement systems through clearing houses) that apply mechanisms for gross settlement that are not simultaneous. These revisions are expected to have no impacts on the financial position or performance of the Company and its subsidiary upon first-time application and became effective for annual periods beginning on or after January 1, 2014.

IFRS 9 - Financial Instruments: Classification and Measurement: IFRS 9, as issued, reflects the first phase of the work carried out by the IASB referring to replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, as defined in IAS 39. This standard was initially effective for annual periods beginning as from January 1, 2013; however, the Amendments to IFRS9 – Mandatory Effective Date and Transition Disclosures, issued in December 2011, changed the mandatory effective date to January 1, 2015. In subsequent stages, the IASB will focus on the accounting procedures for *hedge* instruments and impairment of financial assets. Adoption of the first IFRS 9 phase will have effects on the classification and measurement of the financial assets of the Company and its subsidiary, but will have no impacts on the classification and measurement of the financial liabilities. The Company will quantify said effect in conjunction with the other phases, upon issue of the final standard, which will comprise all phases.

3. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Cash and banks	47,789	18,398	50,883	94,304
Short-term investments	8,457,248	3,060,884	8,579,325	7,039,181
Total	8,505,037	3,079,282	8,630,208	7,133,485

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

In addition, not included in the amounts above, the Company has short-term investments amounting to R\$411,010 in current assets and amounting to R\$119,597 in noncurrent assets given in guarantee for judicial claims and loans taken out by the Company and by Telefónica Group companies.

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

4. TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Billed amounts	3,921,557	1,622,311	4,270,496	4,032,169
Unbilled amounts	1,758,710	804,965	1,876,244	1,675,091
Interconnection amounts	1,035,805	338,014	1,021,605	977,644
Gross accounts receivable	6,716,072	2,765,290	7,168,345	6,684,904
Provision for impairment	(1,099,711)	(614,566)	(1,238,030)	(1,079,254)
Total	5,616,361	2,150,724	5,930,315	5,605,650
Current	5,471,495	2,150,724	5,688,339	5,512,272
Noncurrent	144,866	-	241,976	93,378

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

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Falling due	4,031,186	1,395,227	4,290,024	4,297,961
Overdue from 1 to 30 days	775,286	377,142	787,873	718,838
Overdue from 31 to 60 days	292,330	113,042	295,752	218,930
Overdue from 61 to 90 days	221,966	51,107	225,004	188,835
Overdue from 91 to 120 days	82,639	27,955	88,012	60,648
Overdue for more than 120 days	212,954	186,251	243,650	120,438
Total	5,616,361	2,150,724	5,930,315	5,605,650

At September 30, 2013 and December 31, 2012, no customer represented more than 10% of net trade accounts receivable.

Changes in the provision for impairment are as follows:

	Company	Consolidated
Balance at December 31, 2012	(614,566)	(1,079,254)
Additions (Note 24)	(313,128)	(569,342)
Write-offs	339,223	410,566
Merger/split as of July 1, 2013	(511,240)	-
Balance at September 30, 2013	(1,099,711)	(1,238,030)

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. There are no unguaranteed residual values resulting in benefits to the lessor or contingent payments recognized as revenue for the period.

At September 30, 2013, noncurrent consolidated accounts receivable includes R\$144,866 referring to the new business model of goods for resale to legal entities, whose term for receipt is up to 24 months.

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)**

The consolidated balance of trade accounts receivable described above, comprises the following effects:

	Consolidated	
	09.30.13	12.31.12
Present value of receivables	481,179	294,245
Unrealized financial income	22,149	7,757
Gross accounts receivable	503,328	302,002
Provision for impairment	(100,871)	(86,648)
Net accounts receivable	402,457	215,354
Current	160,481	121,976
Noncurrent	241,976	93,378

At September 30, 2013, the aging list of trade accounts receivable is as follows:

	Consolidated	
	Trade accounts receivable, gross	Present value
Falling due up to one year	239,203	239,203
Falling due up to five years	264,125	241,976
Total	503,328	481,179

5. INVENTORIES

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12
Consumer materials	72,831	39,641	75,017	59,417
Materials for resale (a)	604,234	5,835	635,487	380,163
Other inventory items	8,269	3,835	8,269	4,005
Total gross	685,334	49,311	718,773	443,585
Provision for impairment and obsolescence	(70,825)	(24,908)	(78,169)	(55,776)

Total	614,509	24,403	640,604	387,809
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(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, 2012	(24,908)	(55,776)
Additions	(32,244)	(114,681)
Reversals	21,004	92,288
Merger/split as of July 1, 2013	(34,677)	-
Balance at September 30, 2013	(70,825)	(78,169)

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

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)****6. DEFERRED TAXES AND TAXES RECOVERABLE****6.1 Taxes recoverable**

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Taxes withheld at source	119,638	106,693	123,212	141,620
Income and social contribution taxes recoverable	370,031	453,933	375,388	528,109
ICMS (a)	1,714,292	366,211	1,717,419	1,631,088
ICMS agreement No. 39/CAT	199,774	178,535	199,774	288,520
Administrative Ruling 06 (b)				
PIS and COFINS	99,535	39,265	107,001	148,092
Other	10,150	6,916	20,212	53,957
Total	2,513,420	1,151,553	2,543,006	2,791,386
Current	2,131,226	602,328	2,160,812	2,052,421
Noncurrent	382,194	549,225	382,194	738,965

(a) This refers to credits arising from additions to property, plant and equipment, subject to offsetting in 48 months.

(b) This refers to refund request for State Value-Added Tax (ICMS) paid for invoices cancelled at a later time.

6.2 Deferred taxes

The Company and its subsidiary calculate deferred income and social contribution tax assets considering the existence of taxable profit for the past five financial years and expected future taxable profit generation, 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	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
<u>Deferred tax assets</u>				
Income and social contribution tax losses (a)	16,956	21,290	188,499	21,290
Merged tax credit (b)	-	9,461	-	9,461
Income and social contribution taxes on temporary differences (c)				
Provisions for labor, tax and civil contingencies	1,292,590	805,557	1,297,526	1,104,065
Post-retirement benefit plans	141,031	126,605	141,031	133,371
Provision for impairment - accounts receivable	233,795	93,442	236,850	169,434
Provision for modem and other PP&E item losses	178,658	7,467	181,282	210,107
Profit sharing	52,974	34,888	53,450	62,218
Accelerated accounting depreciation	232,060	128,070	232,060	421,768
Provision for impairment – inventories	13,886	8,469	16,383	13,951
Provisions for customer loyalty program	30,832	-	30,832	28,168
Derivative transactions	17	26,522	17	42,922
Trade accounts payable and other provisions	107,460	62,314	124,819	290,199
Income and social contribution taxes on other temporary differences	366,889	81,926	366,365	134,460
Total deferred tax assets	2,667,148	1,406,011	2,869,114	2,641,414

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)****Deferred tax liabilities**

Merged tax credit (b)	(320,530)	(269,514)	(320,530)	(269,514)
Income and social contribution taxes on temporary differences (c)				
Technological Innovation Law	(384,931)	(209,185)	(384,931)	(416,700)
Exchange variation	-	(3,383)	-	(3,383)
Customer portfolio	(482,999)	(546,383)	(482,999)	(546,383)
Trademarks and patents	(486,706)	(508,178)	(486,706)	(508,178)
Licenses	(639,804)	(399,878)	(639,804)	(399,878)
Effects of goodwill generated upon merger of Vivo Part.	(512,485)	(344,927)	(512,485)	(344,927)
Vivo Part. goodwill	(426,991)	(266,870)	(426,991)	(266,870)
Income and social contribution taxes on other temporary differences	(118,354)	(74,344)	(120,191)	(74,344)
Total deferred tax liabilities	(3,372,800)	(2,622,662)	(3,374,637)	(2,830,177)
Total noncurrent assets (liabilities), net	(705,652)	(1,216,651)	(505,523)	(188,763)
Total noncurrent deferred tax assets	-	-	200,129	1,027,888
Total noncurrent deferred tax liabilities	(705,652)	(1,216,651)	(705,652)	(1,216,651)

Deferred taxes were determined considering future realization, as under:

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.

Tax credits of the Company and its subsidiary arising from income and social contribution tax losses recognized and not recognized are as follows. During the six-month period ended September 30, 2013, there was no significant change in the business of the Company and its subsidiary indicating that a provision for losses of the referred to tax credits would be required.

	Income tax	Company Social contribution tax	Total	Income tax	Consolidated Social contribution tax	Total
Income and social contribution tax losses at December 31, 2012 (restated)	48,264	102,486	150,750	930,409	997,434	1,927,843
Tax credit (25% + 9%)	12,066	9,224	21,290	232,602	89,769	322,371
Tax credit recognized	12,066	9,224	21,290	12,066	9,224	21,290
Unrecognized tax credit	-	-	-	220,536	80,545	301,081
Income and social contribution tax losses at September 30, 2013	23,773	122,364	146,137	528,218	627,166	1,155,384
Tax credit (25% + 9%)	5,943	11,013	16,956	132,055	56,445	188,499
Tax credit recognized	5,943	11,013	16,956	132,055	56,445	188,499

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

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

	Tax	Company		Tax	Consolidated	
<u>Deferred tax assets</u>	losses	Deferred	Total	losses	Deferred	Total
		tax assets			tax assets	
Balance at December 31, 2012 - Restated	21,290	1,384,721	1,406,011	21,290	2,620,124	2,641,414
Establishment (reversal), net in P&L	(4,334)	223,100	218,766	167,209	60,491	227,700
Merger/split as of July 1, 2013	-	1,042,371	1,042,371	-	-	-
Balance at September 30, 2013	16,956	2,650,192	2,667,148	188,499	2,680,615	2,869,114

<u>Deferred tax liabilities</u>	Company	Consolidated
Balance at December 31, 2012	(2,622,662)	(2,830,177)
Establishment, net in P&L	(534,320)	(548,362)
Comprehensive income	3,902	3,902
Merger/split as of July 1, 2013	(219,720)	-
Balance at September 30, 2013	(3,372,800)	(3,374,637)

7. JUDICIAL DEPOSITS AND GARNISHMENTS

The Company and its subsidiary have judicial deposits and garnishments related to civil, labor and tax claims, as follows:

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Judicial deposits				
Labor	1,062,256	830,081	1,067,772	933,866
Tax	2,326,500	1,549,738	2,342,956	2,182,513
Civil and regulatory	872,321	667,646	873,306	866,668

Total	4,261,077	3,047,465	4,284,034	3,983,047
Garnishments	87,869	20,791	88,786	52,846
Total	4,348,946	3,068,256	4,372,820	4,035,893
Current	179,085	-	179,085	126,625
Noncurrent	4,169,861	3,068,256	4,193,735	3,909,268

At September 30, 2013, the Company and its subsidiaries had a number of tax-related judicial deposits, amounting to R\$2,326,500 (R\$1,549,738 as of December 31, 2012) and R\$2,342,956 (R\$2,182,513 as of December 31, 2012) Company and consolidated, respectively. 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. 9718/98.

At September 30, 2013, consolidated judicial deposits amounted to R\$27,204 in the Company and to R\$30,757 (R\$62,924 at December 31, 2012) in the consolidated.

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

- 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 September 30, 2013, consolidated judicial deposits amounted to R\$142,697 (R\$5,038 at December 31, 2012) in the Company and to R\$142,697 (R\$136,211 at December 31, 2012) in the consolidated.

- 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 are of the understanding that such collection is unjustified, and therefore challenged aforesaid fee in court.

At September 30, 2013, judicial deposits amounted to R\$852,360 (R\$818,502 at December 31, 2012) for Company and consolidated.

- Withholding Income Tax (IRRF)

Company and subsidiary were 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 equity recognized (mobile operators); and (iii) IRRF levied on earnings from rentals and royalties, wage labor and fixed-income investments.

At September 30, 2013, judicial deposits amounted to R\$58,480 (R\$48,759 at December 31, 2012) and to R\$58,480 (R\$58,367 at December 31, 2012), Company and consolidated, respectively.

- Corporate Income Tax (IRPJ)

Company and subsidiary were 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 September 30, 2013, judicial deposits amounted to R\$28,023 (R\$24,095 at December 31, 2012) and to R\$28,023 (R\$25,422 at December 31, 2012), Company and consolidated, respectively.

- 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. 11652/2008. The Company and its subsidiary, as union members, made judicial deposits referring to that contribution.

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

At September 30, 2013, judicial deposits amounted to R\$504,582 (R\$34,765 at December 31, 2012) and to R\$504,639 (R\$370,026 at December 31, 2012), Company and consolidated, respectively.

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

Company was 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 September 30, 2013, judicial deposits amounted to R\$95,669 (R\$91,915 at December 31, 2012) for Company and consolidated.

- 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 made by the Company on behalf of its employees).

At September 30, 2013, judicial deposits amounted to R\$69,440 (R\$66,386 at December 31, 2012) for Company and consolidated.

- 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.

At September 30, 2013, judicial deposits amounted to R\$50,972 (R\$49,355 at December 31, 2012) for Company and consolidated.

- 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 and not to include revenues from ITX and EILD in FUST tax base for mobile 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. 9998, of August 17, 2000.

At September 30, 2013, judicial deposits amounted to R\$352,679 (R\$330,331 at December 31, 2012) and to R\$365,506 (R\$341,403 at December 31, 2012), Company and consolidated, respectively.

- Provisional Contribution Tax on Financial Transactions (CPMF)

Given the merger of PTelecom Brasil S.A. into Vivo Part. (later merged into the Company) the judicial deposit balance related to the injunction filed by PTelecom Brasil S.A. was absorbed, so as to reject the requirement for CPMF on pro forma and simultaneous foreign exchange agreements, as required by the Central Bank of Brazil to translate foreign loans into investment.

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

At September 30, 2013, judicial deposits amounted to R\$21,358 (R\$20,899 at December 31, 2012) for Company and consolidated.

- State Value-Added Tax (ICMS)

Company and subsidiary are 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 September 30, 2013, judicial deposits amounted to R\$37,873 (R\$168 at December 31, 2012) and to R\$37,873 (R\$34,235 at December 31, 2012), Company and consolidated, respectively.

- Other taxes, charges and contributions

Company and subsidiary were 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 September 30, 2013, judicial deposits amounted to R\$85,163 (R\$59,525 at December 31, 2012) and to R\$85,182 (R\$106,868 at December 31, 2012), Company and consolidated, respectively.

8. PREPAID EXPENSES

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12
Fistel (a)	263,721	-	263,751	-
Advertising and publicity	59,936	817	59,936	173,688
Rent	45,291	20,533	45,292	51,207
Insurance	25,364	7,875	26,066	14,250
Software and network maintenance	13,918	4,496	14,062	7,872
Financial charges	11,771	-	11,771	7,152
Taxes, charges and contributions	33,307	343	33,307	1,654
Other	19,546	9,266	20,864	23,910
Total	472,854	43,330	475,049	279,733
Current	444,812	26,610	446,371	248,337
Noncurrent	28,042	16,720	28,678	31,396

(a) This refers to the Operation and Inspection Fee for 2013 paid in March 2013, which will be amortized through the end of the year.

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)****9. OTHER ASSETS**

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Advances to employees and suppliers	105,697	70,888	108,136	97,152
Related-party receivables	123,095	130,559	56,652	58,151
Subsidy on handset sales	32,790	-	32,790	53,756
Receivables from suppliers (a)	102,491	16,930	102,491	479,283
Pension plan surplus	50,445	17,595	50,840	48,048
Future capital contribution	20,000	-	-	-
Other receivables	90,386	38,060	91,974	61,901
Total	524,904	274,032	442,883	798,291
Current	372,980	198,445	312,783	705,983
Noncurrent	151,924	75,587	130,100	92,308

(a) At December 31, 2012, the consolidated amounts include R\$362,774 referring to the disposal of nonstrategic transmission towers, whose receipt was guaranteed by the purchasing party.

10. INVESTMENTS

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

a) Information on investees - Wholly-owned subsidiaries

	At September 30, 2013	Subsidiaries At December 31, 2012
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	TData	Vivo	TData	ATelecom	TSTV	TVA Sul	Lemontree	Comercial Cabo	GTR-T
Assets									
Current	776,520	9,877,926	358,299	498,074	40,087	2,178	6	25,435	801
Noncurrent	377,190	13,263,918	140,763	414,985	160,603	41,327	11,835	167,688	1,074
Total assets	1,153,710	23,141,844	499,062	913,059	200,690	43,505	11,841	193,123	1,875
Liabilities									
Current	403,686	8,213,367	174,535	218,126	34,818	9,522	437	117,652	14
Noncurrent	64,926	4,887,981	19,191	54,165	2,744	28,798	-	21,830	-
Equity	685,098	10,040,496	305,336	640,768	163,128	5,185	11,404	53,641	1,861
Total liabilities	1,153,710	23,141,844	499,062	913,059	200,690	43,505	11,841	193,123	1,875

	Vivo	TData	ATelecom	TSTV	TVA Sul	Lemontree	Comercial Cabo	GTR-T
Net income (loss)								
At September 30, 2013	-	126,238	-	-	-	-	-	-
At September 30, 2012	2,587,904	(84,735)	7,130	(38,790)	(4,439)	(11,637)	(31,110)	(1,179)

b) Information of investees – Jointly-controlled entities

	At September 30, 2013			At December 31, 2012		
	Aliança	AIX	ACT	Aliança	AIX	ACT
<u>Assets</u>						
Current	129,970	11,649	10	116,322	13,414	10
Noncurrent	-	112,222	-	-	120,024	-
Total assets	129,970	123,871	10	116,322	133,438	10
<u>Liabilities</u>						
Current	2,178	3,283	2	2,302	3,280	-
Noncurrent	-	5,886	-	-	5,792	-
Equity	127,792	114,702	8	114,020	124,366	10
Total liabilities	129,970	123,871	10	116,322	133,438	10

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

	Aliança	AIX	ACT
Net income (loss)			
At September 30, 2013	86	(9,664)	(2)
At September 30, 2012	1,624	(2,196)	-

c) Changes in investments

	Balance at December 31, 2012 - Restated	Additions	Equity pickup	Dividend and interest on equity reported and approved	Other comprehensive income	Merger/split as of July 1, 2013	Balances at September 30, 2013
<u>Interest held</u>	11,328,398	324,967	1,831,343	(2,058,833)	1,933	(10,621,459)	806,349
<u>Wholly-owned subsidiaries</u>	11,209,200	324,967	1,836,133	(2,058,833)	(4,910)	(10,621,459)	685,098
A. Telecom	640,768	-	50,927	-	(36)	(691,659)	-
TData	305,336	253,917	126,238	-	(393)	-	685,098
TST	163,128	-	(52,915)	-	-	(110,213)	-
Vivo	10,040,496	-	1,740,186	(2,058,833)	(1,048)	(9,720,801)	-
GTR-T	1,861	-	1,129	-	-	(2,990)	-
Lemontree	11,404	50	(2,957)	-	-	(8,497)	-
CaTV	42,096	68,000	(31,383)	-	(3,078)	(75,635)	-
Sul Paraná	4,111	3,000	4,908	-	(355)	(11,664)	-
<u>Jointly controlled entities</u>	119,198		(4,790)	-	6,843	-	121,251
Aliança (a)	57,010	-	43	-	6,843	-	63,896
AIX (a)	62,183	-	(4,832)	-	-	-	57,351
ACT (a)	5	-	(1)	-	-	-	4
Goodwill	10,208,980	-	-	-	-	16,300	10,225,280

Other interest	23,683	(6)	-	-	(11,476)	702	12,903
Other investments (a)	23,683	(6)	-	-	(11,476)	702	12,903
Total investments in Company	21,561,061	324,961	1,831,343	(2,058,833)	(9,543)	(10,604,457)	11,044,532
Aliança (a)	57,010	-	43	-	6,843	-	63,896
AIX (a)	62,183	-	(4,832)	-	-	-	57,351
ACT (a)	5	-	(1)	-	-	-	4
Other investments (a)	23,683	(6)	-	-	(11,476)	702	12,903
Total investments in consolidated	142,881	(6)	(4,790)	-	(4,633)	702	134,154

(a) Investments measured at fair value.

11. PROPERTY, PLANT AND EQUIPMENT, NET

a) Breakdown

At September 30, 2013:

	PP&E cost	Company Accumulated depreciation	Net balance	PP&E cost	Consolidated Accumulated depreciation	Net balance
Switching equipment	17,734,756	(15,416,021)	2,318,735	17,741,985	(15,422,858)	2,319,127
Transmission means and equipment	32,717,808	(25,047,254)	7,670,554	32,720,811	(25,049,954)	7,670,857
Terminal equipment and modems	10,440,685	(9,083,022)	1,357,663	10,462,465	(9,098,111)	1,364,354
Infrastructure	13,039,651	(9,322,149)	3,717,502	13,050,798	(9,330,869)	3,719,929
Television equipment	517,282	(398,333)	118,949	517,282	(398,333)	118,949
Other	3,107,442	(2,527,869)	579,573	3,199,486	(2,624,553)	574,933
Valuation allowance (a)	(173,501)	-	(173,501)	(175,677)	-	(175,677)

Fixed assets in progress	1,824,477	-	1,824,477	1,870,132	-	1,870,132
Total	79,208,600	(61,794,648)	17,413,952	79,387,282	(61,924,678)	17,462,604

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

At December 31, 2012:

	PP&E cost	Company Accumulated depreciation	Net balance	PP&E cost	Consolidated - Restated Accumulated depreciation	Net balance
Switching equipment	11,688,628	(10,459,546)	1,229,082	15,533,267	(13,282,873)	2,250,394
Transmission means and equipment	20,514,733	(16,165,541)	4,349,192	30,733,907	(23,667,500)	7,066,407
Terminal equipment and modems	5,293,989	(4,219,074)	1,074,915	9,887,923	(8,319,035)	1,568,888
Infrastructure	8,620,997	(6,103,762)	2,517,235	13,303,406	(9,041,716)	4,261,690
Television equipment	-	-	-	1,054,592	(861,018)	193,574
Other	1,378,888	(1,224,644)	154,244	3,669,065	(2,863,220)	805,845
Valuation allowance (a)	(14,262)	-	(14,262)	(19,073)	-	(19,073)
Fixed assets in progress	709,857	-	709,857	1,476,419	-	1,476,419
Total	48,192,830	(38,172,567)	10,020,263	75,639,506	(58,035,362)	17,604,144

b) Changes

	Balance at December 31, 2012	Company Additions	Write-offs, net	Company Transfers, net	Company Depreciation (c)	Merger/split as of July 1, 2013	Balance at September 30, 2013
Switching equipment	1,229,082	19,799	(67)	178,958	(269,755)	1,160,718	2,318,735
Transmission means and equipment	4,349,192	345,278	(9,730)	593,888	(579,139)	2,971,065	7,670,554
Terminal equipment and	1,074,915	378,966	-	69,490	(534,798)	369,090	1,357,663

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modems							
Infrastructure	2,517,235	28,510	(15,951)	73,856	(287,830)	1,401,682	3,717,502
Television equipment	-	-	-	-	(11,713)	130,662	
Other	154,244	51,365	(1,943)	25,241	(70,111)	420,777	118,949
Valuation allowance (a)	(14,262)	(5,475)	907	-	-	(154,671)	579,573
Fixed assets in progress	709,857	1,331,504	(3,958)	(978,834)	-	765,908	(173,501)
Total	10,020,263	2,149,947	(30,742)	(37,401)	(1,753,346)	7,065,231	17,413,952

	Balance at December 31, 2012 - Restated	Additions	Consolidated Write-offs			Balance at September 30, 2013
			net (a)	Transfers, net (b)	Depreciation (c)	
Switching equipment	2,250,394	19,921	(68)	436,919	(388,039)	2,319,127
Transmission means and equipment	7,066,407	374,824	(18,410)	1,233,744	(985,708)	7,670,857
Terminal equipment and modems	1,568,888	453,050	(67)	86,531	(744,048)	1,364,354
Infrastructure	4,261,690	40,847	(15,033)	14,049	(581,624)	3,719,929
Television equipment	193,574	52,349	-	(49,345)	(77,629)	118,949
Other	805,845	50,471	(1,414)	(184,162)	(95,807)	574,933
Valuation allowance (a)	(19,073)	(5,475)	879	(152,008)	-	(175,677)
Fixed assets in progress	1,476,419	1,824,356	(6,063)	(1,424,580)	-	1,870,132
Total	17,604,144	2,810,343	(40,176)	(38,852)	(2,872,855)	17,462,604

(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) Balances remaining in transfers stated in the previous chart refer to transfers between PP&E and intangible assets.

(c) Additions of depreciation costs and expenses are presented in "Depreciation and Amortization" in Notes 23, 24 and 25.

c) Depreciation rates

For the nine-month period ended September 30, 2013, PP&E items were depreciated on a straight-line basis, at the following annual rates:

Switching equipment	10.00 to 33.33
Transmission means and equipment	5.00 to 14.29
Terminal equipment and modems	10.00 to 66.67
Infrastructure	4.00 to 66.67
TV equipment	8.00 to 20.00
Other	10.00 to 20.00

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)**d) PP&E items given in guarantee

At September 30, 2013, the Company and its subsidiary had PP&E items given in guarantee for lawsuits, amounting to R\$185,290 (R\$150,194 and R\$235.847 at December 31, 2012, for Company and consolidated, respectively).

e) Capitalization of borrowing costs

At September 30, 2013 and December 31, 2012, the Company and its subsidiary did not capitalize borrowing costs, as there were no qualifying assets.

12. INTANGIBLE ASSETS, NETa) Breakdown

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Goodwill		-	10,225,280	10,225,280
Other intangible assets	19,485,096	15,730,850	19,489,680	19,780,417
Total	19,485,096	15,730,850	29,714,960	30,005,697

At September 30, 2013 and December 31, 2012, breakdown of goodwill is as follows:

Ajato Telecomunicação Ltda.	149
Spanish e Figueira (incorporado da TDBH) (a)	212,058
Santo Genovese Participações Ltda. (b)	71,892
Telefônica Televisão Participações S.A. (c)	780,693
Vivo Participações S. A. (d)	7,169,577
Telemig Celular S. A. (e)	133,896
Telemig Celular Participações S. A. (e)	1,485,172
Global Telecom S. A. (e)	204,762
Tele Centro Oeste Celular Participações S. A. (e)	150,930
Ceterp Celular S. A. (e)	16,151
Total	10,225,280

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

(b) Goodwill generated upon acquisition of equity control over Santo Genovese Participações (controlling member or Atrium Telecomunicações Ltda.) in 2004.

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

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

(e) Goodwill arising from Vivo Part., reversed to the Company upon merger in 2011.

At September 30, 2013 and December 31, 2012, breakdown of other intangible assets was as follows:

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

At September 30, 2013:

	Company			Consolidated		
	Cost of intangible assets	Accumulated amortization	Net balance	Cost of intangible assets	Accumulated amortization	Net balance
<i>Software</i>	10,304,989	(8,374,268)	1,930,721	10,341,170	(8,405,865)	1,935,305
Customer portfolio	1,990,278	(569,694)	1,420,584	1,990,278	(569,694)	1,420,584
Trademarks and patents	1,601,433	(169,929)	1,431,504	1,601,433	(169,929)	1,431,504
Licenses	17,231,466	(2,559,534)	14,671,932	17,231,466	(2,559,534)	14,671,932
Other	152,026	(151,584)	442	152,026	(151,584)	442
Software in progress	86,591	-	86,591	86,591	-	86,591
Valuation allowance (a)	(56,678)	-	(56,678)	(56,678)	-	(56,678)
Total	31,310,105	(11,825,009)	19,485,096	31,346,286	(11,856,606)	19,489,680

At December 31, 2012:

	Company			Consolidated - Restated		
	Cost of intangible assets	Accumulated amortization	Net balance	Cost of intangible assets	Accumulated amortization	Net balance
<i>Software</i>	3,215,274	(2,652,564)	562,710	9,516,522	(7,625,698)	1,890,824
Customer portfolio	1,990,278	(383,269)	1,607,009	2,114,561	(507,552)	1,607,009
Trademarks and patents	1,601,408	(106,767)	1,494,641	1,643,511	(148,870)	1,494,641
Licenses	12,644,000	(580,000)	12,064,000	16,987,547	(2,275,703)	14,711,844
Other	187,711	(185,221)	2,490	708,577	(683,520)	25,057
Software in progress	-	-	-	51,042	-	51,042
Total	19,638,671	(3,907,821)	15,730,850	31,021,760	(11,241,343)	19,780,417

b) Changes

	Company						Balance at September 30, 2013
	Balance at December 31, 2012	Additions	Write-offs, net	Transfers, net (b)	Amortization (c)	Merger/split as of July 1, 2013	
Software	562,710	145,255	-	149,147	(301,351)	1,374,960	1,930,721
Customer portfolio	1,607,009	-	-	-	(186,425)	-	1,420,584
Trademarks and patents	1,494,641	-	-	-	(63,137)	-	1,431,504
Licenses	12,064,000	473,038	-	-	(393,436)	2,528,330	14,671,932
Other	2,490	-	-	(1,902)	(11,883)	11,737	442
Software in progress	-	39,777	-	(109,844)	-	156,658	86,591
Valuation allowance (a)	-	(143)	-	-	-	(56,535)	(56,678)
Total	15,730,850	657,927	-	37,401	(956,232)	4,015,150	19,485,096

	Consolidated						Balance at September 30, 2013
	Balance at December 31, 2012 - Restated	Additions	Write-offs, net	Transfers, net (b)	Amortization (c)		
<i>Software</i>	1,890,824	249,423	(5)	368,099	(573,036)		1,935,305
Customer portfolio	1,607,009	-	-	84	(186,509)		1,420,584
Trademarks and patents	1,494,641	-	-	-	(63,137)		1,431,504
Licenses	14,711,844	548,056	-	(85,007)	(502,961)		14,671,932
Other	25,057	3,118	-	(12,108)	(15,625)		442
Software in progress	51,042	211,927	-	(176,359)	(19)		86,591
Valuation allowance (a)	-	(821)	-	(55,857)	-		(56,678)
Total	19,780,417	1,011,703	(5)	38,852	(1,341,287)		19,489,680

(a) The Company recognized a provision for potential obsolescence of software, based on levels of historical use and expected future use.

(b) Balances remaining in transfers stated in the previous chart refer to transfers between PP&E and intangible assets.

(c) Additions of amortization costs and expenses are presented in "Depreciation and Amortization" in Notes 23, 24 and 25.

Telefônica Brasil S. A.**NOTES TO QUARTERLY INFORMATION****Nine-month period ended September 30, 2013****(In thousands of reais, unless otherwise stated)****c) Amortization rates**

For the nine-month period ended September 30, 2013, other intangible assets were amortized on a straight-line basis, at the following annual rates:

	Company	Consolidated
Software	20.00	20.00 to 33.33
Customer portfolio	10.00	9.00 to 15.00
Trademarks and patents	5.00	5,00
Licenses	3.60 to 20.00	3.60 to 20.00
Other	10.00 to 20.00	10.00 to 20.00

13. PAYROLL, SOCIAL CHARGES AND BENEFITS

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Salaries and wages	27,246	34,771	27,934	38,640
Social charges and benefits	295,428	81,576	297,979	204,675
Profit sharing	118,674	89,433	120,075	172,937
Total	441,348	205,780	445,988	416,252

14. TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated

Sundry suppliers	5,149,358	1,741,088	5,302,152	5,205,202
Amounts to be passed on	349,319	93,239	184,279	151,809
Interconnection / networking	575,018	356,720	575,018	532,057
Total	6,073,695	2,191,047	6,061,449	5,889,068

15. TAXES, CHARGES AND CONTRIBUTIONS

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Income taxes	-	-	12,749	243,399
Income and social contribution taxes payable (a)	-	-	12,749	243,399
Indirect taxes	2,024,568	559,112	2,077,393	2,026,600
ICMS (b)	1,699,669	405,103	1,702,627	1,534,750
PIS and COFINS	189,809	135,006	229,744	362,911
Fust and Funttel	24,897	11,886	24,811	34,853
Other	110,193	7,117	120,211	94,086
Total	2,024,568	559,112	2,090,142	2,269,999
Current	1,520,258	529,055	1,563,592	1,781,250
Noncurrent	504,310	30,057	526,550	488,749

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

(b) Noncurrent liabilities include R\$475,541 as of September 30, 2013 (R\$437,295 as of December 31, 2012) which refers to ICMS - Programa Paraná Mais Emprego, resulting from an agreement with the Paraná State Government, involving the deferral of ICMS payment. This agreement establishes that ICMS shall be paid on the 49th month subsequent to that for which ICMS is computed. This amount is restated based on the Annual Restatement Factor (FCA) variation.

Telefônica Brasil S. A.

NOTES TO QUARTERLY INFORMATION

Nine-month period ended September 30, 2013

(In thousands of reais, unless otherwise stated)

16. LOANS, FINANCING AGREEMENTS, FINANCE LEASE AND DEBENTURES

16.1 – Loans, financing agreements and finance lease

Loans, financing agreements and finance lease are stated at fair value, where applicable.

As a result of the corporate restructuring process described in Note 1c, the Company became accountable for the loan, financing and finance lease agreements which belonged to the merged entities.

	Currency	Annual interest rate	Maturity	Company		Consolidated	
				09.30.13	12.31.12 - Restated	09.30.13	12.31.12 - Restated
Financing – BNDES	URTJLP (a)	TJLP+ 0% to 9%	15/06/20	2,627,507	988,833	2,627,507	2,911,854
Financing – BNDES	UMBND (b)	ECM (c) + 2.38% to 2.5%	15/07/19	487,698	-	487,698	455,296
Financing – BNDES	R\$	8.7%	15/01/21	163,318	1,957	163,318	173,793
Loan – Mediocrédito	US\$	1.75%	02/02/14	3,369	9,310	3,369	9,310
Loan – Resolution No. 4131	US\$	4.10% to 4.18%	25/10/13	361,951	326,263	361,951	326,263
Loans – BEI	US\$	4.47%	02/03/15	847,612	-	847,612	795,601
Financing – BNB	R\$	10.00%	30/10/16	250,630	-	250,630	338,610
BBVA commission		0.43%	28/02/15	260	-	260	241
Financing - Leasing	R\$	14.70%	09/11/13	-	-	-	356
Finance lease	R\$		31/08/33	174,229	12,430	174,229	33,259
Total				4,916,574	1,338,793	4,916,574	5,044,583
Current				1,328,194	756,371	1,328,194	1,270,122
Noncurrent				3,588,380	582,422	3,588,380	3,774,461

- (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.
- (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 and services produced domestically. All of these funds have been withdrawn and investment thereof are proven and accepted by BNDES.
- In August 2007, Vivo (which was merged into the Company on July 1, 2013) took out a R\$1,530,459 financing facility from BNDES. Funds were released for the purpose of financing investment projects for implementation and expansion of the wireless capacity all over Brazil. Credits 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 out from BNDES. These funds are used in investments of 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 the city of 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.

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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 qualifies for the scope of IAS 20/CPC 7. Accordingly, using the effective interest method defined by IAS 39/CPC 38, the following comparative was considered: (i) total debt calculated based on rates defined in contract, and (ii) total debt calculated based on rates used in the market (fair value). The government grant by BNDES, adjusted to present value and deferred in accordance with the useful life of the financed asset item, resulted in a balance amounting to R\$16,720 as of September 30, 2013 (R\$18,322 as of December 31, 2012).

Through September 30, 2013, the amount of R\$2,059,916 (R\$1,802,113 through December 31, 2012) had been released.

- In January 2010, a R\$319,927 financing facility to Vivo (which was merged into the Company on July 1, 2013) 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 investments made are evidenced. Through December 31, 2012, the amount of R\$184,489 was released and the remaining R\$135,438 balance was canceled.

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 qualifies for the scope of IAS 20/CPC 7. Accordingly, using the effective interest method defined by IAS 39/CPC 38, the following comparative was considered: (i) total debt calculated based on rates defined in contract, and (ii) total debt calculated based on rates used in the market (fair value). The government grant by BNDES, adjusted to present value and deferred in accordance with the useful life of the financed asset item, resulted in balance amounting to R\$20,028 through September 30, 2013 (R\$23,876 as of December 31, 2012).

- With the merger process, Vivo became accountable for the financing agreements which belonged to former Vivo Part., whose balance amounted to R\$24,130 as of September 30, 2013 (R\$26,825 at December 31, 2012).

- In November 2010 and in March 2011, BNDES approved credit facilities amounting to R\$ 41,950 for CaTV and Sul Paraná (which were merged into TST on July 1, 2013). On December 28, 2012, a R\$9,493 financing line was approved by BNDES, for 36 months, with six-month grace period for principal, fully released as investments made are proved. Through September 30, 2013, R\$ 51,443 (R\$ 41,950 at December, 2012) had been released. These transactions also fall into the scope of IAS 20/CPC 7 because the interest rate is lower than the market rate (2.5% p.a. and 5.5% p.a. fixed), and the subvention granted by BNDES, adjusted to present value, resulted – as of September 30, 2013 – in the amount of R\$2,152 (R\$2,404 at December 31, 2012).

- In December 2010, BNDES, through its Investment Maintenance Program (BNDES PSI), approved a R\$5,417 financing facility for the Company. At September 30, 2013, this balance amounted to R\$1,780 (R\$1,946 at December 31, 2012). This transaction also falls into the scope of IAS 20/CPC 7 because the interest rate is lower than the market rate (5.5% p.a. fixed), and the BNDES grant, adjusted to present value, resulted – as of September 30, 2013 – in the amount of R\$298 (R\$331 at December 31, 2012).

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- On December 28, 2012, R\$21,783 and R\$331,698 financing facilities were approved for the Company and Vivo (which was merged into the Company on July 1, 2013), respectively, by BNDES, at the rate of 2.5% p.a., for 60 months, 24-month grace period for principal, which will be released as investments made are proved. Through September 30, 2013, R\$2,095 had been released.

Médiocrédito

Loan taken out in 1993 by Telecomunicações Brasileiras S.A. (Telebrás) from *Instituto Centrale per il Credito a Médio Termine (Mediocredito Centrale)* amounting to US\$45,546, with semiannual repayments and maturity by 2014. This loan was taken in order to build rural telephony via satellite in the state of Mato Grosso. A derivative was taken out to hedge the Company against currency risks related to this debt and, as it is an effective hedge, the hedge accounting methodology was adopted. Therefore, at September 30, 2013, the risk against which the Company was hedged by this instrument was recognized in the balance sheet at its fair value as of the balance sheet date.

European Investment Bank (BEI)

Vivo (which was merged into the Company on July 1, 2013) took out a €250 million (equivalent to US\$365 million) financing from BEI. 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 currency risk into a percentage of CDI variation.

Banco do Nordeste (BNB)

- On January 29, 2007, a credit facility amounting to R\$ 247,240 was taken out with BNB. 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 amount repaid in 96 installments, after a two-year grace period.
- On October 30, 2008, a credit facility amounting to R\$ 389,000 was taken out with BNB. 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 amount repaid in 96 installments, after a two-year grace period.

Finance lease

Finance leases which transfer basically all the risks and rewards related to ownership of the leased item to Company and subsidiary 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.

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The difference between the nominal value of the installments and the amounts payable recorded is recognized as financial expenses based on the effective interest rate method over the term of the agreement.

The Company and its subsidiary have entered into finance lease agreements as the lessee, relating to: 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 means deriving from construction projects in conjunction with other operators, based on optical network associated to the power transmission network, connecting cities in the Northern region of Brazil to the domestic backbone of the Company. The residual value of referred to assets were kept unchanged through sale thereof and a liability corresponding to the present value of the minimum mandatory installments 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	
	09.30.13	12.31.12
Present value of payables	537,016	51,025
Unrealized financial expenses	(362,787)	(17,766)
Present value of minimum payments payable	174,229	33,259
Current	11,646	14,799
Noncurrent	162,583	18,460

Consolidated aging list of finance lease is as follows:

	Consolidated	
	Gross investment	Present value

Up to one year	30,967	11,646
From one to five years	162,410	51,800
More than 5 Years	343,639	110,783
Total	537,016	174,229

There are no unguaranteed residual values resulting in benefits to the lessor or contingent payments recognized as revenue for the nine-month period ended September 30, 2013.

16.2 – Debentures

	Currency	Company/Consolidated Charges	Maturity	09.30.13	12.31.12
Debentures (4th issue) – 1st and 2nd series	R\$	106.00% to 112.00% of CDI	15/10/14	762,822	744,678
Debentures (4th issue) – 3rd series	R\$	IPCA+7.00%	15/10/14	102,543	96,249
Debentures (1st issue) – Telemig	R\$	IPCA+0.50% 100.00% of CDI	05/07/21	75,269	72,137
Debentures (3rd issue)	R\$	+ 0.75% 100.00% of CDI	10/09/17	2,010,146	2,044,674
Debentures (4th issue)	R\$	+ 0.68%	25/04/18	1,348,236	-
Cost of issues	R\$			(2,247)	(1,833)
Total				4,296,769	2,955,905
Current				734,351	702,215
Noncurrent				3,562,418	2,253,690

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Funds raised by Vivo Part. (which was merged into the Company on October 1, 2011) – 4th Issue

On September 4, 2009, the Board of Directors of Vivo Part. approved the 4th public issue by the company of junior unsecured registered debentures not convertible into shares, 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 jointly decided in an agreement between Vivo Part. and the leading coordinator of the offer after completion of the bookbuilding procedure.

Remuneration of the 1st series was 108.00% of CDI, of the 2nd series was 112.00% of CDI, and of the 3rd series was a coupon of 7.00% p.a. on face value restated based on Brazil's Extended Consumer Price Index (IPCA) variation. These debentures accrue interest payable on a semiannual basis in the 1st and 2nd series and annual basis in the 3rd series.

The proceeds raised from the issue of the offering were used for full payment of the debt relating to the 6th issue of commercial promissory notes of Vivo Part. and to support its working capital.

Transaction costs in connection with this issue, amounting to R\$ 143 as of September 30, 2013 (R\$ 840 as of December 31, 2012), were allocated to a contra-liabilities account as deferred cost and are recorded as financial expenses, pursuant to the contractual terms of this issue. The effective rate of this issue, considering transaction costs, is 112.13% of CDI.

Debenture holders, in meeting held on July 29, 2011 (first call), decided to approve transfer of 4th Public Distribution debentures issued by Vivo Part. to Telefonica Brasil with no changes to terms and conditions, and the correspondent amendment of the indenture in order to reflect change in issuer's ownership.

On July 24, 2012, Company Board of Directors approved the proposal to reschedule the 1st series of 4th issue, amounting to R\$98 million at 106% of CDI.

On October 15, 2012, the Company renegotiated the 1st series of the 4th debenture issuance under the conditions approved by the Board of Directors in a meeting held on July 24, 2012. Total value renegotiated 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 September 19, 2013, Company Board of Directors approved the proposal to reschedule the 2nd series of the 4th issue, to occur on October 15, 2013, amounting to R\$640 million at 106.80% of CDI with new term established through October 15, 2015.

Reschedules of the 2nd and 3rd series are planned as follows: 2nd series for October 15, 2013 and 3rd series for October 15, 2014.

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At September 30, 2013, total balance was R\$865,365 (R\$840,927 at December 31, 2012).

Fund raised by Telemig Celular S.A.(Telemig. company merged into Vivo Part. as of June 1, 2010) – 1st Issue

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 issued by Telemig, 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, Telemig would make SMP services available to 134 locations in the areas registered under No. 34, No. 35 and No. 38.

Also according to the program, 5,550 junior unsecured registered debentures not convertible into shares, 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 December 2007. 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 for providing services to 134 locations inside the state of Minas Gerais.

At September 30, 2013, this balance was R\$75,269 (R\$72,137 at December 31, 2012).

Fund raised by the Company – 3rd Issue

On July 24, 2012, the Company's Board of Directors approved a proposal to raise funds from local financial market through issue of simple debentures nonconvertible into shares 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 debentures not convertible into shares were issued in a single series, with unit 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 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. Unit value of each debenture will be fully repaid in a lump sum, on the maturity date.

Debentures are not subject to rescheduling.

Funds obtained through this limited offering were allocated to: (i) direct investment in 4th generation (4G) wireless phone services, specifically to settle the authorization price obtained by Vivo in the 4G auction; and (ii) sustaining liquidity and extension of other debts already incurred by the Company.

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Transaction costs in connection with this issue, amounting to R\$ 833 as of September 30, 2013 (R\$ 993 as of December 31, 2012), were allocated to a contra-liabilities account as deferred cost and are recorded as financial expenses, pursuant to the contractual terms of this issue.

At September 30, 2013, total balance was R\$2,010,146 (R\$2,044,674 at December 31, 2012).

Fund raised by the Company – 4th Issue

On April 11, 2013, Company Board of Directors approved the fund raising proposal in the local market by issuing simple nonconvertible debentures in the amount of R 1,3 billion, as a way to ensure the Company liquidity for future commitments.

The net proceeds obtained with the issue will be fully used for future debt amortization, Capex of developed projects and in the strengthening of 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 five-year (5) maturity as of the corresponding issue date, April 25, 2013, thereby maturing on 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\$ 1,271 at September 30, 2013.

16.3 – Payment schedule

At September 30, 2013, breakdown of noncurrent loans, financing agreements, finance lease and debentures by year of maturity is as follows:

<u>Year</u>	Company / Consolidated
2014	651,581
2015	1,280,976
2016	505,068
2017	2,459,729
2018 onwards	2,253,444
Total	7,150,798

16.4 – Covenants

The Company and Vivo have loans and financing taken out from BNDES, the balance of which as of September 30, 2013 was R\$ 3,110,665 (R\$ 3,360,866 as of December 31, 2012). In accordance with the agreements, there are financial and economic indexes that should be considered on a semiannual an annual basis. At this same date, all economic and financial indexes for the agreements in effect were met.

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4th issue debentures, net of issue costs, as of September 30, 2013 amounted to R\$ 865,222 (R\$ 840,087 as of December 31, 2012) and have economic and financial indexes that should be calculated on a quarterly basis. At this same date, all economic and financial indexes for the agreements were met.

Telemig's (company merged into Vivo Part. as of June 1, 2010) agreement with the State Department of Economic Development referring to debentures – amounting to R\$ 75,269 as of September 30, 2013 (R\$ 72,137 at December 31, 2012) – 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 indexes. On the same date, all these covenants were met.

16.5 - Guarantees

At September 30, 2013, guarantees were given for part of loans and financing of the Company, as under:

<u>Banks</u>	<u>Loans/financing balance</u>	<u>Guarantees</u>
Brazilian Development Bank (BNDES)	R\$1,941,135 (URTJLP)	<ul style="list-style-type: none"> • Agreement (2007). R\$ 282,245: Guarantee in receivables referring to 15% of the higher of debt balance or 4 (four) times the highest installment.
	R\$487,698 (UMBND)	<ul style="list-style-type: none"> • Agreement (PSI) R\$163,318: disposal of financed asset items. • Agreement (2011). R\$2,146,588: Guarantee in receivables referring to 15% of the higher of debt balance or 4 (four) times the highest installment.
	R\$163,318 (PSI)	

European Investment Bank (BEI)	R\$847,612	<ul style="list-style-type: none"> Commercial risk guaranteed by Banco BBVA Spain.
		<ul style="list-style-type: none"> Bank guarantee provided by Banco Bradesco S.A. amounting to approximately 100% of the financing obtained.
Banco do Nordeste do Brasil S.A. (BNB)	R\$250,630	<ul style="list-style-type: none"> 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.

17. DIVIDEND AND INTEREST ON EQUITY (IOE)

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

a) Breakdown of receivables

	Company		Consolidated	
	09.30.13	12.31.12	09.30.13	12.31.12 - Restated
Vivo	-	390,747	-	-
Aliança	1,140	1,140	1,140	1,140
ATelecom	-	2,218	-	-
Total	1,140	394,105	1,140	1,140

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	Company	Consolidated
Balance at December 31, 2012 - Restated	394,105	1,140
2012 supplementary dividends	1,841,833	-
2013 interim IOE (net of IRRF)	184,450	-
Dividend and IOE received	(1,320,449)	-
Merger/split as of July 1, 2013	(1,098,799)	-
Balance at September 30, 2013	1,140	1,140

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

c) Breakdown of payables

	Company/Consolidated	
	09.30.13	12.31.12
Telefónica Internacional	559,483	-
SP Telecomunicações Participações	351,172	-
Telefónica	462,655	-
Compañía de Telecomunicaciones de Chile	1,109	-
Non-controlling interest	972,629	467,831
Total	2,347,048	467,831

d) Changes in payables

	Company/ Consolidated
Balance at December 31, 2012	467,831
2012 supplementary dividends	3,148,769
interim IOE (net of IRRF)	374,000
Unclaimed dividend and IOE	(59,045)
Dividend and IOE paid	(1,584,507)
Balance at September 30, 2013	2,347,048

Interest on equity and dividends not yet claimed by shareholders expire in three years as from the date payment commences. Should dividends and interest on equity expire, these amounts are recorded against

equity and then distributed.

For the cash flow statement, interest on equity and dividends paid to shareholders are allocated to the Investing Activity group.

18. PROVISIONS AND CONTINGENCIES

As a result of the corporate restructuring process described in Note 1c, the Company became accountable for the liabilities referring to provisions and contingencies which belonged to the merged entities.

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	Company		Consolidated	
	09.30.13	12.31.12 - Restated	09.30.13	12.31.12 - Restated
Provision for lawsuits and administrative proceedings				
Labor	898,678	598,733	898,678	717,247
Tax	2,131,391	1,336,071	2,145,965	1,952,050
Civil and regulatory	927,927	568,225	927,927	795,294
Subtotal	3,957,996	2,503,029	3,972,570	3,464,591
Contingent liability (a)	273,944	264,520	273,944	264,520
Provision for demobilization (b)	233,584	24,935	237,632	221,316
Total	4,465,524	2,792,484	4,484,146	3,950,427
Current	541,835	334,852	541,835	496,790
Noncurrent	3,923,689	2,457,632	3,942,311	3,453,637

(a) Refers to contingent liabilities arising from Purchase Price Allocation (PPA) generated upon acquisition of the controlling interest of Vivo Part. in 2011.

(b) This refers to costs to be incurred to return the sites (locations for installation of base radio, equipment and real state) to respective owners in the same state 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 subsidiary are party to labor, tax and civil claims filed in different courts. Based on the opinion of its legal advisors, management of Company and subsidiary set up a provision for claims whose likelihood of an unfavorable outcome was rated as possible.

b) Changes in provisions:

Company
Provisions for contingencies

	Labor	Tax	Civil and regulatory	Contingent liability (PPA)	Provision for demobilization	
Balance at December 31, 2012 - Restated	598,733	1,336,071	568,225	264,520	24,935	2,792
Inflows	275,851	29,528	142,264	-	2,929	450
Write-offs due to payment	(50,976)	(7,418)	(39,832)	-	-	(98)
Write-offs due to reversal	(76,491)	(159)	(48,605)	(2,312)	(2,074)	(129)
Monetary restatement	23,688	68,416	54,756	11,736	-	158
Merger/split as of July 1, 2013	127,873	704,953	251,119	-	207,794	1,291
Balances at September 30, 2013	898,678	2,131,391	927,927	273,944	233,584	4,465
Current	88,374	1,116	452,345	-	-	541
Noncurrent	810,304	2,130,275	475,582	273,944	233,584	3,923

	Consolidated Provisions for contingencies					
	Labor	Tax	Civil and regulatory	Contingent liability (PPA)	Provision for demobilization	
Balance at December 31, 2012 - Restated	717,247	1,952,050	795,294	264,520	221,316	3,950
Inflows	299,582	148,272	215,805	-	18,848	682
Write-offs due to payment	(60,160)	(27,491)	(68,603)	-	-	(156)
Write-offs due to reversal	(81,944)	(19,549)	(72,975)	(2,312)	(2,664)	(179)
Monetary restatement	23,953	92,683	58,406	11,736	132	186
Balances at September 30, 2013	898,678	2,145,965	927,927	273,944	237,632	4,484
Current	88,374	1,116	452,345&nbs			