

TELEFONICA BRASIL S.A.
Form 6-K
May 07, 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 May, 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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Rua Martiniano de Carvalho, 851 – 21 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

Highlights

- **Total accesses** reached 90.9 million in 1Q13 (+0.9% y-o-y), 76.0 million of which was in the mobile business and 14.9 million was in the fixed-line business;
- Postpaid accesses grew 17.4% y-o-y. **42% of the new additions of postpaid clients in 1Q13 selected Vivo**;
- **Increasing leadership** was demonstrated in the higher revenue segments, recording 37.1% market share in the postpaid market (+0.6 p.p. y-o-y). In the segment of **mobile data cards** Vivo recorded 47.4% of market share;
- **Accesses base with plans and data packages** recorded 17.2 million accesses including pre and post-paid, a growth of 64% over 1Q12;
- **Mobile ARPU** grew 3.4% y-o-y, stimulated by the 14.8% growth in Data ARPU in the period;
- **Fixed voice accesses** grew strongly in the corporate segment (+5.2% y-o-y);
- **Quality commitment** is evident in the latest analysis of the customer service index (IDA) disclosed (Jan/13), in which Vivo continues to be the one with the lowest rate of customer complaints in the mobile service;
- **Total Net Revenue** records growth of 2.9% y-o-y in the quarter;
- **Net Operating Mobile Revenues** recorded annual growth of 10.4% y-o-y. **Net Service Mobile Revenues** maintained strong annual growth, recording a positive variation of 7.0% compared to 1Q12;
- Accelerated growth of **mobile internet revenues** was seen for the third quarter in a roll, recording evolution of 22.5% y-o-y in 1Q13;
- **Recurring Operating Costs** recorded annual growth of 3.4% in relation to 1Q12, excluding the non-recurrent effects;
- **Recurrent EBITDA** increased by 2.0% y-o-y with **EBITDA Margin** of 33.2% (-0.3 p.p. y-o-y) in the quarter;
- **Cash flow after investments** reaches 2.5 times the amount registered in 1Q12;

Notes: (1) y-o-y: annual variation and (2) q-o-q: quarterly variation.

HIGHLIGHTS

| | | | | | |
|--|------------------|------------------|-------------------|------------------|-------------------|
| Net Operating Revenues | 8,555.5 | 8,907.4 | (4.0) | 8,311.3 | 2.9 |
| Net Operating Services Revenues | 8,189.7 | 8,559.1 | (4.3) | 8,130.0 | 0.7 |
| Net operating mobile services revenues | 5,270.5 | 5,474.3 | (3.7) | 4,924.4 | 7.0 |
| Net operating fixed revenues | 2,919.2 | 3,084.8 | (5.4) | 3,205.6 | (8.9) |
| Net handset revenues | 365.8 | 348.3 | 5.0 | 181.4 | 101.7 |
| Operating costs | (5,807.9) | (5,054.0) | 14.9 | (5,465.4) | 6.3 |
| <i>Recurrent Operating costs</i> | <i>(5,718.1)</i> | <i>(5,729.7)</i> | <i>(0.2)</i> | <i>(5,530.2)</i> | <i>3.4</i> |
| EBITDA | 2,747.6 | 3,853.4 | (28.7) | 2,845.9 | (3.5) |
| EBITDA Margin % | 32.1% | 43.3% | (11.1) p.p. | 34.2% | (2.1) p.p. |
| <i>Recurrent EBITDA</i> | <i>2,837.4</i> | <i>3,177.7</i> | <i>(10.7)</i> | <i>2,781.1</i> | <i>2.0</i> |
| <i>Recurrent EBITDA Margin %</i> | <i>33.2%</i> | <i>35.7%</i> | <i>(2.5) p.p.</i> | <i>33.5%</i> | <i>(0.3) p.p.</i> |
| Net income | 810.2 | 1,474.3 | (45.0) | 956.5 | (15.3) |
| Capex | 708.0 | 2,845.5 | (75.1) | 1,164.6 | (39.2) |
| Total accesses (thousand) | 90,860 | 91,115 | (0.3) | 90,036 | 0.9 |
| Total Mobile accesses | 75,988 | 76,137 | (0.2) | 74,784 | 1.6 |
| Total Fixed accesses | 14,872 | 14,978 | (0.7) | 15,252 | (2.5) |

Telefônica Brasil S.A. (BM&FBOVESPA: VIVT3 and VIVT4, NYSE: VIV), discloses today its consolidated results for the first quarter of 2013, presented in accordance with the International Financial Reporting Standards (IFRS) and with the pronouncements, interpretations and guidelines of the Accounting Pronouncements Committee. For comparative purposes, the 2012 figures were prepared on a combined basis. Totals are subject to differences due to rounding up or down. The results of the following direct and indirect subsidiaries are consolidated in the Company's statements: Vivo S.A., Telefônica Data S.A., A. Telecom S.A., Telefônica Sistema de Televisão S.A., Ajato Telecomunicações Ltda., GTR Participações e Empreendimentos S.A., TVA Sul Paraná S.A., Lemontree S.A., Comercial Cabo TV São Paulo S.A., Aliança Atlântica Holding B.V., Companhia AIX de Participações and Companhia ACT de Participações.

Mobile business

OPERATING PERFORMANCE

| | | | | | |
|--------------------------------------|--------|--------|------------|--------|------------|
| Mobile total accesses | 75,988 | 76,137 | (0.2) | 74,784 | 1.6 |
| Postpaid | 19,518 | 18,802 | 3.8 | 16,621 | 17.4 |
| Prepaid | 56,470 | 57,335 | (1.5) | 58,163 | (2.9) |
| Market Share (*) | 28.8% | 29.1% | (0.3) p.p. | 29.8% | (1.0) p.p. |
| Postpaid | 37.1% | 36.9% | 0.2 p.p. | 36.5% | 0.6 p.p. |
| Mobile broadband (modem only) | 47.4% | 47.3% | 0.1 p.p. | n.a. | n.a. |
| Net additions | (150) | (668) | (77.6) | 3,230 | n.a. |
| Market Share of net additions (*) | -6.7% | -22.7% | n.a. | 37.6% | n.a. |
| Postpaid | 41.8% | 37.5% | 4.4 p.p. | 33.2% | 8.7 p.p. |
| Market penetration | 133.6% | 132.7% | 0.9 p.p. | 128.0% | 5.6 p.p. |
| Monthly churn | 3.6% | 4.1% | (0.5) p.p. | 2.5% | 1.1 p.p. |
| Postpaid | 1.7% | 1.7% | 0.0 p.p. | 2.1% | -0.4 p.p. |
| ARPU (R\$/month) | 23.1 | 23.9 | (3.3) | 22.4 | 3.4 |
| Voice ARPU | 16.3 | 17.1 | (4.8) | 16.4 | (0.8) |
| Data ARPU | 6.9 | 6.8 | 0.6 | 6.0 | 14.8 |
| Total traffic (minutes million) (**) | 28,110 | 29,393 | (4.4) | 25,125 | 11.9 |

(*) source: Anatel.

(**) retroactively adjusted due to systemic rereading.

- **Total accesses** increased by 1.6% over 1Q12, closing the quarter with 75,988 thousand accesses. The post-paid segment grew by 17.4% with 19,518 thousand accesses, consolidating the post-paid customer mix which reaches 25.7%, an increase of 3.5 p.p. in the annual comparison.

- **Market share** recorded a slight annual reduction by reaching 28.8% (-1.0 p.p. y-o-y) due to our more restrict commercial policy in pre-paid. **In the post-paid market** Telefônica Brasil achieved 46.3% of the net additions in March and 41.8% in the quarter, recording a market share of 37.1% (+0.6 p.p. y-o-y), reflecting the quality standard presented by the company.

- Vivo led the market of **Data cards** with 47.4% market share, due to differentiated 3G and HSPA+ coverage nationwide.

- In the **machine-to-machine (M2M)** market the customer base came to 1.4 million customers in 1Q13, a growth of 16.5% q-o-q.

- Our **quality commitment** is evident from the analysis of the customer service index (IDA). The company recorded the best performance in the latest rate disclosed (Jan/13) and continues with the lowest rate of customer complaints in the mobile service.

- In 1Q13 the **mobile net disconnections** reached 150 thousand accesses. The company continues its more rational commercial policy focused on profitability.

- **ARPU** reached R\$ 23.1, a growth of 3.4% over 1Q12 due to the increase in the voice and data revenues. Excluding the regulatory impact, the ARPU would have recorded an annual growth of 3.6%. In the q-o-q comparison, there was a drop of 3.3% mainly due to the seasonal reduction in the revenues in the period.
- **Total traffic** grew by 11.9% over 1Q12 due to the increase of on-net local traffic and long distance calls.
- The financial volume of **Recharges** presented again a strong growth in the quarter (+9.5% y-o-y), despite an annual reduction of 2.9% in the prepaid customer base demonstrating the effectiveness of our disconnection policy with little impact on recharges .

NET OPERATING REVENUES

| | | | | | |
|-------------------------------|---------|---------|--------|---------|--------|
| Net operating mobile revenues | 5,636.3 | 5,822.6 | (3.2) | 5,105.7 | 10.4 |
| Net service revenues | 5,270.5 | 5,474.3 | (3.7) | 4,924.4 | 7.0 |
| Access and Usage | 2,784.4 | 2,908.1 | (4.3) | 2,599.8 | 7.1 |
| Network usage | 905.4 | 966.0 | (6.3) | 985.4 | (8.1) |
| Data Revenues plus VAS | 1,566.3 | 1,564.7 | 0.1 | 1,318.3 | 18.8 |
| Messaging P2P | 511.3 | 527.2 | (3.0) | 446.4 | 14.5 |
| Internet | 812.9 | 782.2 | 3.9 | 663.7 | 22.5 |
| Other Data Revenues plus VAS | 242.2 | 255.2 | (5.1) | 208.1 | 16.4 |
| Other services | 14.3 | 35.5 | (59.7) | 20.9 | (31.5) |
| Net handset revenues | 365.8 | 348.3 | 5.0 | 181.4 | 101.7 |

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

Net operating mobile revenues in the quarter recorded a material growth of 10.4% in the annual comparison, driven by the increase in the voice services revenue, internet services consumption, use of messages, and higher sales of smartphones, which stimulated terminals revenues. The mobile service revenue grew by 7.0%, when compared to 1Q12. Excluding the regulatory effect, the mobile net service revenue growth would be 7.2% compared to 1Q12.

Access and usage revenues increased by 7.1% y-o-y, driven by the continued growth in prepaid recharges and by the increase in the *Vivo Ilimitado* postpaid customer base.

Network usage revenues decreased by 8.1% compared to 1Q12 mainly due to the reduction of MTR. By normalizing this effect, such reduction would be 6.5%. In the q-o-q comparison, a drop of 6.3% was recorded due to seasonality.

Data and VAS (Value Added Services) revenues continued to record a good performance, with growth of 18.8% y-o-y. This is mainly due to the growth in sales of 3G and 3G Plus data packages tied to smartphones, and the increased sales of data packages to prepaid customers. In March, 74% of individual postpaid customers additions were related to data packages. In addition, sales of data packages almost doubled in relation to the same quarter of last year. In the quarter, Data and VAS revenues accounted for 30% of the net mobile services revenue, an annual growth of 2.9 p.p.. Considering outgoing revenue only, data and VAS would represent 35.9% in 1Q13.

Mobile internet revenues grew by 22.5% in the y-o-y comparison and 3.9% in q-o-q comparison, accounting for 52% of data revenue in 1Q13. This performance is directly driven by the strong increase in sales of modems and smartphones data plans, especially the 3G Plus plans.

SMS revenues increased by 14.5% y-o-y, due to sales of unlimited packages in the postpaid plans (R\$ 10/month), higher SMS penetration in the *Vivo Sempre* campaign (R\$ 0.05/sms), as well as inclusion of off-net SMS in postpaid plans.

Other Data and VAS Revenues increased by 16.4% y-o-y, driven by education services, *Vivo som de chamada* and voice portal, which recorded growth of 13.8%, 20.2% and 32.9% respectively, in comparison to 1Q12.

Vivo som de chamada exceeded 6.6 million subscribers in March. Our education platform, comprising services focused on practicing and learning Portuguese and foreign languages exceeded 3.0 million subscribers. The service has already trained more than 15 million users.

The strong annual increase of the **mobile handset revenues** is mainly explained by the growth in smartphone sales, increased participation of the postpaid clients in the gross additions over the period, and by the change in the sales model for SME segment.

Fixed Line Business

OPERATING PERFORMANCE

| | | | | | |
|----------------------|--------|--------|-------|--------|--------|
| Fixed voice accesses | 10,553 | 10,646 | (0.9) | 10,884 | (3.0) |
| Residential | 7,009 | 7,110 | (1.4) | 7,486 | (6.4) |
| Corporate | 2,945 | 2,933 | 0.4 | 2,799 | 5.2 |
| Others | 599 | 603 | (0.8) | 600 | (0.2) |
| Fixed broadband | 3,753 | 3,733 | 0.5 | 3,685 | 1.8 |
| Pay TV | 566 | 600 | (5.7) | 683 | (17.2) |
| Total fixed accesses | 14,872 | 14,978 | (0.7) | 15,252 | (2.5) |

| | | | | | |
|--|-------|-------|----------|-------|----------|
| % Broadband accesses over fixed voice accesses | 35.6% | 35.1% | 0.5 p.p. | 33.9% | 1.7 p.p. |
|--|-------|-------|----------|-------|----------|

- **Fixed-line** accesses recorded a reduction of 2.5% in relation to the same period last year totaling 14,872 thousand accesses in 1Q13. The ratio of fixed broadband accesses over fixed voice accesses continued to climb, from 33.9% in 1Q12 to 35.6% in 1Q13.
- **Fixed voice** accesses recorded a drop of 3.0% in the year, totaling 10,553 thousand in 1Q13. The annual drop of 3.0% in the quarter is lower than those recorded in 4Q12 (3.1%) and in 3Q12 (3.4%), maintaining the trend of reduction in the drop rate of fixed voice accesses.
- **Fixed broadband** accesses recorded 3,753 thousand customers in 1Q13. The 1.8% growth over last year was due to the increase in the number of houses connected by fiber service, whose accesses reached 125 thousand in the quarter. The broadband service has faced strong competition of converging offers, which, in turn, have affected new additions, although fiber and ADSL additions have accelerated in March.
- **Pay TV** accesses recorded a reduction of 5.7% q-o-q, recording 566 thousand subscribers at the end of the quarter, a consequence of the reduction in the number of MMDS customers due to the occupation of the spectrum by 4G operators. Excluding the impact of MMDS in the customer base, this reduction would be of 2.4% in relation to 4Q12. The company is already in the process of accelerating the IPTV platform and placing its focus on the current customers.

NET OPERATING REVENUES

| | | | | | |
|----------------------------------|---------|---------|----------|---------|----------|
| Net operating fixed revenues | 2,919.2 | 3,084.8 | (5.4) | 3,205.6 | (8.9) |
| Fixed voice and accesses | 1,562.4 | 1,678.2 | (6.9) | 1,803.5 | (13.4) |
| Interconnection | 107.8 | 126.8 | (15.0) | 118.7 | (9.2) |
| Data transmission | 893.6 | 895.1 | (0.2) | 892.2 | 0.2 |
| Pay TV | 121.2 | 141.2 | (14.2) | 157.7 | (23.1) |
| Other services | 234.2 | 243.5 | (3.8) | 233.5 | 0.3 |
| % Data / Net Operational Revenue | 30.6% | 29.0% | 1.6 p.p. | 27.8% | 2.8 p.p. |

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

Fixed-line net revenues recorded an annual reduction of 8.9%, mainly due to the reduction in fixed voice revenues and reduction in fixed to mobile VC in the end of Feb/12.

Voice and accesses revenues decreased by 13.4% in relation to 1Q12, with slight acceleration in relation to the reduction in previous quarters, due to the fixed to mobile substitution and regulatory impacts.

Network usagerevenues dropped by 9.2% in comparison to 1Q12 due to the reduction of the incoming traffic with fixed termination and the fixed to mobile substitution.

Data revenues remained stable in the y-o-y comparison due to the strong competition in the period. The company has adopted actions for increasing broadband services revenue, including: customer upgrade to V-DSL and migration to higher speed plans, Vivo Box sales, in addition to higher homes passed in fiber until the year end.

In 1Q13, **Pay TV** revenues reduced by 23.1% y-o-y and by 14.2% in relation to 4Q12. As described previously, such performance reflects disconnection of MMDS customers in addition to the reduction in DTH sales in the period. The latter shall be stimulated in the second semester of 2013.

Consolidated Operating Costs

| | | | | | |
|--|-----------|-----------|--------|-----------|--------|
| Operating costs | (5,807.9) | (5,054.0) | 14.9 | (5,465.4) | 6.3 |
| Personnel | (693.0) | (563.7) | 22.9 | (713.8) | (2.9) |
| Costs of services rendered | (2,650.7) | (2,538.9) | 4.4 | (2,700.3) | (1.8) |
| Interconnection | (951.4) | (974.6) | (2.4) | (1,068.8) | (11.0) |
| Taxes and contributions | (439.2) | (409.4) | 7.3 | (506.9) | (13.4) |
| Third-party services | (886.7) | (833.8) | 6.3 | (789.1) | 12.4 |
| Others | (373.4) | (321.1) | 16.3 | (335.5) | 11.3 |
| Cost of goods sold | (559.7) | (546.4) | 2.4 | (410.3) | 36.4 |
| Selling expenses | (1,603.3) | (1,617.0) | (0.8) | (1,558.9) | 2.8 |
| Provision for bad debt | (203.1) | (146.6) | 38.5 | (181.9) | 11.7 |
| Third-party services | (1,300.7) | (1,342.3) | (3.1) | (1,249.3) | 4.1 |
| Others | (99.5) | (128.1) | (22.3) | (127.7) | (22.1) |
| General and administrative expenses | (287.2) | (284.5) | 0.9 | (265.1) | 8.3 |
| Third-party services | (217.2) | (214.3) | 1.4 | (204.0) | 6.5 |
| Others | (70.0) | (70.2) | (0.3) | (61.1) | 14.6 |
| Other net operating revenue (expenses) | (14.0) | 496.5 | n.a. | 183.0 | n.a. |

Operating costs recorded growth of 6.3% y-o-y and of 14.9% q-o-q, totaling R\$ 5,807.9 million in 1Q13, without considering depreciation and amortization expenses. This variation is mainly due to the increase in the cost of goods, increases in sales commissions due to the higher volume of post-paid sales in the period, network maintenance expenses in relation to the expansion of coverage in mobile and fiber services, and the sales of assets in 1Q12, which decreased the comparison basis. Excluding the non-recurring effects costs would have grown only 3.4% in the y-o-y comparison.

Personnel costs in 1Q13 recorded a reduction in the y-o-y comparison of 2.9% and an increase in the q-o-q comparison of 22.9%, reflecting the cost of the organizational restructuring action carried out in the quarter. Excluding the workforce adjustment effects in the compared years, personnel expenses would record a growth of 3.4%, which is below the salary increase of 5.5% granted in the period.

The **cost of services rendered** in 1Q13 dropped by 1.8% in relation to 1Q12, mainly due to the reduction in the interconnection cost as a result of the cut in the MTR rate that occurred in the end of February 2012, and to the reduction in payments of fistel taxes because of the new disconnection policy of prepaid lines. These reductions were partially offset by an increase in sites' rent, consequence of the towers sales and increased network maintenance

expenses, related to the higher number of sites, and the 3G and 3G Plus coverage expansion. The quarterly variation recorded an increase of 4.4%

The **cost of goods sold** in 1Q13 grew by 36.4% in relation to 1Q12, and 2.4% over 4Q12. This variation is due to the growing smartphones sales, which is a result of higher sales of postpaid and data plans and because of the change in the sales model for SME segment.

Selling expenses recorded an increase of 2.8% y-o-y, compared to the growth in the post-paid mobile customer base of 17.4% in the period, which was due to the adoption of a rational commercial policy focused on value generation. The annual increase of 4.1% in third party services is due to greater expenses with commissioning, resulting from increased gross adds in data and post-paid plans which have a larger unit fee.

The **Provision for Doubtful Accounts (PDA)** totaled R\$ 203.1 million in 1Q13, corresponding to 1.6% of total gross revenues, almost stable in relation to the amount in 1Q12 (+0.1 p.p.). The default rate in 1Q13 is due to the natural seasonality of the period. The company will keep the rigid control of the collecting actions and continuous refinement in the credit concession to maintain the default levels under control.

General and administrative expenses increased by 8.3% in 1Q13 when compared to the 1Q12 due to the increase of third-party service expenses, related to the inflation in the period.

Other net operating revenues (expenses) recorded expenses of R\$ 14.0 million in 1Q13, whose variation in relation to the previous year was due to higher sales of assets (R\$ 216.5 million) in 1Q12, which increases the comparison basis.

Ebitda

EBITDA (earnings before interest, taxes, depreciation and amortization) totaled R\$ 2,747.6 million in 1Q13, a reduction of 3.5% in relation to 1Q12. The **EBITDA Margin** was 32.1% (-2.1 p.p. y-o-y). This result was affected by the organizational restructuring that was carried out in 1Q13 generating expenses of R\$ 89.8 million. Excluding this effect, the EBITDA margin would have been 33.2% in the quarter, an annual variation of -0.3 p.p., compared to the 1Q12 adjusted margin of 33.5% which was positively impacted by R\$ 64.8 million (revenue from sale of towers in the amount of R\$ 216.5 million and integration expense of R\$ 151.7 million).

Depreciation and Amortization

| | | | | | |
|-------------------------------|-----------|-----------|--------|-----------|-------|
| EBITDA | 2,747.6 | 3,853.4 | (28.7) | 2,845.9 | (3.5) |
| Depreciation and Amortization | (1,397.3) | (1,437.0) | (2.8) | (1,318.0) | 6.0 |
| Depreciation | (960.0) | (954.2) | 0.6 | | |