

TELEFONICA BRASIL S.A.  
Form 6-K  
July 30, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

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

**For the month of July, 2014**

**Commission File Number: 001-14475**

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**TELEFÔNICA BRASIL S.A.**

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

**TELEFONICA BRAZIL S.A.**

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

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

**São Paulo, S.P.**

**Federative Republic of Brazil**

(Address of principal executive office)

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

Form 20-F

☒ X

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

☒ X

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

Yes

No

☒ X

## Highlights

- **Total accesses** reached 94.9 million in the quarter (+4.1% y-o-y), of which 79.4 million in the mobile business and 15.5 million in the fixed-line business;
- Consistent leadership in higher revenue mobile segments, with acceleration in **postpaid access** growth (+26.5% y-o-y in 2Q14), with net additions reaching 1,257 thousand in the quarter;
- Strong improvement in the **customer mix** with 33.0% of the accesses base in the postpaid segment, +1.2 p.p. over 1Q14 and +5.8 p.p. over 2Q13, contributing for a 61% share of postpaid net additions in 2Q14. In the individual pure postpaid segment, 81.0% of the customers own smartphones or webphones;
- **Mobile ARPU** recorded annual growth of 2.3% in 2Q14, despite the MTR reduction, fueled by the growth in Data ARPU, +15.4% in the same period;
- **Fixed voice accesses** recorded 10.9 million (+3.4% y-o-y), with addition of 98 thousand accesses in 2Q14 (78 thousand in 1Q14), driven by net additions with FWT technology, which reached 168 thousand in the period;
- **Broadband accesses** totaled 3,930 thousand in 2Q14 (+2.4% y-o-y), mainly supported by the growth in FTTH solution, which already totals 273 thousand accesses, with acceleration of net additions, to 37 thousand accesses in the quarter (32 thousand in 1Q14). FTTH footprint reached 2.9 million homes passed in 2Q14;
- **TV accesses** recorded accelerated growth, with annual upturn of 30.4%. In 2Q14, additions came to 43 thousand accesses, almost 3 times more than last quarter;
- **Mobile service revenue** recorded variation of +6.0% y-o-y, increasing over 1Q14 (+3.3% y-o-y). Excluding the effect of the MTR reduction, this figure came to +9.3% in 2Q14 over 2Q13;
- **Data and VAS Revenue** already account for 36.4% of Mobile Services Revenue, driven by the growth in mobile internet revenue;
- **Fixed service revenue** posted y-o-y variation of -5.4%. Excluding the VC and basic tariff reduction effects, this figure came to -2.4% versus 2Q13;
- **Operating costs** registered a controlled increase of 2.6% over 2Q13. In recurring terms, the variation came to only +1.3% y-o-y;
- 2Q14 **Recurring EBITDA** totaled R\$2.5 billion, up 2.0% y-o-y. The second-quarter **recurring EBITDA margin** was 29.5%, +0.1 p.p. over 2Q13.

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



## HIGHLIGHTS

|   |                  |                  |                   |                  |                 |                   |                   |                   |
|---|------------------|------------------|-------------------|------------------|-----------------|-------------------|-------------------|-------------------|
| Net Operating Revenues                  | 8,616.6          | 8,611.9          | 0.1               | 8,491.5          | 1.5             | 17,228.5          | 17,047.0          | 1.1               |
| Net Operating Services Revenues         | 8,322.6          | 8,299.2          | 0.3               | 8,170.3          | 1.9             | 16,621.8          | 16,360.0          | 1.6               |
| Net operating mobile revenues           | 5,530.2          | 5,446.1          | 1.5               | 5,219.2          | 6.0             | 10,976.2          | 10,489.7          | 4.6               |
| Net operating fixed revenues            | 2,792.4          | 2,853.2          | (2.1)             | 2,951.1          | (5.4)           | 5,645.6           | 5,870.4           | (3.8)             |
| Net handset revenues                    | 293.9            | 312.7            | (6.0)             | 321.2            | (8.5)           | 606.5             | 687.0             | (11.7)            |
| <i>Recurrent Net Operating Revenues</i> | <i>8,616.6</i>   | <i>8,611.9</i>   | <i>0.1</i>        | <i>8,491.5</i>   | <i>1.5</i>      | <i>17,228.5</i>   | <i>17,047.0</i>   | <i>1.1</i>        |
| Operating costs                         | (6,071.1)        | (6,049.1)        | 0.4               | (5,916.0)        | 2.6             | (12,120.2)        | (11,723.9)        | 3.4               |
| <i>Recurrent Operating costs</i>        | <i>(6,071.1)</i> | <i>(6,049.1)</i> | <i>0.4</i>        | <i>(5,995.6)</i> | <i>1.3</i>      | <i>(12,120.2)</i> | <i>(11,713.7)</i> | <i>3.5</i>        |
| EBITDA                                  | 2,545.5          | 2,562.8          | (0.7)             | 2,575.5          | (1.2)           | 5,108.3           | 5,323.1           | (4.0)             |
| EBITDA Margin %                         | 29.5%            | 29.8%            | (0.2) p.p.        | 30.3%            | (0.8) p.p.      | 29.7%             | 31.2%             | (1.6) p.p.        |
| <i>Recurrent EBITDA</i>                 | <i>2,545.5</i>   | <i>2,562.8</i>   | <i>(0.7)</i>      | <i>2,495.9</i>   | <i>2.0</i>      | <i>5,108.3</i>    | <i>5,333.3</i>    | <i>(4.2)</i>      |
| <i>Recurrent EBITDA Margin %</i>        | <i>29.5%</i>     | <i>29.8%</i>     | <i>(0.2) p.p.</i> | <i>29.4%</i>     | <i>0.1 p.p.</i> | <i>29.7%</i>      | <i>31.3%</i>      | <i>(1.6) p.p.</i> |
| Net income                              | 1,992.6          | 660.8            | 201.5             | 914.2            | 118.0           | 2,653.4           | 1,724.4           | 53.9              |
| Capex                                   | 1,615.3          | 1,001.0          | 61.4              | 1,252.4          | 29.0            | 2,616.4           | 1,960.4           | 33.5              |
| Total accesses (thousand)               | 94,901           | 93,856           | 1.1               | 91,131           | 4.1             | 94,901            | 91,131            | 4.1               |
| Total mobile accesses                   | 79,357           | 78,465           | 1.1               | 76,200           | 4.1             | 79,357            | 76,200            | 4.1               |
| Total fixed accesses                    | 15,544           | 15,391           | 1.0               | 14,931           | 4.1             | 15,544            | 14,931            | 4.1               |

Telefonica Brasil S.A. (BM&FBOVESPA: VIVT3 and VIVT4, NYSE: VIV), discloses today its results for the second quarter of 2014, presented in accordance with the International Financial Reporting Standards (IFRS) and with the pronouncements, interpretations and guidelines provided by the Accounting Pronouncements Committee. Totals are subject to differences due to rounding up or down. Until the second quarter of 2013, the results of the following direct and indirect subsidiaries are consolidated in the Company's statements: Vivo S.A., Telefonica Data S.A., A. Telecom S.A., Telefonica Sistema de Televisao S.A., Ajato Telecomunicacoes Ltda., GTR Participacoes e Empreendimentos S.A., TVA Sul Parana S.A., Lemontree S.A., Comercial Cabo TV Sao Paulo S.A., Alianca Atlantica Holding B.V., Companhia AIX de Participacoes and Companhia ACT de Participacoes. As from the third quarter of 2013, after the corporate restructuring, Telefonica Data S.A. is the remaining subsidiary consolidated in the Company's statements.



## Mobile Business

### OPERATING PERFORMANCE

|                                   |        |        |            |        |            |        |        |            |
|-----------------------------------|--------|--------|------------|--------|------------|--------|--------|------------|
| Mobile total accesses             | 79,357 | 78,465 | 1.1        | 76,200 | 4.1        | 79,357 | 76,200 | 4.1        |
| Postpaid                          | 26,169 | 24,912 | 5.0        | 20,685 | 26.5       | 26,169 | 20,685 | 26.5       |
| M2M                               | 2,927  | 2,633  | 11.1       | 1,840  | 59.1       | 2,927  | 1,840  | 59.1       |
| Prepaid                           | 53,188 | 53,553 | (0.7)      | 55,515 | (4.2)      | 53,188 | 55,515 | (4.2)      |
| Market Share (*)                  | 28.8%  | 28.7%  | 0.1 p.p.   | 28.7%  | 0.1 p.p.   | 28.8%  | 28.7%  | 0.1 p.p.   |
| Postpaid                          | 41.3%  | 40.6%  | 0.7 p.p.   | 37.8%  | 3.4 p.p.   | 41.3%  | 37.8%  | 3.4 p.p.   |
| ex. M2M                           | 42.8%  | 42.3%  | 0.5 p.p.   | 40.2%  | 2.6 p.p.   | 42.8%  | 40.2%  | 2.6 p.p.   |
| Mobile broadband (modem only)     | 52.2%  | 51.4%  | 0.8 p.p.   | 48.1%  | 4.1 p.p.   | 52.2%  | 48.1%  | 4.1 p.p.   |
| Net additions                     | 892    | 1,220  | (26.9)     | 212    | 320.8      | 2,113  | 62     | n.a.       |
| Postpaid                          | 1,257  | 1,219  | 3.0        | 1,167  | 7.7        | 2,476  | 1,882  | 31.5       |
| Market Share of net additions (*) | 42.0%  | 49.1%  | (7.1) p.p. | 12.6%  | 29.5 p.p.  | 45.9%  | 1.6%   | 44.3 p.p.  |
| Postpaid                          | 61.0%  | 65.6%  | (4.7) p.p. | 58.2%  | 2.8 p.p.   | 63.2%  | 50.3%  | 12.9 p.p.  |
| Market penetration                | 138.2% | 137.4% | 0.8 p.p.   | 134.2% | 4.0 p.p.   | 138.2% | 134.2% | 4.0 p.p.   |
| Monthly churn                     | 3.5%   | 3.4%   | 0.1 p.p.   | 3.8%   | (0.2) p.p. | 3.5%   | 3.6%   | (0.1) p.p. |
| Postpaid ex. M2M                  | 1.5%   | 1.5%   | (0.1) p.p. | 1.9%   | (0.5) p.p. | 1.5%   | 1.9%   | (0.4) p.p. |
| Prepaid                           | 4.5%   | 4.3%   | 0.2 p.p.   | 4.5%   | (0.0) p.p. | 4.4%   | 4.3%   | 0.1 p.p.   |
| ARPU (R\$/month)                  | 23.4   | 23.3   | 0.2        | 22.8   | 2.3        | 23.3   | 23.0   | 1.5        |
| Voice                             | 14.9   | 15.2   | (2.4)      | 15.5   | (3.9)      | 15.0   | 15.9   | (5.2)      |
| Data                              | 8.5    | 8.1    | 5.2        | 7.4    | 15.4       | 8.3    | 7.1    | 16.4       |
| Postpaid ex. M2M ARPU             | 49.1   | 50.3   | (2.4)      | 54.2   | (9.4)      | 3.4    | 4.1    | (16.2)     |
| Prepaid ARPU                      | 12.1   | 12.3   | (2.1)      | 12.5   | (3.3)      | 49.7   | 55.2   | (9.8)      |
| MOU                               | 128.7  | 135.4  | (5.0)      | 116.3  | 10.6       | 132.0  | 118.2  | 11.7       |

(\*) Source: Anatel.

- **Total accesses** registered increase of 4.1% over the second quarter of 2013, totaling 79,357 thousand accesses. Worthy of mention is the postpaid segment, which grew by 26.5% y-o-y with 26,169 thousand accesses, increasing the postpaid customer mix to 33.0%, an increase of 5.8 p.p. in the annual comparison.
- **Total market share** came to 28.8% in 2Q14 (+0.1 p.p. q-o-q). In the **postpaid segment** Telefonica Brasil achieved 61.0% of the quarter's net additions, recording a postpaid market share of 41.3% (+0.7 p.p. q-o-q), reflecting the quality differential presented by the Company, which is the leader in number of terminals with LTE technology, with a market share of 39.2%, and 4G plan accesses reaching 2.0 million in 2Q14.
- In the **data card** segment, the market share was 52.2% in 2Q14, 0.8 p.p. up on the previous quarter, recording annual growth of 4.1 p.p. Such growth is mainly driven by the differentiated 3G, HSPA+ and 4G nationwide coverage.



- In the **machine-to-machine (M2M)** market the access base continued to grow, reaching 2.9 million customers in June, 11.1% up on 1Q14.
- In the second quarter, **mobile net additions** recorded 892 thousand accesses, with postpaid net additions recording 1,257 thousand accesses, a growth of 7.7% over the same period last year.
- **ARPU** reached R\$23.4, 2.3% up on 2Q13, despite MTR reduction occurred in the period, mainly influenced by the increase in data revenues due to the volume of sales of modems and data plans tied to smartphones. Excluding the regulatory impact, ARPU recorded annual growth of 5.5% in the period.
- The **prepaid customer base** posted annual reduction of 4.2% due to the restrictive disconnection policy applied to inactive customers and the more intense migration of most active prepaid clients to postpaid plans. Even so, in the quarterly comparison, the reduction came to only 0.7%, demonstrating the positive result of the new offer to the segment, launched in January 2014, which already reached the milestone of 7.2 million adhesions.

## NET OPERATING REVENUES

|                               |         |         |        |         |        |          |          |        |
|-------------------------------|---------|---------|--------|---------|--------|----------|----------|--------|
| Net operating mobile revenues | 5,824.1 | 5,758.7 | 1.1    | 5,540.4 | 5.1    | 11,582.8 | 11,176.7 | 3.6    |
| Net service mobile revenues   | 5,530.2 | 5,446.1 | 1.5    | 5,219.2 | 6.0    | 10,976.2 | 10,489.7 | 4.6    |
| Access and Usage              | 2,849.7 | 2,833.7 | 0.6    | 2,726.0 | 4.5    | 5,683.4  | 5,510.4  | 3.1    |
| Network usage                 | 555.2   | 672.1   | (17.4) | 780.2   | (28.8) | 1,227.2  | 1,685.6  | (27.2) |
| Data plus VAS                 | 2,012.9 | 1,888.2 | 6.6    | 1,684.7 | 19.5   | 3,901.2  | 3,251.0  | 20.0   |
| Messaging P2P                 | 435.0   | 427.7   | 1.7    | 488.0   | (10.9) | 862.7    | 999.2    | (13.7) |
| Internet                      | 1,177.5 | 1,096.2 | 7.4    | 915.1   | 28.7   | 2,273.7  | 1,728.0  | 31.6   |
| VAS                           | 400.4   | 364.4   | 9.9    | 281.6   | 42.2   | 764.8    | 523.8    | 46.0   |
| Other services                | 112.4   | 52.1    | 115.8  | 28.3    | 297.1  | 164.5    | 42.6     | 286.1  |
| Net handset revenues          | 293.9   | 312.7   | (6.0)  | 321.2   | (8.5)  | 606.5    | 687.0    | (11.7) |

**Note:** In order to better reflect the consolidated performance, revenues are presented after intercompany. In addition, Mobile Net Revenue considers the allocation of long-distance revenue by call origination.

Net mobile revenue grew 5.1% over 2Q13, fueled by increased data and VAS (Value Added Services) revenue. Mobile service revenue increased by 6.0% in 2Q14 over 2Q13. Excluding the MTR reduction effect, 2Q14 mobile net service revenue rose by 9.3% y-o-y.

**Access and usage** revenue increased by 4.5% compared to 2Q13, reflecting the growth of the postpaid customer base with the “Vivo Ilimitado” plans and the improved monetization of voice services.

**Network usage** revenue decreased by 28.8% in 2Q14 over 2Q13, mainly due to the MTR reduction in February 2014 (-25.0%). By normalizing this effect, the reduction came to 6.4%, due to lower, mostly mobile, incoming traffic, due to the community effect especially in the postpaid segment.

**Data and VAS** revenue continued to record a good performance in 2Q14, with growth of 19.5% y-o-y, basically due to the increase in sales of modems and data packages, in addition to the higher penetration of smartphones within our customer base. In 2Q14, Data and VAS revenue increased to 36.4% of the net mobile services revenue, up by 4.1 p.p. y-o-y. Considering outgoing revenue only, Data and VAS accounted for 40.5% in 2Q14.

**SMS** revenue decreased by 10.9% y-o-y, reflecting the maturity of the service and increased adoption to SMS, voice and data integrated offers, which add more value to customers. In 2Q14 over 1Q14, this line grew 1.7%.

**Mobile internet** revenue maintained high level growth, recording an increase of 28.7% in the y-o-y comparison, accounting for 58.5% of data revenue in 2Q14. This performance is directly influenced by the strong growth of postpaid and data accesses, especially 3G Plus and 4G plans. In the individual pure postpaid customer segment, 81.0% of the customers own smartphones or webphones.

**VAS revenues** climbed by 9.9% q-o-q and 42.2% y-o-y, influenced by the “Vivo Som de Chamada”, “Vivo Sync” and “Vivo Segurança Online” services, as well as the Education Platform services, which sustain high growth pace. To this end, the Company maintains its focus on launching innovative services always in line with consumption market trends.

**Other services revenue** reached R\$112.4 million, 4 times higher than in 2Q13, chiefly due to the recurring recovery of taxes on disputed invoices and the sale of non-telecom-related financial products, mainly insurance.

**Mobile handset revenue** declined 6.0% over 1Q14, reflecting the rationality of the subsidy policy applied to the sale of handsets to users with 4G data plans only.

## Fixed Line Business

## OPERATING PERFORMANCE

|                      |        |        |       |        |       |        |        |       |
|----------------------|--------|--------|-------|--------|-------|--------|--------|-------|
| Fixed voice accesses | 10,926 | 10,828 | 0.9   | 10,566 | 3.4   | 10,926 | 10,566 | 3.4   |
| Residential          | 7,289  | 7,198  | 1.3   | 6,999  | 4.1   | 7,289  | 6,999  | 4.1   |
| Corporate            | 3,051  | 3,041  | 0.3   | 2,975  | 2.6   | 3,051  | 2,975  | 2.6   |
| Others               | 586    | 589    | (0.5) | 593    | (1.1) | 586    | 593    | (1.1) |
| Fixed broadband      | 3,930  | 3,918  | 0.3   | 3,837  | 2.4   | 3,930  | 3,837  | 2.4   |
| Pay TV*              | 688    | 645    | 6.7   | 528    | 30.4  | 688    | 528    | 30.4  |
| Total fixed accesses | 15,544 | 15,391 | 1.0   | 14,931 | 4.1   | 15,544 | 14,931 | 4.1   |

% Broadband / fixed voice accesses 36.0% 36.2% (0.2) p.p. 36.3% (0.3) p.p. 36.0% 36.3% (0.3) p.p.

(\*) Excludes subscribers of the over-the-top service Vivo Play.

- **Fixed-line total accesses** grew 4.1% over the previous year, totaling 15,544 thousand accesses in 2Q14, influenced by a strong performance in the fixed voice and TV segments.
- **Fixed voice accesses** increased by 0.9% q-o-q, totaling 10,926 thousand in 2Q14, accelerating annual growth (+3.4% y-o-y in 2Q14 vs. +2.6% y-o-y in 1Q14). Corporate accesses remained with good performance and recorded growth of 2.6% y-o-y. The performance in the residential segment is due to the increase of fixed wireless solutions sales with expansion to new cities outside the state of São Paulo. At the end of 2Q14, the FWT customer base reached 821 thousand accesses, 25.7% up on 1Q14.
- **Fixed broadband accesses** recorded 3,930 thousand customers in 2Q14, a growth of 2.4% over 2Q13, with 56% of additions in the quarter being above 30 Mbps. The FTTH footprint exceeded 2.9 million HPs in June 2014 (1.8 million addressable homes\*) and the fiber access base already recorded 273 thousand accesses, 15.9% up on 1Q14.
- **Pay TV accesses** climbed by 30.4% y-o-y, to 688 thousand subscribers in 2Q14, almost 3 times the net additions in last quarter, mainly in DTH and IPTV.

*\*Excludes inoperable areas, vacant buildings and homes that do not fit the targeted public of this technology.*

## NET OPERATING REVENUES

|                                |         |         |          |         |          |         |         |          |
|--------------------------------|---------|---------|----------|---------|----------|---------|---------|----------|
| Net operating fixed revenue    | 2,792.4 | 2,853.2 | (2.1)    | 2,951.1 | (5.4)    | 5,645.6 | 5,870.4 | (3.8)    |
| Voice and accesses             | 1,392.8 | 1,448.2 | (3.8)    | 1,561.9 | (10.8)   | 2,841.0 | 3,124.4 | (9.1)    |
| Interconnection                | 105.7   | 113.8   | (7.2)    | 112.9   | (6.4)    | 219.5   | 220.7   | (0.5)    |
| Data transmission              | 915.0   | 904.6   | 1.1      | 910.7   | 0.5      | 1,819.6 | 1,804.3 | 0.8      |
| Pay TV                         | 144.9   | 138.2   | 4.8      | 114.1   | 27.0     | 283.1   | 235.3   | 20.3     |
| Other services                 | 234.2   | 248.2   | (5.7)    | 251.5   | (6.9)    | 482.4   | 485.7   | (0.7)    |
| % Data / Net Operating Revenue | 32.8%   | 31.7%   | 1.1 p.p. | 30.9%   | 1.9 p.p. | 32.2%   | 30.7%   | 1.5 p.p. |

**Note:** In order to better reflect the consolidated performance, revenues are presented after intercompany. In addition, Fixed Net Revenue considers the allocation of long-distance revenue by call origination and the allocation of revenue from the FWT solution ("Vivo Fixo").

Net revenue from the fixed line business presented annual reduction of 5.4%, mainly due to fixed to mobile tariff (VC) reduction in February 24, 2014 and the reduction of the basic tariff provisioned in accordance with Anatel's act, in force as of June 04, 2014. Excluding such effects, net fixed service revenue fell 2.4% in the period, also explained by the lower number of business days during the World Cup, affecting especially the corporate segment usage.

**Voice and accesses** revenue decreased by 10.8% over 2Q13, justified by the fixed to mobile substitution, in addition to regulatory impacts. Excluding VC and basic tariff reductions, the variation was -5.2% y-o-y.

**Network usage** revenue decreased by 6.4% over 2Q13 and 7.2% over 1Q14, due to the lower incoming fixed traffic and the fixed to mobile substitution.

**Data** revenue grew 0.5% y-o-y and 1.1% q-o-q, influenced by the fiercer competition in the broadband segment. To address this issue, the Company has been focusing on the migration of clients to higher speeds mainly in FTTH, expanding the fiber customer base, which has higher ARPU, lower churn and already totals 273 thousand accesses.

**Pay TV** revenue grew 27.0% in 2Q14 over 2Q13, due to the gradual growth of the subscriber base, mainly of DTH and IPTV.

**Other services** revenue declined by 6.9% y-o-y, reflecting the volatility of contracts with large clients. In the year-to-date, this revenue remained stable in relation to 6M13.

## Consolidated Operating Costs

|  |           |           |        |           |        |            |            |        |
|--|-----------|-----------|--------|-----------|--------|------------|------------|--------|
| Operating costs                        | (6,071.1) | (6,049.1) | 0.4    | (5,916.0) | 2.6    | (12,120.2) | (11,723.9) | 3.4    |
| Personnel                              | (609.7)   | (609.3)   | 0.1    | (567.4)   | 7.5    | (1,219.0)  | (1,260.9)  | (3.3)  |
| Costs of services rendered             | (2,620.8) | (2,664.9) | (1.7)  | (2,645.6) | (0.9)  | (5,285.7)  | (5,294.6)  | (0.2)  |
| Interconnection                        | (788.1)   | (864.8)   | (8.9)  | (937.2)   | (15.9) | (1,652.9)  | (1,887.9)  | (12.4) |
| Taxes and contributions                | (431.5)   | (436.2)   | (1.1)  | (449.9)   | (4.1)  | (867.7)    | (889.1)    | (2.4)  |
| Third-party services                   | (1,008.6) | (983.0)   | 2.6    | (878.1)   | 14.9   | (1,991.6)  | (1,763.8)  | 12.9   |
| Others                                 | (392.6)   | (380.9)   | 3.1    | (380.4)   | 3.2    | (773.5)    | (753.8)    | 2.6    |
| Cost of goods sold                     | (494.4)   | (511.8)   | (3.4)  | (522.9)   | (5.5)  | (1,006.2)  | (1,082.6)  | (7.1)  |
| Selling expenses                       | (1,943.8) | (1,905.2) | 2.0    | (1,857.3) | 4.7    | (3,849.0)  | (3,472.8)  | 10.8   |
| Provision for bad debt                 | (220.4)   | (207.9)   | 6.0    | (199.0)   | 10.8   | (428.3)    | (402.1)    | 6.5    |
| Third-party services                   | (1,643.0) | (1,620.3) | 1.4    | (1,580.0) | 4.0    | (3,263.3)  | (2,919.3)  | 11.8   |
| Others                                 | (80.4)    | (77.0)    | 4.4    | (78.3)    | 2.7    | (157.4)    | (151.4)    | 4.0    |
| General and administrative expenses    | (281.1)   | (259.6)   | 8.3    | (261.8)   | 7.4    | (540.7)    | (541.7)    | (0.2)  |
| Third-party services                   | (208.2)   | (173.2)   | 20.2   | (223.7)   | (6.9)  | (381.4)    | (432.9)    | (11.9) |
| Others                                 | (72.9)    | (86.4)    | (15.6) | (38.1)    | 91.3   | (159.3)    | (108.8)    | 46.4   |
| Other net operating revenue (expenses) | (121.3)   | (98.3)    | 23.4   | (61.0)    | 98.9   | (219.6)    | (71.3)     | 208.0  |



**Operating costs excluding depreciation and amortization totaled R\$6,071.1 million in 2Q14, having remained almost stable in relation to the previous quarter. In the y-o-y comparison operating costs presented controlled growth of 2.6%. Excluding non-recurring effects, costs growth was even smaller, with a variation of 1.3% in the y-o-y. The discipline on costs was mainly driven by the efforts to improve cost efficiency and business performance, focusing on value creation.**

**Personnel costs** remained virtually stable in the quarterly comparison, up by 0.1% q-o-q and 7.5% y-o-y. The annual variation is mainly explained by the 6.5% pay rise in January 2014 due to the collective bargaining agreement.

The **cost of services rendered** reduced 0.9% in 2Q14 over 2Q13, influenced by MTR reductions effected in February 2014. Excluding this effect, the increase came to 5.5%, chiefly due to expenses with network maintenance focusing on quality, the efforts towards capacity expansion, increased expenses with purchase of TV content, in addition to the higher costs with partnerships and data providers, associated with the higher revenue from mobile applications.

**Cost of goods sold** fell by 5.5% in 2Q14 over 2Q13, chiefly due to the more restrictive subsidy policy, focused only on sales of handsets with 4G plans.

**Selling expenses** recorded controlled growth of 4.7% y-o-y, basically influenced by the selling efforts focusing on growth, and the expansion in the postpaid mobile customer base, supported by a commercial policy focused on value generation. In the q-o-q comparison, growth came to 2.0%. The annual increase in third-party services was caused by higher commissioning costs, associated with the stronger adoption to data packages and prepaid upselling for control plans.

**Provisions for bad debt** closed at R\$220.4 million in 2Q14, with default levels remaining controlled at 1.7% of total gross revenue, despite the more challenging macroeconomic scenario and improved postpaid customer mix.

**General and administrative expenses** rose 7.4% in 2Q14 over 2Q13, chiefly due to lower tax expenses in 2Q13 resulting from tax recoveries in the period, especially from PIS and COFINS.

**Other net operating revenues (expenses)** recorded expense of R\$121.3 million in 2Q14, 98.9% less than in 2Q13, influenced by the sale of non-strategic assets totaling R\$79.6 million in the previous year.

## Ebitda

**EBITDA** (earnings before interest, taxes, depreciation and amortization) reached R\$2,545.5 million in 2Q14, 2.0% up on 2Q13 recurrent EBITDA, due to increased efficiency, mainly in costs, besides the increase in the mobile customer base and better fixed-line business performance. The **EBITDA Margin** reached 29.5%, an annual increase of 0.1 p.p., compared to the adjusted margin of 29.4% in 2Q13.

## Depreciation and Amortization

|                                 |           |           |        |           |        |           |           |        |
|---------------------------------|-----------|-----------|--------|-----------|--------|-----------|-----------|--------|
| EBITDA                          | 2,545.5   | 2,562.8   | (0.7)  | 2,575.5   | (1.2)  | 5,108.3   | 5,323.1   | (4.0)  |
| Depreciation and Amortization   | (1,188.9) | (1,443.5) | (17.6) | (1,448.0) | (17.9) | (2,632.4) | (2,845.3) | (7.5)  |
| Depreciation                    | (728.4)   | (979.3)   | (25.6) | (988.3)   | (26.3) | (1,707.7) | (1,948.3) | (12.3) |
| Amortization of intangibles (*) | (199.2)   | (199.2)   | 0.0    | (199.2)   | 0.0    | (398.4)   | (398.4)   | 0.0    |
| Other amortizations             | (261.3)   | (265.0)   | (1.4)  | (260.5)   | 0.3    | (526.3)   | (498.6)   | 5.6    |
| EBIT                            | 1,356.6   | 1,119.3   | 21.2   | 1,127.5   | 20.3   | 2,475.9   | 2,477.8   | (0.1)  |

(\*) Amortization of intangible assets generated by the incorporation of Vivo into Telefônica as of 2Q11.

**Depreciation and amortization** fell by 17.9% in the annual comparison, chiefly due to the gain from the periodical review of the useful life of fixed assets. These changes represented a net reduction of depreciation expenses of R\$264.5 million in 2Q14.

## Financial Result

|                                    |         |         |        |         |        |           |         |       |
|------------------------------------|---------|---------|--------|---------|--------|-----------|---------|-------|
| Net Financial Income               | (112.1) | (88.3)  | 27.0   | (73.3)  | 52.9   | (200.4)   | (90.0)  | 122.7 |
| Financial Revenues                 | 354.5   | 538.0   | (34.1) | 363.8   | (2.6)  | 892.5     | 729.0   | 22.4  |
| Income from Financial Transactions | 157.7   | 193.3   | (18.4) | 178.0   | (11.4) | 351.0     | 380.4   | (7.7) |
| Monetary and exchange variations   | 169.7   | 304.4   | (44.3) | 181.9   | (6.7)  | 474.1     | 305.0   | 55.4  |
| Other financial revenues           | 27.1    | 40.3    | (32.8) | 23.9    | 13.4   | 67.4      | 63.6    | 6.0   |
| (-) Pis and Cofins taxes           | 0.0     | 0.0     | n.a.   | (20.0)  | n.a.   | 0.0       | (20.0)  | n.a.  |
| Financial Expenses                 | (466.6) | (626.3) | (25.5) | (437.1) | 6.7    | (1,092.9) | (819.0) | 33.4  |
| Financial Expenses                 | (268.7) | (271.4) | (1.0)  | (226.6) | 18.6   | (540.1)   | (439.5) | 22.9  |
| Monetary and exchange variations   | (197.9) | (354.9) | (44.2) | (210.5) | (6.0)  | (552.8)   | (379.5) | 45.7  |

Net **financial expenses** increased by R\$38.8 million in 2Q14 over 2Q13, mostly driven by the Company's higher net debt and the higher average interest rate for the period.

## Net Income

**Net income** totaled R\$1,992.6 million in 2Q14, 2.2 times higher over 2Q13, mainly reflecting the review of tax bases of certain intangibles due to combination of businesses, after the effectiveness of Law 12,973 (conversion of PM 627/13), whose net positive effect on the result was R\$1,196.0 million.

## Capex

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Network  | 1,422.9 | 880.4   | 983.1   | 2,303.3 | 1,598.9 |
| Technology / Information System                            | 143.6   | 59.0    | 130.0   | 202.6   | 186.2   |
| Products and Services, Channels, Administrative and others | 48.9    | 61.6    | 139.2   | 110.5   | 175.3   |
| Total  | 1,615.3 | 1,001.0 | 1,252.4 | 2,616.4 | 1,960.4 |
| Capex / Net operating revenue                              | 18.7%   | 11.6%   | 14.7%   | 15.2%   | 11.5%   |

**Capex** in 2Q14 came to R\$1,615.3 million, 29.0% higher than in 2Q13, reaching 18.7% of the net operating revenue in the period. This evolution is in accordance with the plan of the Company, which focus on the FTTH footprint expansion, investments in 3G capacity and 4G coverage, to guarantee the Company's superior quality standard.

## Cash Flow

|  |           |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash generation provided by operating activities | 2,509.5   | 1,271.0   | 1,238.5   | 2,107.2   | 402.3     | 3,780.5   | 4,368.6   |
| Cash applied by investing activities             | (1,211.9) | (1,502.0) | 290.1     | (2,166.8) | 954.9     | (2,713.9) | (3,003.5) |
| Cash flow after investing activities             | 1,297.6   | (231.0)   | 1,528.6   | (59.6)    | 1,357.2   | 1,066.6   | 1,365.1   |
| Cash applied by financing activities             | (355.4)   | (1,768.4) | 1,413.0   | 1,087.8   | (1,443.2) | (2,123.8) | (719.4)   |
| Cash flow after financing activities             | 942.2     | (1,999.4) | 2,941.6   | 1,028.2   | (86.0)    | (1,057.2) | 645.7     |
| Cash and Equivalents at the beginning            | 4,544.5   | 6,543.9   | (1,999.4) | 6,751.0   | (2,206.5) | 6,543.9   | 7,133.5   |
| Cash and Equivalents at the end                  | 5,486.7   | 4,544.5   | 942.2     | 7,779.2   | (2,292.5) | 5,486.7   | 7,779.2   |

**Operating cash flow** amounted to R\$2,509.5 million in 2Q14, an increase of R\$402.3 million over 2Q13, mainly due to a lower FISTEL payment in 2Q14, fully paid in 1Q14, while in 2013, a portion of these payments was carried out in 2Q13. Excluding this effect, the variation in operating cash flow was almost in line with the recurrent EBITDA variation for the period, thanks to the solid working capital management. **Cash used in investment activities** decreased by R\$954.9 million in the period, mainly due to the payment of the 4G license occurred in 2Q13, in the amount of R\$945 million. As a result, **cash flow after investment activities** was R\$1,297.6 million in 2Q14, an increase of R\$1,357.2 million over 2Q13. **Cash used in financing activities** increased by R\$1,443.2 million, influenced by the debenture issued in April/2013.

In the comparison with 1Q14, **operating cash generation** increased by R\$1,238.5 million, influenced by payments to regulatory bodies in 1Q14, while **cash applied in investment activities** decreased by R\$290.1 million, due to the lower volume of additions to fixed assets. Therefore, **cash flow after investment activities** increased by R\$1,528.6 million. **Cash used in financing activities** recorded a reduction of R\$1,413.0 million, due to reduced dividend and interest on own capital payments, resulting in an upturn of R\$2,941.6 million in **cash flow after financing activities**.

## Indebtedness

### LOANS AND FINANCING (R\$ million)

| Consolidated            | Currency | Annual Interest Rate      | Due Date   | Short-term | Long-term | Total   |
|-------------------------|----------|---------------------------|------------|------------|-----------|---------|
| <b>Local currency</b>   |          |                           |            |            |           |         |
| BNDES                   | UR LTIR  | LTIR + 0.0% to 9.0%       | Until 2016 | 745.8      | 1,312.1   | 2,057.9 |
| BNDES                   | R\$      | 2.5% to 8.7%              | Until 2020 | 45.9       | 208.6     | 254.5   |
| BNB                     | R\$      | 10.0%                     | Until 2016 | 87.0       | 86.4      | 173.5   |
| Debentures              | R\$      | 106.0% to 106.8% of CDI   | Until 2014 | 109.2      | 640.0     | 749.2   |
| Debentures              | R\$      | IPCA+0.5% to IPCA + 7%    | Until 2021 | 100.4      | 79.2      | 179.6   |
| Debentures              | R\$      | 100% of CDI + 0.75 spread | Until 2017 | 67.2       | 2,000.0   | 2,067.2 |
| Debentures              | R\$      | 100% of CDI + 0.68 spread | Until 2018 | 25.1       | 1,300.0   | 1,325.1 |
| Financial Leases        | R\$      | -                         | Until 2033 | 19.9       | 202.0     | 221.9   |
| <b>Foreign currency</b> |          |                           |            |            |           |         |
| BEI                     | US\$     | 4.18% and 4.47%           | Until 2015 | 829.2      | 0.0       | 829.2   |
| BNDES                   | UMBND    | ECM + 2.38%               | Until 2019 | 80.6       | 397.3     | 477.9   |
| Other                   | US\$     | -                         | Until 2015 | 0.3        | 0.0       | 0.3     |
| Total                   |          |                           |            | 2,110.5    | 6,225.6   | 8,336.2 |

### L.T. OBLIGATIONS (R\$ million)

| Year       | Amount  |
|------------|---------|
| 2015       | 916.1   |
| 2016       | 538.6   |
| 2017       | 2,493.9 |
| 2018       | 1,804.5 |
| 2019       | 320.2   |
| After 2019 | 152.4   |
| Total      | 6,225.6 |

### NET FINANCIAL DEBT



|                           |           |           |           |
|---------------------------|-----------|-----------|-----------|
| Short-term Debt           | 2,110.5   | 2,141.3   | 1,523.7   |
| Long-term Debt            | 6,225.6   | 6,421.3   | 7,229.8   |
| Total Debt                | 8,336.2   | 8,562.6   | 8,753.6   |
| Cash and cash equivalents | (5,544.0) | (4,600.4) | (6,604.1) |
| Net derivatives position  | (267.5)   | (295.1)   | (349.9)   |
| Net debt                  | 2,524.7   | 3,667.1   | 1,799.6   |
| Net debt/EBITDA           | 0.24      | 0.35      | 0.17      |

The Company closed 2Q14 with **gross debt** of R\$8,336.2 million, 15.7% of which denominated in foreign currency. The 4.8% reduction over 2Q13 was mainly driven by the amortizations of principal in loans hired with BNDES and BNB.

**Net debt** totaled R\$2,524.7 million at the close of 2Q14, accounting for 0.24 over EBITDA of the last 12 months. In comparison with 2Q13, net debt recorded an increase of 40.3%, mainly explained by higher payments of dividends and IOC in 4Q13 and 1Q14 over 4Q12 and 1Q13. Foreign exchange exposure of debt is 100% covered by hedge transactions.

## Capital Market

Telefonica Brasil's common (ON) and preferred (PN) shares are traded on the BM&FBOVESPA under the tickers VIVT3 and VIVT4, respectively. The Company's ADRs are traded on the NYSE, under the ticker VIV.

VIVT3 and VIVT4 shares closed 2Q14 at R\$39.44 and R\$45.00, respectively depreciating by 1.4% and appreciating by 0.4% over 1Q14, versus an appreciation of 3.2% in the Bovespa Index (Ibovespa). The Company's ADRs closed the quarter at US\$20.51, 6.7% up over 1Q14, versus an increase in the Dow Jones' index of 2.0% in the period.

The daily traded volume of VIVT3 and VIVT4 in the quarter averaged R\$808.3 thousand and R\$43,822.4 thousand, respectively. The daily traded volume of ADRs averaged US\$33,036.0 thousand in the same period.

The chart below shows the Company's stock performance for the year:



## Dividends

The Shareholders' Meeting of July 18, 2014 approved the payment of interest on own capital in the gross amount of R\$0.248860 per common share and R\$0.273746 per preferred share, for total of R\$298.0 million, corresponding to a payout net of withholding income tax of R\$0.211531 per common share and R\$0.232684 per preferred share, for a total of R\$253.3 million. The payment will begin until the end of fiscal year 2015, on a date to be defined by the Board of Executive Officers to holders of common and preferred shares of record at the close of July 31, 2014.

The dividends and interest on own capital already paid in 2014, based on net income for fiscal year 2013 totaled R\$1,935.5 billion, a total of R\$1.616367 per common share and R\$1.778003 per preferred share.

The dividends and interest on own capital declared based on net income for fiscal year 2013 totaled R\$3,659.5 billion, a total of R\$3.056078 per common share and R\$3.361685 per preferred share, for a total payout of 98.5% for fiscal year 2013.

|                           |            |            |         |         |          |                      |                      |                     |
|---------------------------|------------|------------|---------|---------|----------|----------------------|----------------------|---------------------|
| IOC (based on 2014)       | 7/18/2014  | 7/31/2014  | 298.0   | 253.3   | ON<br>PN | 0.248860<br>0.273746 | 0.211531<br>0.232684 | Until<br>12/31/2015 |
| Dividends (based on 2013) | 4/23/2014  | 4/23/2014  | 132.5   | 132.5   | ON<br>PN | 0.110683<br>0.121751 | 0.110683<br>0.121751 | 5/27/2014           |
| Dividends (based on 2013) | 2/25/2014  | 3/10/2014  | 1,043.0 | 1,043.0 | ON<br>PN | 0.871008<br>0.958109 | 0.871008<br>0.958109 | 3/27/2014           |
| IOC (based on 2013)       | 12/18/2013 | 12/30/2013 | 760.0   | 646.0   | ON<br>PN | 0.634675<br>0.698143 | 0.539474<br>0.593421 | 3/14/2014           |
|                           | 10/18/2013 | 10/31/2013 | 538.0   | 457.3   | ON       | 0.449283             | 0.381891             | 11/26/2013          |

|                               |            |            |       |       |    |          |          |            |
|-------------------------------|------------|------------|-------|-------|----|----------|----------|------------|
| IOC (based on 2013) Dividends |            |            |       |       | PN | 0.494212 | 0.420080 |            |
| (based on 2013)               | 10/18/2013 | 10/31/2013 | 746.0 | 746.0 | ON | 0.622984 | 0.622984 |            |
| IOC (based on 2013)           | 9/19/2013  | 9/30/2013  | 220.0 | 187.0 | PN | 0.685282 | 0.685282 | 11/26/2013 |
| IOC (based on 2013)           | 8/19/2013  | 8/30/2013  | 220.0 | 187.0 | ON | 0.183722 | 0.156164 | 11/26/2013 |
|                               |            |            |       |       | PN | 0.202094 | 0.171780 |            |
|                               |            |            |       |       | ON | 0.183722 | 0.156164 | 11/26/2013 |
|                               |            |            |       |       | PN | 0.202094 | 0.171780 |            |

## CAPITAL STRUCTURE COMPOSITION

|                                    |                                |               |               |
|------------------------------------|--------------------------------|---------------|---------------|
| Controlling Company                | 350,127,371                    | 480,624,588   | 830,751,959   |
|                                    | <i>91.76%</i>                  | <i>64.60%</i> | <i>73.81%</i> |
| Minority shareholders              | 31,208,300                     | 261,308,985   | 292,517,285   |
|                                    | <i>8.18%</i>                   | <i>35.12%</i> | <i>25.99%</i> |
| Treasury shares                    | 251,440                        | 2,081,246     | 2,332,686     |
|                                    | <i>0.07%</i>                   | <i>0.28%</i>  | <i>0.21%</i>  |
| Total number of shares             | 381,587,111                    | 744,014,819   | 1,125,601,930 |
| <i>Book Value per share:</i>       | <i>R\$ 39.59</i>               |               |               |
| <i>Subscribed/Paid-in Capital:</i> | <i>R\$ 37,798,100Thousands</i> |               |               |

## INCOME STATEMENT

|  |           |           |            |           |            |            |            |            |
|--|-----------|-----------|------------|-----------|------------|------------|------------|------------|
| Gross operating revenues               | 12,941.9  | 12,988.5  | (0.4)      | 12,802.1  | 1.1        | 25,930.4   | 25,626.9   |            |
| Net Operating Revenues                 | 8,616.6   | 8,611.9   | 0.1        | 8,491.5   | 1.5        | 17,228.5   | 17,047.0   |            |
| Mobile                                 | 5,824.1   | 5,758.7   | 1.1        | 5,540.4   | 5.1        | 11,582.8   | 11,176.7   |            |
| Fixed                                  | 2,792.4   | 2,853.2   | (2.1)      | 2,951.1   | (5.4)      | 5,645.6    | 5,870.4    | (3)        |
| Operating costs                        | (6,071.1) | (6,049.1) | 0.4        | (5,916.0) | 2.6        | (12,120.2) | (11,723.9) |            |
| Personnel                              | (609.7)   | (609.3)   | 0.1        | (567.4)   | 7.5        | (1,219.0)  | (1,260.9)  | (3)        |
| Costs of services rendered             | (2,620.8) | (2,664.9) | (1.7)      | (2,645.6) | (0.9)      | (5,285.7)  | (5,294.6)  | (0)        |
| Interconnection                        | (788.1)   | (864.8)   | (8.9)      | (937.2)   | (15.9)     | (1,652.9)  | (1,887.9)  | (12)       |
| Taxes and contributions                | (431.5)   | (436.2)   | (1.1)      | (449.9)   | (4.1)      | (867.7)    | (889.1)    | (2)        |
| Third-party services                   | (1,008.6) | (983.0)   | 2.6        | (878.1)   | 14.9       | (1,991.6)  | (1,763.8)  | 1          |
| Others                                 | (392.6)   | (380.9)   | 3.1        | (380.4)   | 3.2        | (773.5)    | (753.8)    |            |
| Cost of goods sold                     | (494.4)   | (511.8)   | (3.4)      | (522.9)   | (5.5)      | (1,006.2)  | (1,082.6)  | (7)        |
| Selling expenses                       | (1,943.8) | (1,905.2) | 2.0        | (1,857.3) | 4.7        | (3,849.0)  | (3,472.8)  | 1          |
| Provision for bad debt                 | (220.4)   | (207.9)   | 6.0        | (199.0)   | 10.8       | (428.3)    | (402.1)    |            |
| Third-party services                   | (1,643.0) | (1,620.3) | 1.4        | (1,580.0) | 4.0        | (3,263.3)  | (2,919.3)  | 1          |
| Others                                 | (80.4)    | (77.0)    | 4.4        | (78.3)    | 2.7        | (157.4)    | (151.4)    |            |
| General and administrative expenses    | (281.1)   | (259.6)   | 8.3        | (261.8)   | 7.4        | (540.7)    | (541.7)    | (0)        |
| Third-party services                   | (208.2)   | (173.2)   | 20.2       | (223.7)   | (6.9)      | (381.4)    | (432.9)    | (1)        |
| Others                                 | (72.9)    | (86.4)    | (15.6)     | (38.1)    | 91.3       | (159.3)    | (108.8)    | 4          |
| Other net operating revenue (expenses) | (121.3)   | (98.3)    | 23.4       | (61.0)    | 98.9       | (219.6)    | (71.3)     | 20         |
| EBITDA                                 | 2,545.5   | 2,562.8   | (0.7)      | 2,575.5   | (1.2)      | 5,108.3    | 5,323.1    | (4)        |
| EBITDA Margin %                        | 29.5%     | 29.8%     | (0.2) p.p. | 30.3%     | (0.8) p.p. | 29.7%      | 31.2%      | (1.6) p.p. |
| Depreciation and Amortization          | (1,188.9) | (1,443.5) | (17.6)     | (1,448.0) | (17.9)     | (2,632.4)  | (2,845.3)  | (7)        |
| Depreciation                           | (728.4)   | (979.3)   | (25.6)     | (988.3)   | (26.3)     | (1,707.7)  | (1,948.3)  | (12)       |
| Goodwill amortization                  | (199.2)   | (199.2)   | 0.0        | (199.2)   | 0.0        | (398.4)    | (398.4)    |            |
| Others amortizations                   | (261.3)   | (265.0)   | (1.4)      | (260.5)   | 0.3        | (526.3)    | (498.6)    |            |
| EBIT                                   | 1,356.6   | 1,119.3   | 21.2       | 1,127.5   | 20.3       | 2,475.9    | 2,477.8    | (0)        |
| Net Financial Income                   | (112.1)   | (88.3)    | 27.0       | (73.3)    | 52.9       | (200.4)    | (90.0)     | 12         |
| Financial Revenues                     | 354.5     | 538.0     | (34.1)     | 363.8     | (2.6)      | 892.5      | 729.0      | 2          |
| Income from Financial Transactions     | 157.7     | 193.3     | (18.4)     | 178.0     | (11.4)     | 351.0      | 380.4      | (7)        |
| Monetary and exchange variations       | 169.7     | 304.4     | (44.3)     | 181.9     | (6.7)      | 474.1      | 305.0      | 5          |

Cash Flow

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|                                  |         |         |        |         |       |           |         |   |
|----------------------------------|---------|---------|--------|---------|-------|-----------|---------|---|
| Other financial revenues         | 27.1    | 40.3    | (32.8) | 23.9    | 13.4  | 67.4      | 63.6    | n |
| (-) Pis and Cofins taxes         | 0.0     | 0.0     | n.a.   | (20.0)  | n.a.  | 0.0       | (20.0)  | n |
| Financial Expenses               | (466.6) | (626.3) | (25.5) | (437.1) | 6.7   | (1,092.9) | (819.0) | 3 |
| Financial Expenses               | (268.7) | (271.4) | (1.0)  | (226.6) | 18.6  | (540.1)   | (439.5) | 2 |
| Monetary and exchange variations | (197.9) | (354.9) | (44.2) | (210.5) | (6.0) | (552.8)   | (379.5) | 4 |
| Gain (loss) on investments       | 0.4     | 1.0     | (60.0) | (1.7)   | n.a.  | 1.4       | (2.1)   | n |
| Taxes                            | 747.7   | (371.2) | n.a.   | (138.3) | n.a.  | 376.5     | (661.3) | n |
| Net income                       | 1,992.6 | 660.8   | 201.5  | 914.2   | 118.0 | 2,653.4   | 1,724.4 | 5 |

## BALANCE SHEET

|   |           |           |        |
|---|-----------|-----------|--------|
| ASSETS  | 69,479.9  | 69,503.8  | (0.0)  |
| Current assets                                | 15,520.3  | 15,899.4  | (2.4)  |
| Cash and cash equivalents                     | 5,486.7   | 6,543.9   | (16.2) |
| Accounts receivable from customers            | 7,437.6   | 6,978.8   | 6.6    |
| Provision for doubtful accounts               | (1,262.6) | (1,176.0) | 7.4    |
| Inventories                                   | 510.3     | 505.6     | 0.9    |
| Recoverable taxes                             | 1,868.2   | 2,192.0   | (14.8) |
| Escrow deposits and frozen assets             | 191.5     | 166.9     | 14.7   |
| Derivatives transactions                      | 228.3     | 89.5      | 155.1  |
| Dividends and interest on shareholders equity | 0.0       | 1.2       | n.a.   |
| Prepaid expenses                              | 779.6     | 257.3     | 203.0  |
| Credit from associated companies              | 36.4      | 35.0      | 4.0    |
| Other assets                                  | 244.3     | 305.2     | (20.0) |
| Non-Current Assets                            | 53,959.6  | 53,604.4  | 0.7    |
| Accounts receivable from customers            | 389.9     | 352.7     | 10.5   |
| Provision for doubtful accounts               | (109.0)   | (95.6)    | 14.0   |
| Financial Investments                         | 109.3     | 106.5     | 2.6    |
| Recoverable taxes                             | 405.2     | 368.4     | 10.0   |
| Deffered taxes                                | 610.5     | 210.3     | 190.3  |
| Escrow deposits and frozen assets             | 4,331.1   | 4,148.3   | 4.4    |
| Derivatives transactions                      | 91.5      | 329.6     | (72.2) |
| Credit from associated companies              | 59.2      | 62.7      | (5.6)  |
| Other assets                                  | 93.7      | 90.5      | 3.5    |
| Investments                                   | 78.1      | 86.3      | (9.5)  |
| Property, plant and equipment, net            | 18,945.5  | 18,441.6  | 2.7    |
| Intangible assets, net                        | 28,954.6  | 29,503.1  | (1.9)  |
| LIABILITIES                                   | 69,479.9  | 69,503.8  | (0.0)  |
| Current liabilities                           | 13,435.0  | 13,731.0  | (2.2)  |
| Payroll and related charges                   | 444.4     | 431.4     | 3.0    |
| Suppliers and accounts payable                | 6,841.3   | 6,914.0   | (1.1)  |
| Taxes   | 1,265.6   | 1,315.2   | (3.8)  |
| Loans and financing                           | 1,808.7   | 1,236.8   | 46.2   |
| Debentures                                    | 301.8     | 286.9     | 5.2    |
| Dividends and interest on shareholders equity | 504.7     | 1,187.5   | (57.5) |
| Provisions                                    | 655.2     | 561.4     | 16.7   |
| Derivatives transactions                      | 33.5      | 44.5      | (24.7) |
| Payables to associated companies              | 99.9      | 95.0      | 5.2    |
| Cash Flow                                     |           |           | 32     |



|  |          |          |        |
|--|----------|----------|--------|
| Deferred revenues                                  | 786.9    | 817.5    | (3.7)  |
| Authorization licenses                             | 58.5     | 58.5     | 0.0    |
| Other liabilities                                  | 634.5    | 782.3    | (18.9) |
| Non-Current Liabilities                            | 11,570.2 | 12,878.4 | (10.2) |
| Payroll and related charges                        | 16.0     | 18.7     | (14.4) |
| Taxes  | 167.2    | 75.0     | 122.9  |
| Deferred taxes                                     | 0.0      | 722.6    | n.a.   |
| Loans and financing                                | 2,208.2  | 3,215.2  | (31.3) |
| Debentures   | 4,017.5  | 4,014.7  | 0.1    |
| Provisions   | 4,348.1  | 4,062.4  | 7.0    |
| Derivatives operations                             | 18.8     | 24.8     | (24.2) |
| Payables to associated companies                   | 10.8     | 10.2     | 5.9    |
| Deferred revenues                                  | 245.2    | 253.7    | (3.4)  |
| Obligations with post-employment benefit plans     | 387.5    | 370.3    | 4.6    |
| Other liabilities                                  | 150.9    | 110.8    | 36.2   |
| Shareholders' equity                               | 44,474.7 | 42,894.4 | 3.7    |
| Capital Stock                                      | 37,798.1 | 37,798.1 | 0.0    |
| Premium on acquisition of non-controlling interest | (70.4)   | (70.4)   | 0.0    |
| Capital Reserve                                    | 2,686.9  | 2,686.9  | 0.0    |
| Profit Reserve                                     | 1,287.5  | 1,287.5  | 0.0    |
| Additional proposed dividends                      | 0.0      | 1,175.5  | n.a.   |
| Other comprehensive income                         | 9.8      | 16.8     | (41.7) |
| Accumulated profits                                | 2,762.8  | 0.0      | n.a.   |

**conference call**

In English

Date: July 30, 2014 (Wednesday)

Time: 11:00 am (Brasilia) and 10:00 am (New York)

Phone: +1 (412) 317-6776

Access Code: Telefônica Brasil

Webcast: <http://webcast.neo1.net/Cover.aspx?PlatformId=0gFoZYK8I7%2B6g00%2F8%2B2d6Q%3D%3D>

A replay of the conference call can be accessed, one hour after the event, until August 11, 2014, by dialing +1 (412) 317-0088, Code: 10048354#.

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SIGNATURE

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

**TELEFÔNICA BRASIL S.A.**  
Date: July 30, 2014 By: /s/ Luis Carlos da Costa Plaster  
Name: Luis Carlos da Costa Plaster  
Title: Investor Relations Director

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