TELEFONICA BRASIL S.A.
Form 6-K
March 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of March, 2012

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)

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	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

Financial Statements

Telefônica Brasil S.A. (formerly Telecomunicações de São Paulo S.A. – Telesp)

December 31, 2011 and 2010
With Report of Independent Auditors

(A free translation of the original issued in Portuguese)

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Financial statements

As of and for the years ended December 31, 2011 and 2010.

Contents

Free translation from Portuguese into English of the Individual and Consolidated Financial Statements prepared in accordance with the accounting practices adopted in Brazil and the Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS).

Independent auditors´ report on financial statements

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

Shareholders, Management and Board Members

Telefônica Brasil S.A. (formerly Telecomunicações de São Paulo S.A. – TELESP)

São Paulo – SP

We have audited the accompanying individual and consolidated financial statements of Telefônica Brasil S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at 31 December, 2011, and the related statements of income, of comprehensive income, of changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB, and in conformity with accounting practices adopted in Brazil, and for such internal control management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the Company's financial statements, whether due to fraud or error. In this risk assessment, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Telefônica Brasil S.A. as at December 31, 2011, its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telefônica Brasil S.A. as at December 31, 2011, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil.

Emphasis of matter

As mentioned in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Telefônica Brasil S.A, these practices differ from the IFRS, applicable to the individual financial statements, solely with respect to the measurement of investments in subsidiaries, affiliates and jointly-owned subsidiary under the equity method, while such investments would be measured at cost or fair value for IFRS purposes. Our opinion is not qualified due to this matter.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2011, prepared under management responsibility, whose presentation is required by Brazilian corporation law for publicly-held companies, as supplementary information under IFRS, whereby statements of value added presentation is not required. These statements have been subject to the same audit procedures previously described, and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

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São Paulo, February 14, 2012

ERNST & YOUNG TERCO

Auditores Independentes S.S.

CRC-2SP015199/O-6

Alexandre Hoeppers

Accountant CRC-SC021011/O-3-T-PR-S-S

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Balance sheets

December 31, 2011 and 2010

(In thousands of reais)

(A free translation of the original issued in Portuguese)

	Note	**Company**		**Consolidated**	
Assets		**2011**	**2010**	**2011**	**2010**
Current assets		**4,775,480**	4,374,823	**11,810,118**	5,147,449
Cash and cash equivalents	5 and 36	**826,902**	1,089,089	**2,940,342**	1,556,715
Trade accounts receivable, net	6	**2,286,636**	2,356,013	**5,105,860**	2,546,225
Inventories	7	**31,836**	35,102	**471,721**	77,499
Recoverable taxes	8.1	**1,130,761**	480,691	**2,495,066**	659,357
Escrow deposits	9	**-**	-	**116,421**	-
Derivatives	36	**674**	166	**1,840**	166
Prepaid expenses	10	**37,705**	40,623	**255,056**	41,372
Other	11	**460,966**	373,139	**423,812**	266,115
Noncurrent assets		**50,269,267**	15,226,157	**53,679,855**	14,818,845
Long-term portion of investments pledged as collateral		**-**	-	**99,114**	-
Trade accounts receivable, net	6	**-**	-	**84,855**	67,343
Recoverable taxes	8.1	**787,852**	320,720	**1,014,959**	326,677
Deferred taxes	8.2	**-**	501,354	**1,428,878**	503,679
Escrow deposits	9	**2,815,964**	1,696,417	**3,400,244**	1,710,683
Derivatives	36	**35,142**	-	**225,935**	-
Prepaid expenses	10	**18,290**	24,647	**32,138**	24,647
Other	11	**109,221**	109,698	**148,293**	153,808
Investments	12	**20,245,883**	2,370,573	**37,835**	100,837
Property, plant and equipment, net	13	**9,691,517**	9,575,959	**17,153,920**	10,200,697
Intangible assets, net	14	**16,565,398**	626,789	**30,053,684**	1,730,474
Total Assets		**55,044,747**	19,600,980	**65,489,973**	19,966,294

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	Note	Company		Consolidated	
Liabilities and Shareholders' Equity		**2011**	**2010**	**2011**	**2010**
Current Liabilities		**6,398,178**	5,293,548	**12,740,263**	5,615,310
Payroll and related accruals	15	**244,438**	299,877	**495,624**	307,245
Trade accounts payable	16	**2,396,987**	2,568,077	**6,081,611**	2,832,157
Taxes payable	17	**700,187**	720,143	**1,691,991**	754,993
Loans and financing	18.1	**510,899**	420,412	**988,413**	420,412
Debentures	18.2	**468,624**	-	**468,624**	-
Dividends and interest on shareholders' equity payable	19	**972,986**	450,897	**972,986**	450,897
Provisions	20	**287,137**	240,213	**416,313**	240,213
Derivatives	36	**10,960**	9,502	**51,162**	9,502
Deferred revenue	21	**84,956**	93,518	**761,268**	103,339
Share fractions		**346,396**	112,594	**389,953**	112,594
Other	22	**374,608**	378,315	**422,318**	383,958
Noncurrent Liabilities		**5,320,852**	2,640,318	**9,418,925**	2,683,870
Taxes payable	17	**32,390**	26,786	**459,358**	38,707
Deferred taxes	8.2	**788,954**	-	**788,954**	-
Loans and financing	18.1	**1,277,783**	1,405,314	**3,959,115**	1,405,314
Debentures	18.2	**787,807**	-	**787,807**	-
Provisions	20	**2,336,981**	1,085,633	**3,120,798**	1,118,698
Derivatives	36	**13,382**	18,542	**78,369**	18,542
Deferred revenue	21	**38,616**	35,220	**156,266**	38,400
Other	22	**44,939**	68,823	**68,258**	64,209
Shareholders' equity	23	**43,325,717**	11,667,114	**43,330,785**	11,667,114
Capital		**37,798,110**	6,575,480	**37,798,110**	6,575,480
Capital reserves		**2,719,665**	2,733,562	**2,719,665**	2,733,562
Legal reserve		**877,322**	659,556	**877,322**	659,556
Non-controlling interest acquisition premium		**(29,929)**	-	**(29,929)**	-
Other comprehensive Income		**7,520**	4,417	**7,520**	4,417
Additional proposed dividends		**1,953,029**	1,694,099	**1,953,029**	1,694,099
Non-controlling shareholders		**-**	-	**5,068**	-
Total Liabilities		**55,044,747**	19,600,980	**65,489,973**	19,966,294

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

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Statements of income

For the years ended December 31, 2011 and 2010

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

(A free translation of the original issued in Portuguese)

		Company		Consolidated	
	Note	2011	2010	2011	2010
Net operating revenue	24	**14,869,327**	14,624,068	**29,128,740**	15,798,251
Cost of goods and services	25	**(8,766,822)**	(7,701,401)	**(14,380,171)**	(8,844,805)
Gross profit		**6,102,505**	6,922,667	**14,748,569**	6,953,446
Operating (expenses) income		**(1,448,017)**	(3,320,796)	**(8,951,203)**	(3,388,110)
Selling	26	**(2,920,471)**	(2,816,885)	**(7,010,125)**	(2,964,632)
General and administrative	27	**(868,954)**	(663,028)	**(2,383,236)**	(738,846)
Equity in earnings (losses) of associates	12	**2,308,650**	(189,047)	**-**	2,889
Other operating income, net	28	**32,758**	348,164	**442,158**	312,479
Operating income before financial expenses, net		**4,654,488**	3,601,871	**5,797,366**	3,565,336
Financial expense, net	29	**(85,063)**	(169,461)	**(139,692)**	(120,738)
Income before income tax and social contribution		**4,569,425**	3,432,410	**5,657,674**	3,444,598
Income tax and social contribution	30	**(214,107)**	(1,033,574)	**(1,295,475)**	(1,045,762)
Net income for the year		**4,355,318**	2,398,836	**4,362,199**	2,398,836
Attributed to:					
Participation of non-controlling shareholders		**-**	-	**6,881**	-
Equity holders of the parent company		**4,355,318**	2,398,836	**4,355,318**	2,398,836
Basic and diluted earnings per share – common		**4.40**	4.45	**4.40**	4.45
Basic and diluted earnings per share – preferred		**4.84**	4.89	**4.84**	4.89

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

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Statement of comprehensive income

For the years ended December 31, 2011 and 2010

(In thousands of reais)

(A free translation of the original issued in Portuguese)

	Company	
	2011	**2010**
Net income for the year	**4,355,318**	2,398,83
Gains (Losses) on available for sale securities	**(5,170)**	(117,609
Taxes on earnings (losses) on available for sale securities	**1,758**	39,98
Unrealized actuarial gains (losses) and effect of the limitation of surplus plan assets	**(57,598)**	(54,474
Taxes on unrealized actuarial gains (losses) and effect of the limitation of surplus plan assets	**19,584**	18,52
Gains (losses) on cash flow hedge	**-**	
Taxes on gains (losses) on cash flow hedge	**-**	
Cumulative translation adjustments of foreign currency transactions	**4,520**	(6,778
Participation in comprehensive income of subsidiaries	**(2,988)**	(6,11
Net gains (losses) recognized in equity	**(39,894)**	(126,463
Comprehensive income for the year	**4,315,424**	2,272,37
Attributable to:		
Participation of non-controlling shareholders	**-**	
Equity holders of the parent company	**4,315,424**	2,272,37
Basic and diluted earnings per share – common	4.36	4.2
Basic and diluted earnings per share – preferred	4.80	4.6

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

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Statements of changes in shareholders´ equity

For the years ended December 31, 2011 and 2010

(In thousands of reais)

(A free translation of the orginal issued in Portuguese)

	Capital	**Premium paid on acquisition of non-controlling interest**	**Special Goodwill reserve**
Balances as of December 31, 2009	**6,575,480**	**-**	**63,074**
Unclaimed dividends and interest on shareholders' equity, net of taxes	-		-
Net income for the year	-	-	-
Other comprehensive income	-	-	-
Appropriations:		-	
Dividends	-		-
Interest on shareholders' equity	-	-	-
Withholding tax on interest on shareholders' equity	-	-	-
Additional proposed dividend		-	
Balances as of December 31, 2010	**6,575,480**		**63.074**
Unclaimed dividends and interest on shareholders' equity, net of taxes	**-**		**-**
Capital increase due to the acquisiton of Vivo Part. on 04/27/2011	31,222,630	-	-
Withdrawal rights paid to shareholders due to the acquisiton of Vivo Part.	-	-	-
Repurchase of shares	-	-	-
Acquisiton of non-controlling shareholders	-	(29,929)	-
Net income for the year	-	-	-
Other comprehensive income	-	-	-
Appropriations		-	
Dividends	-		-
Interest on shareholders'equity	-	-	-
Withholding tax on interest on shareholders'equity	-	-	-
Legal Reserve	-	-	-
Additional proposed dividend	-	-	-

		-	
Balances as of December 31, 2011	**37,798,110**	**(29,929)**	**63,074**
Outstanding shares (thousand)			
Equity amounts per share			

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

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Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Statements of cash flows

For the years ended December 31, 2011 and 2010

(In thousands of reais)

(A free translation of the original issued in Portuguese)

	Company		Consolidated	
	Dez/2011	**Dez/2010**	**Dez/2011**	**Dez/2010**
Cash flows from operations				
Income before income tax and social contribution	**4,569,426**	3,432,410	**5,657,674**	3,444,598
Items that do not affect cash				
Expenses (revenues) not affecting cash	**394,150**	2,129,647	**5,326,120**	2,270,478
Depreciation and amortization	**2,110,275**	1,653,771	**4,585,994**	1,913,494
Exchange variations from loans	**63,315**	(638)	**89,549**	(638)
Monetary variations	**(33,317)**	31,389	**(30,323)**	34,580
(Gain)/ Loss from equity in earnings of associates	**(2,308,650)**	189,047	**-**	(2,889)
Gain on permanent asset disposals	**(74,304)**	(309,467)	**(482,115)**	(317,486)
Allowance for doubtful accounts	**300,905**	327,302	**506,581**	386,340
Pension and other post-retirement benefits plans	**6,960**	5,187	**(1,163)**	4,504
Tax, civil and labor provisions	**126,652**	6,529	**255,420**	25,578
Interest expense	**192,729**	240,367	**416,426**	240,367
Provision for dismantling costs	**796**	4,120	**(33,138)**	4,332
Provision for loyalty program	**-**	-	**9,861**	-
Others	**8,789**	(17,960)	**9,028**	(17,704)
(Increase) decrease in operating assets	**(246,491)**	(209,966)	**(488,210)**	(208,514)
Trade accounts receivable, net	**(231,527)**	35,558	**(933,558)**	87,501
Inventories	**3,266**	78,463	**(55,669)**	70,937
Other current assets	**168,187**	(76,414)	**601,573**	(61,161)
Other noncurrent assets	**(186,417)**	(247,573)	**(100,556)**	(305,791)
Increase (decrease) in operating liabilities	**(1,335,778)**	(929,004)	**(2,354,209)**	(974,304)
Payroll and related accruals	**(55,439)**	168,256	**(56,908)**	166,994
Accounts payable and accrued expenses	**(53,150)**	(64,178)	**85,694**	(26,355)
Taxes other than income taxes	**(33,153)**	56,332	**130,058**	(8,043)
Other current liabilities	**(338,690)**	52,190	**(521,056)**	43,621

Other noncurrent liabilities	**(44,019)**	(5,699)	**(97,655)**	(3,031)
Interest paid	**(233,255)**	(265,792)	**(496,103)**	(265,792)
Income and social contribution taxes paid	**(578,072)**	(870,113)	**(1,398,239)**	(881,698)
Cash provided by operations	**3,381,307**	4,423,087	**8,141,375**	4,532,258

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

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Statements of cash flows (Continued)

For the years ended December 31, 2011 and 2010

(In thousands of reais)

(A free translation of the original issued in Portuguese)

	Company		Consolidated	
	Dez/2011	**Dez/2010**	**Dez/2011**	**Dez/2010**
Cash flows generated from (used in) investing activities				
Capital increase in subsidiaries and associates	**(114,000)**	(209,251)	**-**	(3,557)
Ac Aquisition of fixed and intangible assets, net of grants	**(2,231,643)**	(1,948,521)	**(4,653,708)**	(2,126,465)
Cash from sales of fixed assets	**127,817**	292,724	**610,880**	292,858
Cash from sales of investment	**-**	127,185	**-**	178,453
Dividends and interest on shareholders’ equity collected	**1,040,211**	-	**-**	-
Cash and cash equivalents for consolidation of companies	**-**	-	**31,095**	-
Cash and cash equivalents from business combination	**698,837**	-	**1,982,898**	-
Cash used in investing activities	**(478,778)**	(1,737,863)	**(2,028,835)**	(1,658,711)
Cash flows generated from (used in) financing activities				
Loans paid	**(1,148,003)**	(1,742,818)	**(1,426,334)**	(1,742,818)
New loans obtained	**2,276,774**	74,275	**2,123,727**	74,275
Net payment on derivatives contracts	**64,712**	(5,399)	**56,765**	(5,399)
Dividends and interest on shareholders’ equity paid	**(4,262,729)**	(1,919,906)	**(5,387,601)**	(1,919,906)
Acquisition of non-controlling interest	**(33,850)**	-	**(33,850)**	-
Repurchase of shares	**(61,620)**	-	**(61,620)**	-
Cash used in financing activities	**(3,164,716)**	(3,593,848)	**(4,728,913)**	(3,593,848)
Increase (decrease) in cash and cash equivalents	**(262,187)**	(908,624)	**1,383,627**	(720,301)
Cash and cash equivalents at beginning of year	**1,089,089**	1,997,713	**1,556,715**	2,277,016
Cash and cash equivalents at end of year	**826,902**	1,089,089	**2,940,342**	1,556,715

Changes in cash during the year	**(262,187)**	(908,624)	**1,383,627**	(720,301)

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

Telefônica Brasil S.A.

(formerly Telecomunicações de São Paulo S.A. – Telesp)

Statements of value added

For the years ended December 31, 2011 and 2010

(In thousands of reais)

(A free translation of the original issued in Portuguese)

	Company		**Consolidated**	
	2011	**2010**	**2011**	**2010**
Revenues	**20,470,838**	20,461,874	**40,486,930**	21,838,925
Sale of goods and services	**20,302,208**	20,005,343	**39,755,569**	21,405,355
Other income	**469,535**	783,833	**1,237,942**	819,911
Allowance for doubtful accounts	**(300,905)**	(327,302)	**(506,581)**	(386,341)
Products acquired from third parties	**(9,247,073)**	(8,333,337)	**(15,548,284)**	(9,232,139)
Cost of goods, products and services	**(6,237,109)**	(5,609,807)	**(8,070,174)**	(6,064,202)
Materials, energy, third parties services and others	**(2,851,659)**	(2,425,870)	**(6,666,229)**	(2,826,468)
Loss (Recovery) of assets	**(53,513)**	(137,137)	**(128,765)**	(137,886)
Others	**(104,792)**	(160,523)	**(683,116)**	(203,583)
Gross added value	**11,223,765**	12,128,537	**24,938,646**	12,606,786
Retentions	**(2,110,276)**	(1,653,771)	**(4,585,994)**	(1,913,494)
Depreciation and amortization	**(2,110,276)**	(1,653,771)	**(4,585,994)**	(1,913,494)
Net added value produced	**9,113,489**	10,474,766	**20,352,652**	10,693,292
Added value received upon transfer	**2,858,168**	97,082	**1,103,359**	347,243
Gain (loss) from equity in associates	**2,308,650**	(189,047)	**-**	2,889
Financial income	**549,518**	286,129	**1,103,359**	344,354
Total added value to be distributed	**11,971,657**	10,571,848	**21,456,011**	11,040,535
Distribution of added value	**(11,971,657)**	(10,571,848)	**(21,456,011)**	(11,040,535)
Payroll and related charges	**(702,475)**	(719,309)	**(1,435,014)**	(752,498)
Salary	**(534,423)**	(490,275)	**(1,100,079)**	(514,681)
Benefits	**(116,906)**	(90,529)	**(226,342)**	(95,386)
Payroll tax (FGTS)	**(44,197)**	(40,765)	**(89,131)**	(42,774)
Others	**(6,949)**	(97,740)	**(19,462)**	(99,657)
Taxes, fees and contributions	**(5,593,304)**	(6,473,088)	**(12,679,126)**	(6,601,114)
Federal tax	**(1,324,605)**	(2,123,769)	**(4,471,035)**	(2,213,162)
State tax	**(4,223,367)**	(4,302,080)	**(8,124,977)**	(4,305,339)
Municipal tax	**(45,332)**	(47,239)	**(83,114)**	(82,613)

Interest on third parties capital	**(1,052,410)**	(820,835)	**(2,589,184)**	(1,121,278)
Interest	**(232,248)**	(353,219)	**(490,028)**	(356,337)
Rent and leasing operations	**(420,997)**	(369,384)	**(1,345,329)**	(660,921)
Others	**(399,165)**	(98,232)	**(753,827)**	(104,020)
Dividends and interest on shareholders’ equity	**(4,355,318)**	(2,398,836)	**(4,362,199)**	(2,398,836)
Interest on shareholders’ equity	**(1,867,000)**	(592,000)	**(1,867,000)**	(592,000)
Dividends	**(2,270,552)**	(1,806,836)	**(2,270,552)**	(1,806,836)
Retained earnings	**(217,766)**	-	**(224,647)**	
Other	**(268,150)**	(159,780)	**(397,369)**	(166,809)
Provisions, net	**(268,150)**	(159,780)	**(397,369)**	(166,809)
Participation of non-controlling shareholders	**-**	-	**6,881**	-

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

Telefônica Brasil S.A.
(formerly Telecomunicações de São Paulo S.A. – Telesp)

Notes to the financial statements
December 31, 2011 and 2010
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1. Operations and background

a) Controlling shareholders

Telefônica Brasil S.A. (formerly Telecomunicações de São Paulo S.A. – Telesp), hereinafter "Telefônica Brasil" or "Company", is headquartered at Rua Martiniano de Carvalho, 851, in the capital of the state of São Paulo, Brazil. Telefônica Brasil belongs to the Telefonica Group, the telecommunications industry leader in Spain which is also present in several European and Latin American countries. The Company is controlled by Telefónica S.A., which as of December 31, 2011, held total direct and indirect interest of 73.81% of which 91.76% are common shares and 64.60% are preferred shares (87.95% in December 31, 2010, of which 85.57% were common shares and 89.13% were preferred shares).

b) Operations

The Company and its subsidiaries' basic business purpose is the rendering of fixed wire telephone services in the state of São Paulo and mobile telephone services nationwide under Fixed Switch Telephone Service Concession Agreement - STFC and authorizations, respectively granted by the National Communications Agency (ANATEL), which is in charge of regulating the telecommunications sector in Brazil under the Law n°9,472 of July 16, 1997 – General Law of Telecommunications modified by Law n° 9,986 of July 18, 2000 (Note 1.b.1 and 1.b.2.). The Company and its subsidiaries have also authorizations from ANATEL to provide other telecommunications services, such as data communication to the business market, broadband internet services (under the Speedy and Ajato brands), mobile telephone services (SMP, through Vivo) and pay TV services (i) by satellite all over the country (Telefonica TV Digital) and (ii) using (MMDS) Multichannel Multipoint Distribution Service technology in the cities of São Paulo, Rio de Janeiro, Curitiba and Porto Alegre. The authorizations for use of 2.5GHz frequency associated with pay TV service by MMDS technology were extended in February 16, 2009 and await a position from ANATEL regarding the payment conditions for renewal.

The Company is registered with the Brazilian Securities and Exchange Commission (CVM) as a publicly-held Company - category A (issuers authorized to negotiate any securities) and its shares are traded in the São Paulo Stock Exchange (Bovespa). The Company is also registered with the U.S. Securities and Exchange Commission (SEC) and its American Depositary Shares (ADSs) – level II, listed only as preferred shares, are traded in the New York Stock Exchange (NYSE).

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

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

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

The Concession Agreement establishes that all assets owned by the Company which are indispensable to the provision of the services described on such agreement are considered reversible assets and are deemed to be part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the concession agreement, according to the regulation in force at that moment. On December 31, 2011, the carrying amount of reversible assets is estimated at R$6,698,899 (R$6,818,075 as of December 31, 2010), comprised of switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

In accordance with the Concession Agreement, every two years, during the agreement's new 20-year period, public regime companies will have to pay a fee which will correspond to 2% of its prior-year SFTC revenue, net of taxes and social contributions. In April of 2011, the Company made a payment for this concept of R$186,852, based on the 2010 STFC net revenues.

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

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

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

In the auctions held by ANATEL on December 14 and 15, 2010, Vivo S.A. was the winner in 23 lots offered for sale the remaining sub-ranges of 900 MHz and 1800 MHz frequencies, in accordance with the Invitation to Bid n°002/2010/PVCP/SPV-ANATEL.

On April 28, 2011, in its 604th meeting held, ANATEL's Board of Directors, decided in relation to the bidding instructions for H Band surplus (Bidding Instruction No. 002/2010/PVCP/SPV-Anatel) approved Lots 41, 42, 44, 45, 76 to 84, 92, 101, 105, 107, 115, 119, 122, 124, 128 and 163 for Vivo S.A. and other bid-winning operators for lots of that auction.

On May 30, 2011, the decision was published in the Official Gazette (DOU) and the authorization terms were signed with ANATEL. Accordingly, with the ratification of the aforementioned lots, Vivo S.A. increased its overall spectrum and began to operate in the 900 Mhz and 1.800 Mhz frequencies.

On the date of the signature of the Authorization Terms, R$81,175 was paid relating to 10% of the total value and the remaining 90% was paid on December 2011.

The amount of R$811,754, relating to a total of 23 lots, was adjusted in accordance with the remaining license period and recorded as an intangible asset.

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On August 18, 2011, Act No. 7012 was published in the Official Gazette (DOU), which authorized Vivo S.A. to provide Switched Fixed Telephone Services (STFC) to the general public. Vivo S.A. is operating under this authorization nationwide, except in the State of São Paulo, where the Company operates.

Vivo S.A. is engaged in providing the Personal Mobile Service (SMP), including activities necessary or useful for the execution of these services, in accordance with the authorizations granted, as follows:

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c) Subsidiaries

Vivo S. A.:

Wholly-owned subsidiary of the Company, Vivo S.A. is engaged in providing SMP services, including activities necessary or useful for the execution of these services, in accordance with the authorizations granted.

A. Telecom S.A.

A. Telecom S.A. is a wholly-owned subsidiary of the Company, engaged in the following services:

(i) Maintenance of customer internal telephony network, i.e. installation, maintenance, exchange and extension of new points of internal telephony wire in companies and houses;

(ii) iTelefônica, provider of free internet access;

(iii) Speedy Wi-Fi, broadband service for wireless internet access;

(iv) Speedy Corp, broadband provider developed especially for the corporate market;

(v) Integrated IT solution named "Posto Informático" allowing access to Internet, connection of private networks and rental of IT equipment. Since August 2010 the service of internet access has been provided by Telefônica Brasil;

(vi) Product At-home solutions, home automation that is among the consulting services and development of automation design and installation and configuration of the solution;

(vii) Satellite TV services (Direct to Home – DTH) throughout the country and by optical fiber – IPTV (Internal Protocol Television). The DTH is a special type of subscription TV service, which uses satellites for direct distribution of TV and audio signals to subscribers.

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Telefônica Sistema de Televisão S.A.

The corporate purpose of Telefônica Sistema de Televisão S.A. ("TST") is to provide pay-TV services in the form of Multichannel Multipoint Distribution Service (MMDS), as well as telecommunication and internet-based services.

Ajato Telecomunicações Ltda.:

The corporate purpose of Ajato Telecommunications Ltd is to provide telecommunications and IT services, access to telecommunications network, internet and radio, including telemarketing, image and data services, trade lease, import, export, maintenance and repair for those equipments.

Telefônica Data S.A.

The corporate purpose of Telefônica Data S.A. is to provide and operate telecommunications services, as well as to prepare, implement and deploy projects involving integrated corporate solutions, telecommunication advisory services, technical assistance services, sale, lease and maintenance of telecommunication equipment and networks.

Aliança Atlântica Holding B.V.

Company based in Netherlands, Amsterdam, with 50% interest by Telefonica Brasil, holds cash from the sale of Portugal Telecom's shares in June 2010 and a small interest in Zon Multimedia, a company of Portugal Telecom Group which provides pay-TV services, internet, distribution of audiovisual content, cinema and telecommunications services.

Companhia AIX de Participações

This company is engaged in the Refibra consortium, as a leader, as well as in both direct and indirect development of activities related to the construction, conclusion and operation of underground fiber optic networks. Currently, Telesp holds a 50% interest in this company.

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Companhia ACT de Participações

Companhia ACT is engaged in the Refibra consortium, as a leader, as well as in activities related to providing technical assistance for the preparation of the network conclusion project by providing studies to make it more profitable, as well as to inspect the activities in progress related to the project. Currently, Telesp holds a 50% interest in this company.

GTR Participações e Empreendimentos S.A.:

The business purpose of GTR Participações e Empreendimentos S.A. is to hold equity interest in other companies, which are engaged in providing cable and pay-TV services, telecommunications services in general, the production, purchase, licencing, import and distribution of television programs – either its own or third parties', spare parts and equipment, management and exploitation of telecommunications and pay-TV service platforms.

TVA Sul Paraná S.A.:

The business purpose of TVA Sul Paraná S.A. is to provide cable and pay-tv services, telecommunications services in general, produce, purchase, licence, import and distribute television programs – either its own or third parties', spare parts and equipment, manage, update and exploit telecommunications and pay-TV service platforms and publish journals.

Lemontree Participações S.A.:

The business purpose of Lemontree S.A. is to hold equity interest in other companies, which are engaged in providing cable and pay-TV services, telecommunications services in general, the production, purchase, licencing, import and distribution of television programs – either its own or third parties', spare parts and equipments, management, updating and exploitation of telecommunications and pay-TV services plataforms, and data management and trading.

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Comercial Cabo TV São Paulo S.A.:

The business purpose of Comercial Cabo TV São Paulo S.A. is to provide cable and pay-TV services, advisory and consultancy services in telecommunications in general, to produce, purchase, licence, import and distribute television programs – either its own or third parties', spare parts and equipment, manage, update and exploit telecommunications and pay-TV service platforms, and to engage in all types of marketing and advertisement.

The table below shows the list of direct and indirect wholly-owned subsidiaries of the Company as well as the percentage ownership shareholdings:

Subsidiaries	Dec/2011	Dec/2010
Vivo S.A. (1)	100%	-
Telefônica Data S.A.	100%	100%
A.Telecom S.A.	100%	100%
Telefônica Sistema de Televisão S.A.	100%	100%
Ajato Telecomunicações Ltda.	100%	100%
GTR Participações e Empreend. S.A. (2)	66.67%	66.67%
TVA Sul Paraná S.A. (2)	91.50%	91.50%
Lemontree Participações S.A. (2)	83.00%	66.67%
Comercial Cabo TV São Paulo S.A. (2)	93.19%	86.65%
Aliança Atlântica Holding B.V.(3)	50%	50%
Companhia AIX de Participações (3)	50%	50%
Companhia ACT de Participações (3)	50%	50%

(1) fully consolidated as from April 2011 (Notes 1."e" and 4).

(2) fully consolidated as from January 2011.

(3) jointly controlled.

d) Share Trading in Stock Exchanges

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

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

The Extraordinary Shareholders' Meetings of Vivo Participações S.A. (Vivo Part.) and Telesp held on October 3, 2011, approved the merger of Vivo Part. into Telesp, which, on the same date, changed its corporate name to Telefônica Brasil S.A. On October 6, 2011, the Company changed its ticker codes to VIVT3 and VIVT4 for common and preferred shares, respectively, and the stock exchange code for Telefônica Brasil (see note 4).

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

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

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

e) Corporate events in 2011

Merger of shares of Vivo Participações S.A. into Telefônica Brasil

In a meeting held on March 24, 2011, ANATEL gave prior consent to the Corporate restructuring operation involving the Company and Vivo Participações S.A., with Act No. 1,970, dated April 1, 2011, published in the Official Gazette on April 11, 2011.

The Company’s Extraordinary Shareholders’ Meeting held on April 27, 2011, unanimously approved the Protocol of Merger and Instrument of Justification agreed between the Company and Vivo Part., with each share of Vivo Part. exchanged by 1.55 shares of the Company. The Company’s common and preferred shareholders and Vivo Part.’s common shareholders had until May 30, 2011 to exercise their right to withdrawal. Shareholders that could evidence shareholding on December 27, 2010, the date of publication of the Notices of Material Fact relating to the transaction, and opted for the right to withdraw were refunded for the shares they had of the respective companies. Amounts refunded to the Company's common and preferred shareholders and to Vivo Part.'s common shareholders were R$23.06 and R$25.30 per share, respectively, calculated based on the net worth value of the shares, as stated in the balance sheet of each of the companies, dated as of December 31, 2010.

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Corporate restructuring – Grouping of SMP Authorizations and Simplification of Corporate Structure

Vivo Part. Board of Director's Meeting held on June 14, 2011 approved a proposal to group the authorizations for the provision of SMP services (by the time held by Vivo Part. in the state of Minas Gerais and by Vivo S.A. in the other states of Brazil), bringing together the operations and the Authorization Terms for SMP services at Vivo S.A.

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

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

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

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

f) Agreement between Telefónica S.A. and Telecom Italia (Act No. 3,804 as of July 07, 2009 and Act No. 68,276 as of October 31, 2007, both from ANATEL's Board

In October 2007, TELCO S.p.A. (in which Telefónica S.A holds an interest of 42.3%), completed the acquisition of 23.6% of Telecom Itália. Telefónica S.A. has the control of the Company, which also has the control of Vivo S.A. Telecom Italia holds an interest in TIM Participações S.A ("TIM"), which is a mobile telephone operator in Brazil. However, the Company does not have any direct involvement in the operations of TIM. Additionally, any transactions between the Company, its subsidiaries and TIM are transactions made in the regular course of business, which are regulated by ANATEL.

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2. Basis of presentation of the financial statements

The consolidated financial statements as of December 31, 2011 and 2010 are presented by the Company in accordance with the International Financial Reporting Standards (IFRS) issued by IASB and the individual and consolidated financial statements are presented in accordance with the accounting practices adopted in Brazil, which comprise the provisions of corporate legislation set forth in Law No. 6,404/76, as amended by Law no. 11,638/07 and by Law no. 11,941/09, and the accounting pronouncements issued by the Brazilian Accounting Pronouncements Board (CPC) and approved by the CVM.

Approval of the issuance of these financial statements occurred in the Board of Directors meeting held on February 15, 2012.

The Company states that the consolidated financial statements are in compliance with International Financial Reporting Standards (IFRS) issued by the IASB and also with the pronouncements, interpretations and guidance issued by CPC in place on December 31, 2011, which include the new pronouncements, interpretations and amendments for the following standards, amendments and interpretations issued by the IASB (*International Accounting Standards Board*) and IFRIC (*International Financial Reporting Interpretations Committee*) which entered into force as from January 1, 2011:

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IAS 24 (Revised) Related Party Disclosures

This revised standard introduces the following changes: (i) provides a partial exemption for government related entities, requiring disclosure of balances and transactions between them only if they are individually or collectively significant; and (ii) provides a new revised definition of a "related party". The adoption of this standard did not impact the Company's financial situation or results.

Changes to IAS 32 Financial Instruments Presentation

This change is intended to clarify that subscription right issues that allow the acquisition of a fixed number of own equity instruments at a fixed price will be classified as equity, irrespective of currency it is denominated and its exercise price, assuming that the issuance is made to all shareholders of a given class of shares or equity proportionate to the number of securities that they hold. The adoption of these changes did not impact the Company's financial situation or results.

Improvements to International Financial Reporting Standards (IFRS) (May 2010)

This text introduces a series of improvements to IFRS in force mainly to eliminate inconsistencies and clarify the wording of some of these standards. These improvements did not impact the Company's financial situation or results.

IFRS 3 Business Combinations

The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 1, 2011.

IFRIC 19 Extinguishing financial liabilities with equity instruments

This interpretation establishes that: (i) when the conditions of a financial obligation are renegotiated with a lender and such lender agrees to accept equity instruments from that company in order to settle that financial liability in full or in part the instruments issued will be considered as part of an installment paid to settle the financial liability; (ii) these instruments will be measured at their fair value, except when these cannot be reliably measured, in which case measurement of new instruments should reflect the fair value of the settled financial liability; and (iii) the difference between the book value of the cancelled financial liability and the initial amount of equity instruments issued is recorded in the income for the period. The adoption of criteria introduced by this new interpretation did not have any impact on the Company's financial situation or results.

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Changes to IFRIC 14 Prepayments of a Minimum Funding Requirement

This change is applied in specific situations when an entity has an obligation to make minimum annual contributions in relation to its post-employment defined benefits plans and makes prepayments to cover these requirements. The change allows an entity to treat the economic benefits of such prepayment as an asset. The adoption of these criteria did not have an impact on the Company's financial situation or results.

New IFRS and Interpretations of the IFRS Interpretations Committee (IFRIC) not yet effective at December 31, 2011.

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

Standards and Amendments to Standards		Application required: fiscal years beginning as from
Amendments to IAS 1	*Presentation of items of other comprehensive income*	July 1, 2012
Amendments to IAS 12	*Deferred tax: Recovery of underlying assets*	January 1, 2012
IFRS 9	*Financial instruments*	January 1, 2013
IFRS 10	*Consolidated Financial Statements*	January 1, 2013
IFRS 11	*Joint Arrangements*	January 1, 2013
IFRS 12	*Disclosure of Interests in Other Entities*	January 1, 2013
IFRS 13	*Fair Value Measurement*	January 1, 2013
IAS 19 revised	*Employee Benefits*	January 1, 2013
IAS 27 revised	*Consolidated and Separate Financial Statements*	January 1, 2013
IAS 28 revised	*Investments in Associates and jointly controlled companies*	January 1, 2013
Amendments to IFRS 7	*Disclosure – transfers of financial assets*	July 1 , 2011

Amendments to IFRS 7	*Disclosure – offsetting of financial assets and financial liabilities*	January 1, 2013
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	January 1, 2014

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

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2.1 Basis of consolidation and main changes in the consolidation environment

In consolidation all assets, liabilities, revenue and expenses resulting from intercompany transactions and equity holding between the Company and its subsidiaries were eliminated.

The main events and changes in the consolidation environment that, due to their significance, should be considered for analysis of the consolidated financial statements for the fiscal year ended December 31, 2011, are presented as follows:

a) <u>Acquisition of Vivo Participações S.A. by the Company</u>

As mentioned in Note 4, the Company incorporated 100% of shares of Vivo Participações S.A. amounting to R$31,222,630 (Note 1."e" and 4). The Company's consolidated financial statements include Vivo Part. (incorporated by the Company on October 3, 2011) and Vivo S.A. results from April 1, 2011. Vivo Participações S.A. and Vivo S.A. were included in the Company's consolidated financial statements through the full consolidation method.

b) <u>Consolidation of TVA companies</u>

As from January 1, 2011, the Company started to include the companies GTR Participações e Empreendimentos S.A., TVA Sul Paraná S.A., Lemontree Participações S.A. and Comercial Cabo TV São Paulo S.A. in its consolidated financial statements by applying the full consolidation method. Up to the prior year these companies were included in the Company's consolidated financial statements through the equity method. The effect of the consolidation of these companies is immaterial in relation to the Company's consolidated financial statements.

c) Acquisition of Lemontree Participações S.A. shares

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

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3. Summary of principal accounting practices

a) Trade accounts receivable, net: are stated at the rendered service value according to the contracted conditions adjusted by the estimated amount of eventual losses. This caption also includes accounts receivable from services rendered but not yet billed at the balance sheet date, as well as the accounts receivable related to the sales of handsets, simcards and accessories. Allowance for doubtful account is recorded in order to cover eventual losses and mainly considers expected losses.

b) Inventories: are stated at average acquisition cost, net of allowance for reduction to net realizable value. This corresponds to items for use, maintenance or resale.

c) Prepaid expenses: are measured at the amounts effectively disbursed related to services paid for but not yet incurred. The prepaid expenses are recognized in the statement of income when the related services and the economic benefits are obtained.

d) Investments: equity interests in subsidiaries and jointly controlled companies are stated by the equity method in the individual financial statements. In the consolidated financial statements, investments in subsidiaries are fully consolidated and investments in jointly controlled subsidiaries are consolidated proportionally.

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions and equity holdings between the Company and its subsidiaries were eliminated.

The exchange rate variation on the shareholders' equity of the jointly controlled Aliança Atlântica is recognized in the shareholders' equity as cumulative translation adjustments.

e) Property, plant and equipment: this item is measured at acquisition and/or construction cost, less accumulated depreciation and any impairment losses, if applicable. Such cost includes the borrowing costs for long-term construction projects if the recognition criteria are met. Asset costs are capitalized until the asset becomes operational.

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Costs incurred after the asset becomes operational are immediately expensed, under the accrual method of accounting. Expenses that represent asset improvement (expanded installed capacity or useful life) are capitalized.

The estimated costs to be incurred in the dismantling of towers and equipment in rented real property are capitalized with a corresponding provision for dismantling of fixed assets and are depreciated over the useful life of the equipment, which does not exceed the lease term.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit is expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized.

Depreciation is calculated under the straight-line method based on the estimated useful lives of the assets, which is based on technical studies that are regularly reviewed (see Note 13 – Property, plant and equipment, net).

f) Intangible assets (including goodwill): these are stated at acquisition and/or construction cost, less accumulated amortization and any impairment losses, if applicable.

Intangible assets also includes software rights of use acquired from third parties, authorization licenses obtained from ANATEL, customer lists, brands, premium amounts referring to own stores (which are being amortized over the term of the agreements) and other intangible assets.

The useful life of intangible assets is assessed as either finite or indefinite.

Intangible assets with finite lives are amortized under the straight-line method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or in the expected pattern of consumption of future economic benefits embodied in these assets are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or when there is an indication that the carrying amount of the assets may not be recoverable. The assessment of indefinite useful life is reviewed annually to determine whether indefinite life continues to be supportable. Otherwise, the change in the useful life from indefinite to finite is made on a prospective basis.

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Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset. Gains and losses are recognized in the statement of income when the asset is derecognized.

Goodwill arising from the acquisition of investments are based on future profits and are treated as intangible assets with indefinite useful lives.

g) Leases: agreements providing for use of specific assets and the right to use an asset are subject to analysis so as to identify the accounting treatment applicable to lease arrangements. Agreements in which the lessor substantially transfers the underlying risks and benefits to the lessee are classified as finance lease.

The Company has agreements classified as finance lease from both the lessor's and lessee's standpoint. As a lessor, subsidiary A.Telecom has equipment lease agreements (Posto Informático), for which it recognizes revenue on the installation date at the present value of the agreement installments, matched against Accounts Receivable. As a lessee in agreements classified as finance lease, the Company records a fixed asset item, classified according to its nature, at the beginning of the lease term, at the present value of the agreement minimum mandatory installments matched against Other Liabilities. The difference between the nominal value of the installments and the accounts receivable/payable recorded is recognized as financial income/expense under the effective interest rate method based on the contract term.

Agreements in which the lessor retains a substantial part of risks and benefits are deemed as operating lease, and their effects are recognized in the income statement for the year throughout the contractual term.

h) Asset recoverability analysis: in compliance with IAS 36/CPC 1 (R1), the Company and its subsidiaries review the net book value of assets, when circumstances indicate it is necessary, in order to assess if there are events or changes in the economic, operating or technological circumstances which may indicate asset impairment or loss in its carrying amount.

If such evidences are identified and the net book value exceeds the recoverable amount, an impairment provision is recorded, adjusting the net book value to the recoverable amount.

The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell.

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In estimating the value in use of an asset, the estimated future cash flows are discounted to their present value using a pre-tax cost of capital - "CAPM - Capital Asset Pricing Model" discount rate, which reflects the weighted average cost of capital and the specific risks of the asset.

The fair value less cost to sell is determined, whenever possible, on firm sale agreement in a transaction on an arm's length basis, between knowledgeable and willing parties, adjusted by expenses attributable to the sale of the asset, or, when no firm sale agreement exists, based on the market price of an active market, or on the price of the most recent transaction with similar assets.

Losses from continuous operations, including inventory write-off, are recognized in the statement of income in expense accounts compatible with asset purpose.

For assets, excluding goodwill, an analysis is performed on the closing date of each fiscal year, to identify if there is an indication that the impairment previously recognized may no longer exist or may have decreased.

An impairment loss previously recorded is reversed only if there is a change in the assumptions used to determine the asset recoverable value as from the time of recognition of the last impairment.

The reversal is limited so that the asset book value does not exceed its recoverable value, nor exceeds the book value that would have been determined, net of depreciation, if no impairment had been recognized for the asset in prior years. This reversal is recognized in the income statement

The following criteria are applied to assess the impairment of specific assets:

h.1) *Goodwill*

Goodwill is tested for impairment annually and when circumstances indicate that the carrying amount may be impaired.

When the recoverable amount is lower than its book value, impairment is recognized. Goodwill impairment cannot be reversed in future fiscal years.

h.2) *Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.

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h.3) *Value in use*

The main assumptions used to estimate the value in use are:

- Revenue: The revenues are estimated considering the growth of the customer base, the evolution of the market income vis-à-vis the GDP – Gross Domestic Product and the Company and its subsidiary's share in this market;

- Operating costs and expenses: The variable costs and expenses were estimated according to the dynamic of the customer base, and the fixed costs and expenses were projected in line with the historical performance of the Company and its subsidiaries, as well as with the historical growth of the revenue; and

- Capex: Capital expenditures are estimated based on the technological infrastructure required to make feasible the offering of services.

The key assumptions are based on the historical performance of the Company and its subsidiaries and on reasonable macroeconomic assumptions based on market financial projections, documented and approved by Company's Management.

The impairment tests of the Company and its subsidiaries fixed and intangible assets did not result in the recognition of losses for the years ended December 31, 2011 and 2010, since their estimated market value exceeded their net book value on the assessment date.

i) Business combinations and goodwill**:** Business combinations are accounted for using the acquisition method. The acquisition cost is measured at the fair value of assets, equity instruments and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingencies assumed in a business combination are initially measured at fair value on the acquisition date, regardless of the non-controlling shareholders interest (Note 4).

Initially, goodwill represents the excess of the cost of acquisition over the net fair value of the acquired assets, assumed liabilities and identifiable contingent liabilities from an acquired company, on the respective acquisition date. If the acquisition cost is lower than the fair value of the acquired company's net assets, the difference is recognized directly in the income statement

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After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating unit that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to each unit.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j) Financial Instruments, cash and cash equivalents

Initial recognition and subsequent measurement

(i) *Cash and cash equivalent*

Includes cash, credit balances in bank accounts and investments redeemable within 90 days of the date of acquisition with immediate liquidity and with insignificant change in market value.

(ii) *Financial Assets*

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, available for sale financial assets or as derivatives, designated as hedging instruments in an effective hedge as appropriate. The Company determines the classification of its financial assets upon their initial recognition, when they become part of the contractual provisions of the instrument.

Financial assets are initially recognized at fair value plus, in the case of investments not classified as at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Sales and purchases of financial assets that require delivery of goods within a time frame established by regulation or market convention (regular way trades) are recognized on the transaction date, i.e. the date that the Company commits to buy or sell the asset.

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The Company's financial assets include cash and cash equivalents, trade accounts receivable and other receivables quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by the corresponding standard. Financial assets at fair value through profit or loss are presented in the balance sheet at fair value, with corresponding gains or losses recognized in the income statement.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are carried at amortized cost using the effective interest rate method, less impairment, if and when applicable. Amortized cost is calculated by taking into account any discount or premium in the acquisition and fees or other costs incurred. Amortization under the effective interest method is included in financial income in the income statement. The losses arising from impairment are recognized as financial expense in the income statement, if and when applicable.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and financial capacity to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated taking into consideration any discount or premium on acquisition and fees or costs incurred. Amortization of effective interest rate is included in financial income in the income statement. Impairment losses are recognized as financial costs in the income statement. The Company did not have any held-to-maturity investments during the years ended December 31, 2011 and 2010.

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Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. These financial assets include equity instruments.

After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses recognized directly in the available for sale reserve within the group of other comprehensive income until the investment is derecognized, excepted situation of impairment losses.

When the investment is derecognized or when impairment is detected, the cumulative gains or losses previously recognized in other comprehensive income should be recognized in the statement of income.

The fair value of available for sale financial assets in foreign currency is measured and translated into foreign currency using the spot exchange rate prevailing at the date of the financial statements. The changes in fair value attributable to translation differences are recognized directly in equity.

Derecognition

A financial asset (or, where appropriate, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;

- The Company transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the cash flows received in full, without significant delay to a third party under a pass-through agreement, and (a) the Company has transferred substantially all risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all risks and rewards related to the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement and has neither transferred nor retained substantially all risks and rewards related to the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

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In this case, the Company also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at original book value of the asset or the maximum amount of consideration that may be required of the Company, whichever is lower.

(iii) *Impairment of financial assets*

The Company assesses at each reporting date whether there is any evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered to be impaired if and only if, there is evidence of impairment as a result of one or more events that have happened after the initial recognition of the asset (an incurred “loss event”) and a loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reasonably estimated.

Financial assets carried at amortized cost

In relation to the financial assets carried at amortized cost, the Company first assesses individually if there is evidence for impairment for each financial asset that is individually significant, or collectively for financial assets that are not individually significant. If the Company concludes that there is no evidence of impairment for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a joint assessment for impairment.

When there is evidence of the occurrence of impairment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses not yet incurred).

The carrying amount of the asset is reduced through the use of an allowance account, and the impairment amount is recognized in the income statement. Interest revenue continues to be accrued on the reduced carrying amount based on the original effective interest rate for the asset. The loans, together with the associated allowance are written off when there is no realistic prospect of their future recovery and all guarantees have been realized or transferred to the Company. If in a subsequent year the estimated impairment amount increases or decreases due to an event occurring after the recognition of impairment, previously recognized impairment is increased or reduced by adjusting the allowance account. In the event of any future recovery of a written off amount, the recovery is recognized in the income statement.

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Available for sale financial investments

For financial instruments classified as available for sale, the Company analyzes whether there is any evidence that the investment is recoverable at each balance sheet date.

For investments in equity instruments classified as available for sale, evidence includes a significant and prolonged decline in the fair value of investments below their cost.

When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss that has been previously recognized in income, is reclassified from shareholders' equity to the income statement.

Increases in fair value after the recognition of impairment are recognized directly in comprehensive income.

(iv) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and financing or as derivatives classified as hedge instruments, as appropriate. The Company determines the classification of its financial liabilities upon their initial recognition.

Financial liabilities are initially recognized at fair value and, in the case of loans and financing, are increased by the cost directly related to the transaction.

The Company's financial liabilities include accounts payable to suppliers, loans and financing and derivative financial instruments.

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Subsequent measurement

Measurement of financial liabilities depends on their classification, which may be as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated at initial recognition at fair value through profit or loss. This category also includes derivative financial instruments entered into by the Company that do not meet the criteria for hedge accounting as defined by the corresponding standard.

The Company has not designated any financial liability upon initial recognition at fair value through profit or loss.

Loans and financing

After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as during the amortization process using the effective interest rate method.

Derecognition

A financial liability is derecognized when the obligation is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in corresponding carrying amounts is recognized in the income statement.

(v) *Offsetting of Financial instruments*

Financial assets and liabilities are presented net in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and if there is an intention of offsetting or realizing the asset and settling the liability simultaneously.

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(vi) *Fair value of financial instruments*

The fair value of financial instruments actively traded in organized financial markets is determined based on quoted-market prices at the close of business on the balance sheet date, without deduction of transaction costs.

The fair value of financial instruments for which there is no active market is determined using valuation techniques. Techniques may include using recent market transactions (on an arm's length basis); reference to the current fair value of a similar instrument, such as discounted cash flow analysis or other valuation models.

k) Derivative financial instruments and hedge accounting:

Initial recognition and subsequent measurement

The Company and its subsidiaries use derivative financial instruments such as currency swaps to provide protection against the risk of changes in exchange rates.

Derivative financial instruments designated as hedge transactions are initially recognized at fair value on the date on which the derivative contract is signed and subsequently are remeasured at fair value.

Derivatives are carried as financial assets when the instrument's fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives during the year are recorded directly in income, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

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For the purposes of hedge accounting, the Company's contracts were classified as fair value hedges to provide protection against exposure to changes in the fair value of an identified part of certain liabilities that are attributable to a particular risk (exchange variation) and can affect net income.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, as well as the objective and risk management strategy for undertaking the hedge. The documentation includes identification of the hedge instrument, the item or transaction being hedged, the nature of the risk being hedged, the nature of the risks excluded from the hedge, the prospective statement of the effectiveness of the hedge relationship and the way in which the Company will assess the effectiveness of the hedge instrument for the purpose of offsetting the exposure to changes in fair value of the hedged item.

Such hedges are expected to be effective in offsetting changes in fair value and are being continually assessed to determine whether they were actually highly effective over all the financial reporting periods for which they were designated.

Cash flow hedges which meet the criteria for their accounting are recorded as follows: the effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Fair value hedges which meet the criteria for their accounting are recorded as follows: the gain or loss resulting from changes in fair value of a hedge instrument shall be recognized in income. The gain or loss resulting from the hedged item attributable to the hedged risk should adjust the recorded amount of the hedged item to be recognized in income. The changes in fair value of the hedge instrument and changes in fair value of the hedged item attributable to the hedged risk are recognized in the line of the income statement related to the hedged item.

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or segregated into current or non-current portions based on an evaluation of the contracted cash flows.

Current versus non-current classification

- When the Company maintains a derivative as an economic hedge (and does not apply hedge accounting) for a period exceeding 12 months after the balance sheet date, the derivative is classified as non-current (or segregated into current or non-current portions), consistently with the classification of the corresponding item.

• Derivative instruments that are designated as, and are effective hedging instruments are classified consistently with the classification of the corresponding hedged item.

The derivative instrument is segregated into current or non-current portions only when a reliable allocation can be made.

l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily needs more than 18 months to get ready for its intended use or sale are capitalized as part of the cost of the respective assets.

All other borrowing costs are expensed when occurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

m) Interest on shareholders' equity

According to the Brazilian legislation, companies are allowed to pay interests on shareholders' equity, which are similar to the payment of dividends, but are deductible for purposes of ascertainment of income tax. In compliance with the Brazilian tax laws, the Company booked in its accounting records a reserve for the amount owed in consideration of the financial expenses caption for the year's results and, for disclosures purposes, reversed such expenses, recording a debit direct to shareholders' equity, resulting in the same accounting treatment of dividends. The distribution of interest on shareholders' equity to the shareholders is subject to withholding income tax at 15%.

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n) Provisions

n.1) *General*

Provisions are recognized when the Company or its subsidiaries have a present obligation as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are restated up to the balance sheet date at the probable loss amount.

Provisions for claims are presented by the gross amount, without considering the respective escrow deposits and are classified as civil, labor, tax and regulatory. Escrow deposits are classified as assets, since the presentation of provisions net of escrow deposits are not met.

n.2) *Provision for judicial, civil, labor, tax and regulatory claims*

The Company and its subsidiaries are parties to lawsuits that generate administrative and judicial contingencies related to labor, tax, civil and regulatory claims, and accounting provisions have been booked with respect to such lawsuits whose likelihood of loss was deemed as probable. The provisions for judicial and administrative claims are determined based on the opinion of the Company's and its subsidiaries' Management and legal counsel.

n.3) *Provision for dismantling of assets*

This refers to the costs to be incurred in connection with the possible need for giving back to their owners the "sites" (locations for installation of radio bases of the Company or its subsidiaries) in the same conditions as they were found at the time of the execution of the initial lease agreement.

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n.4) *Contingent liabilities recognized in a business combination*

A contingent liability recognized in a business combination is initially measured at its fair value.

Subsequently, it is measured at the higher of:

- the amount that would be recognized in accordance with the general requirements for provisions above; or

- the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the requirements for revenue recognition.

o) Post-retirement benefit plans

The Company and its subsidiaries sponsor pension plans for individual employees and retirees as well as multi-sponsored health care plans for former employees. Actuarial liabilities relating to defined-benefit plans were calculated using the projected unit credit method. Actuarial gains and losses are immediately recognized in other comprehensive income.

For plans with defined contribution features, the obligation is limited to the payment of contributions, which are recognized in income on the accrual basis.

The defined benefit asset or liability to be recognized in the financial statements comprises the present value of the defined benefit obligation, less cost of past services not yet recognized and less the fair value of plan assets that will be used to settle the obligations. Plan assets are assets held by a closed pension fund. Plan assets are not available to creditors of the Company nor can they be paid directly to the

Company. The fair value is based on market price information and in the case of quoted securities, it is the published purchase price. The value of any defined benefit asset recognized is limited to the sum of any past service cost not yet recognized and the present value of any economic benefit available in the form of reductions in future contributions to the plan.

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p) Profit sharing

The Company and its subsidiaries have liabilities stemming from employment contracts with its employees, and recognize these provisions during the year. Provisions are recorded to recognize the expense relating to profit sharing. These provisions are calculated based on qualitative and quantitative goals defined by management and recorded in specific accounts in accordance with Cost of services, Sales expenses and General and administrative expenses groups of accounts.

q) Share-based payment transactions:

The Company measures the cost of transactions settled with shares issued by the parent Company, Telefónica S.A., and granted to officers and employees based on the fair value of equity instruments at the grant date, using the binomial option pricing model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

r) Other assets and liabilities

An asset is recognized in the balance sheet when it is more likely than not that its future economic benefits will be generated on behalf of the Company and its subsidiaries and its cost or value can be reliably measured.

A liability is recognized in the balance sheet when the Company and its subsidiaries have a legal or constructive obligation arising from past events, being probable that an outflow of resources will be required to settle the obligation.

Assets and liabilities are classified as current when their realization or settlement is likely to occur within the next twelve months. Otherwise, they are considered to be noncurrent.

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s) Governmental grant and assistance

Governmental grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis in connection with the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest rate is considered as additional government grant.

Under the Brazilian tax rules (Provisionary Measure No. 2199-14, of August 24, 2001, subsequently amended by Law No. 11,196, of November 21, 2005), legal entities with title of projects located in areas under the jurisdictions of the Amazon Development Authority (“SUDAM”) and of the Northeast Development Authority (“SUDENE”), whose businesses fall into an economic sector that is considered a priority under an act issued by the Executive Branch, may request an income tax abatement as provided for in these regulations.

By incorporating Vivo Part., the Company acquired a tax benefit consisting of a 75% corporate tax reduction, based on net income earned from exploiting areas in northern Minas Gerais and the Jequitinhonha valley. This benefit has been granted up to and including 2013.

Vivo S.A. also has been granted a tax benefit consisting of a 75% corporate tax reduction, based on income earned from exploiting areas in the states of Acre, Amapá, Amazonas, Maranhão, Mato Grosso, Pará, Rondônia and Roraima. This benefit has been granted up to and including 2013.

A portion of net income for which a tax benefit has been granted was excluded from the calculation of dividends and may be used only for capital increase and compensation of losses.

In January 2010, a financing line with the Brazilian Development Bank (BNDES) was approved through the Investment Maintenance Program (BNDES-PSI). The funds, which are being used to acquire Brazilian equipment for improvement of network capacity, have been previously recorded under BNDES Finame (Government Agency for Machinery and Equipment Financing) and released as investments were made.

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As this financing has an interest rate lower than market interest rates, this transaction falls within the scope of IAS 20/CPC 7. The loans have been recognized at inception at their fair values assuming market rates with a corresponding adjustment to deferred revenue.

t) Adjustment to Present Value of Assets and Liabilities

The long-term and short-term financial assets and liabilities are adjusted to their present value. The adjustment to present value is calculated taking into account the contractual cash flows and the explicit interest rate, and in certain cases, implicit interest rate, of the respective assets and liabilities.Therefore, interests embedded in the revenues, expenses and costs associated with such assets and liabilities are deducted with the purpose of recognizing them in accordance with the accrual method. Subsequently, such interests are reallocated to the lines of financial expenses and financial income for the year by using the actual interest rate method in relation to the contractual cash flows. The implicit interest rates applied were determined based on facts and circumstances, and are deemed to be accounting estimates. Based on the analisis performed and on its best estimate, the Company concluded that the adjustment to present value of the current assets and liabilities is irrelevant to the financial statements taken as a whole and, therefore, did not record any adjustment.

The Company used WACC (Weighted Average Cost of Capital) and CDI rates (Interbank deposit certificate) to calculate present value adjustments, depending on the type of asset and liability to be adjusted.

u) Treasury shares:

Own equity instruments that are acquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of Company's own equity instruments.

v) Revenue recognition

Revenues substantially correspond to consideration amounts received or receivable for the sale of goods or services in the Company's and its subsidiaries normal course of business.

Revenues are recognized when they can be reliably measured and future economic benefits are likely to flow to the Company, the costs incurred in the transaction can be measured, the significant risks and rewards of ownership were substantially transferred to the buyer and specific criteria were met for each of the Company's activities.

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The Company's revenues consist primarily of voice and data telecommunication services, additional services that are offered to customers through traffic packages with fixed price (monthly) or according to customer's traffic utilization and sale of goods.

Revenues related to telecommunications services rendered are recorded on the accrual basis based on the contractual terms. Tariff rates for local and long-distance calls are determined by the measurement process pursuant to legislation currently in effect. Services charged at monthly fixed rates are calculated and recorded on linear bases. Unbilled revenue from the date of the last billing until the date of the balance sheet is recognized in the month the service is rendered.

Revenue from the sales of cards for public telephones is deferred and recognized in income as the cards are utilized based on consumption estimates.

Prepaid cell phone recharge credit revenues, as well as respective taxes due thereon, are deferred and recognized in the statement of income when services are actually rendered.

Income from equipment under lease agreements classified as finance leases is recognized upon equipment installation, when the risk is actually transferred. Income is recognized for the present value of future minimum lease payments.

Revenues from sales and services are subject to the following taxes and contribution taxes: State VAT - ICMS, Social Contribution Taxes on Gross Revenue for Social Integration Program - PIS, Social Security Financing - COFINS and Service Tax– ISS.

Recognition of Revenues and Costs of Goods Sold

Revenues and costs of goods sold (handsets, simcards and accessories) are recorded when risks and benefits of goods are transferred to the buyers. Sales in own stores are recognized when goods are sold to consumers. Revenues and costs of goods sold via dealers are recorded upon activation of the handset, but, in any case, no later than 90 days after the sale date.

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Customer Loyalty Program

The subsidiary Vivo S.A. has a customer loyalty program that allows customers to accumulate points when generating traffic for the use of services provided by its subsidiaries. The accrued points may be exchanged for handsets or services, provided the customer has a minimum stipulated balance of points. The consideration received is allocated to the cost of the handsets or services redeemed at their fair value. The fair value of the points is calculated by dividing the discount value granted as a result of the customer loyalty program by the amount of points needed to carry out the redemption. The fair value accrued balance's of generated points is deferred and recognized as income upon redemption of points.

Promotional campaign and enrolment fee

Enrolment fees paid by the customers to allow them to participate in the promotional campaigns of the Company are deferred and recorded in profit or loss for the period the referred campaign lasts.

Multiple-element arrangements

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values.

Determining fair values for each identified element requires estimates that are complex due to the nature of the business.

A change in estimates of fair values could affect the apportionment of revenue among the elements and, as a result, revenues in future years.

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w) Foreign-currency-denominated balances and transactions

The Company's functional currency is the Brazilian real (R$). Foreign currency transactions are recorded at the prevailing exchange rate at date of the transaction. Foreign currency denominated assets and liabilities are measured using the exchange rate at the balance sheet date. Exchange differences resulting from foreign currency transactions were recognized in financial income and financial expenses.

On December 31, 2011 the exchange rates were: US$1.00 = R$1.8758, JPY1.00 = R$0.02431, €1.00 = R$ 2.4270.

x) Taxes and contributions

We list below the acronyms of the taxes and contributions described in these financial statements:

- CIDE – Contribution for Intervention in the Economic Domain – federal tax;
- COFINS – Contribution for Social Security Financing - federal tax;
- CSLL – Social Contribution on Net Income – federal tax;
- FISTEL –Telecommunications Inspection Fund;
- FUNTTEL – Fund for Telecommunications Technological Development;
- FUST – Telecommunications Universal Service Fund;
- ICMS – Tax on the Circulation of Goods and on Services – state tax;

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- IOF – Tax on Financial Transactions – federal tax;
- IRPJ – Corporate Income Tax – federal tax;
- IRRF – Withholding Income Tax – federal tax;
- ISS – Tax on Services – municipal tax;
- PIS – Social Integration Program – federal tax;
- TFF – Operation Inspection Fee; and
- TFI – Installation and Inspection Fee.

Income tax and social contribution expenses include the effects of current and deferred taxes.

Current income tax and social contribution

The carrying amount of current income tax assets and liabilities for the last fiscal year and two prior years represent the amount expected to be recovered from or paid to tax authorities. The tax rates and tax legislation used to calculate the amounts are those enacted or substantially enacted at the balance sheet date. In the balance sheet the current income taxes are stated net of the amounts paid during the year.

Deferred taxes

Deferred tax assets and liabilities are obtained using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

At the balance sheet date, deferred tax assets are recognized to the extent that their future realization is assessed as more likely than not based on the future taxable income.

The deferred tax assets and liabilities are not discounted to present value and are classified in the balance sheet as noncurrent, regardless of the expected realization. The tax effects of items recorded directly in shareholders' equity are recognized in equity.

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Deferred tax assets and liabilities are offset if there is a legal or contractual right to set off tax asset against income tax liability and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales taxes

Revenues from the rendering of services are subject to ICMS or ISS at the rates in effect at each state and to cumulative regime of PIS and COFINS, for revenues earned from telecommunication services, at 0.65% and 3.00%, respectively. Other revenues earned by the Company, including revenues relating to sale of goods, under the non-cumulative regime, are taxed at 1.65% and 7.60% for PIS and COFINS, respectively, and for ICMS at the rates in effect at each state.

Prepaid amounts or amounts to be offset are recorded as current or non-current assets, according to the expected realization thereof.

y) Concession agreement's renewal fee

It is a fee which will be paid each odd years during the term the concession agreement is in force, equivalent to 2% of its prior-year SFTC net revenue, according to the contract. The corresponding expense is recognized proportionally over each biennium concerned (Note 22).

z) Accounting estimates

The preparation of the financial statements requires management to make judgments and estimates and adopt assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities at balance sheet date.

However, uncertainty relating to these assumptions and estimates could result in outcomes that would require significant adjustment to the carrying value of the asset or liability affected in future periods.

The main assumptions concerning the future and other important sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a significant adjustment in the carrying value of assets and liabilities, are discussed below:

Impairment of non-financial assets

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An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable value, which is the higher of its fair value less selling costs and its value in use. The calculation of fair value less selling costs is based on information available from binding sales transactions of similar assets or observable market prices less additional costs for disposing of the asset. The calculation of value in use is based on the discounted cash flow method. The recoverable value is sensitive to the discount rate used in the discounted cash flow method, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company records provisions, based on reasonable estimates, for possible consequences of audits by tax authorities of the jurisdictions in which it operates. The amount of these provisions is based on several factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the tax authority in charge. Such differences of interpretation may arise in a wide variety of subjects, depending on the conditions prevailing in the jurisdiction in which the Company operates.

Post-employment benefits

The cost of defined benefits pension plans and other post-employment health care benefits and the present value of pension obligations are determined using actuarial valuation methods. An actuarial valuation involves the use of assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future increases in pension benefits. The defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed periodically.

The mortality rate is based on mortality tables available in Brazil. Future increases in wages and pension benefits are based on expected future inflation rates for Brazil.

For further detils of the assumptions used, see note 35.

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Fair value of financial instruments

When the fair value of financial assets and liabilities presented in the balance sheet cannot be obtained in active markets, it is determined using valuation techniques including the discounted cash flow method. The input for these methods is taken from observable markets when possible. However, when this is not possible, a certain level of judgment is required in establishing fair values. This judgment includes consideration of data used, liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments.

Provisions for judicial, tax, civil and labor claims

The Company recognizes a provision for civil, labor and tax claims. The assessment of probability of loss includes evaluation of available evidence, the hierarchy of laws, available case law, most recent court decisions and their relevance in the legal system, as well as the evaluation of outside counsel. Provisions are reviewed and adjusted to take into account changes in circumstances, such as applicable statutes of limitation, conclusions of tax audits or additional exposures identified based on new issues or judicial rulings.

Fixed and intangible assets, including goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates, particularly for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological changes are difficult to predict.

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When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the statement of income for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as an analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

The Company evaluates periodically its cash-generating unit's performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating unit to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

aa) Non-controlling shareholders interests

Non-controlling shareholders interests representing the portion of income or loss and of net equity of subsidiaries that are not held by the Company, which are stated in the consolidated balance sheet under the net equity caption.

bb) Financial Income and Expenses

Financial income and expenses represent interest, monetary and exchange variations from financial investments, derivatives, loans, financings and debenture transactions; net present value adjustments of transactions that generate monetary assets and liabilities; and other financial transactions. They are recognized on accrual basis when earned or incurred by the Company and its subsidiaries.

cc) Statements of cash flows and of added value

The statements of cash flows were prepared using the indirect method and reflect changes in cash over the stated years. The terms used in the statements of cash flows are as follows:

- Operating activities: refer to the main transactions performed by the Company activities other than investment and financing;

- Investing activities: refer to additions and dispositions of noncurrent assets and other investments not included in cash and cash equivalents;

- Financing activities: refer to activities resulting in changes in equity and loans.

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The statement of value added is presented as additional information in compliance with Brazilian corporation law and was prepared according to CPC 09 – Statement of value added. Its purpose is to highlight the resources created by the Company during the year and demonstrate its distribution among the different stakeholders.

dd) Segment reporting

An operating segment is defined as a component of an entity for which discrete financial information is available, and which is reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to an individual segment and to assess its performance. Since all decisions by management are made based on consolidated reports, the Company's operation is to provide its customers with quality telecommunication services, and that all decisions on strategic, financial, procuring, investment and resource application planning are made on a consolidated basis, the management concluded that the Company and its subsidiaries operate in a single operating segment, which is the rendering of telecommunications services.

4. Acquisition of Vivo Participações S.A. (Vivo Part.)

Fiscal year 2011

Background: Acquisition of Brasilcel N.V. stocks by Telefónica S.A.

As disclosed through material fact notices dated July 28, 2010 and September 27, 2010, on July 28, 2010 Telefónica S.A., a corporation with head office in Madrid, Spain (Telefónica) and Portugal Telecom SG SGPS, S.A., a corporation with head office in Lisbon, Portugal (Portugal Telecom) signed an agreement for the acquisition by Telefonica of 50% of Brasilcel N.V's (Brasilcel) shares, owned by Portugal Telecom.

Therefore, the transaction resulted in the indirect acquisition of shares of Vivo Participações. Brasilcel, is a company headquartered in the Netherlands, was held prior to the acquisition by Telefónica (50%) and by Portugal Telecom (50%) and, in 2002, it was used as a means to form a joint venture between both shareholders so as to hold the shares and control of the holdings jointly, as well as the mobile phone companies which were later added, respectively, in Vivo Part. (former Telesp CelularParticipações S.A.) and in Vivo S.A, full subsidiary of the Company.

On December 21, 2010, Brasilcel was merged into Telefónica, which held direct and indirect stakes in Vivo Part.'s capital stock, with a share of approximately 60%.

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Due to the acquisition of control of Vivo Part. and pursuant to the terms provided for in Article 254-A of Law 6,404/76 the procedures established in article 29 of CVM Instruction 361, applicable to Tender Offers (OPA) by sale of control, as defined by item III of article 2 of CVM Instruction 361, on February 17, 2011 Telefónica through its subsidiary SP Telecomunicações Ltda (“SPTelecom”) launched a Public Tender Offer for the shares with voting rights of Vivo Part. (ON shares) held by non-controlling interests. Those shares were priced at 80% of the value paid by Telefónica to Portugal Telecom SG SGPS S.A., for each common share with voting rights of Vivo Part. S.A. (ON) owned by Brasilcel.

On March 18, 2011, date of Tender Offers (OPA), SP Telecom acquired 10,634,722 common shares of Vivo Part., representing 2.65% of such company’s capital, resulting the Telefonica Group earning 62.1% of Vivo Part.

Acquisition of Vivo Part. by Telefônica Brasil and corporate restructuring

In order to unify the shareholder’s base of the companies, simplify the organizational structure, rationalize costs, integrate businesses and, consequently, generate synergies provided for in the strategy of Telefónica, on December 27, 2010, the Boards of Directors of Vivo Part. and Telefônica Brasil approved the terms and conditions for restructuring, which provided for the merger of 100% of the shares of Vivo Part. into Telefônica Brasil. Following recommendations of the Guiding Opinion No. 35 of CVM, independent special committees were created to negotiate the exchange ratio of shares and conclude about the other conditions of the Corporate Restructuring proposal in order to submit later its recommendations to the Board of Directors of both companies.

The proposal was submitted to Anatel's authorization and approved at a meeting of the Board of this agency held on March 24, 2011.

On March 25, 2011, the Boards of Directors of Vivo Part. and Telefônica Brasil approved the terms and conditions of the Corporate Restructuring, which were approved unanimously by the general meetings of shareholders of the Companies held on April 27, 2011.

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The Holdings (TBS Celular Participações Ltda. Portelcom Participações S.A., Brazil PTelecom S.A), controlled by Telefónica S.A. and whose main purpose was to hold shares of Vivo Part. were merged into Vivo Part as a preliminary phase for the first stage of restructuring.

The first stage of the transaction consisted of the unification of the share base of fixed and mobile operators of the Telefonica Group in Brazil, through the merger of shares of Vivo Part. into Telefônica Brasil. Telefônica Brasil merged all shares of Vivo Part., attributing it directly to the holders of shares of Vivo Part. incorporated, the new shares of Telefônica Brasil. The exchange of shares of Vivo Part. for shares of Telefônica Brasil was based on the exchange share ratio of 1.55 shares of Telefônica Brasil for each share of Vivo Part. This followed the recommendations of the independent special committees.

Due to the merger of shares of Vivo Part., Telefônica Brasil's capital was increased by R$31,222,630, considering the economic value of the incorporated shares, based on an Economic Value Appraisal of Vivo Part. prepared by Planconsult Consultoria Ltda. ("Planconsult") in accordance with the provisions of article 252 paragraph 1 and combined with article 8.

Telefónica's strategy in the first stage of the corporate restructuring was to maximize the potential of its operations in Brazil. Therefore, Telefônica Brasil became the direct shareholder of Vivo Part, and indirectly of Vivo S.A. Through the creation of this 'umbrella investment structure', the non-controlling shareholders of both companies will be equally benefited by the added values generated by the combination of the telecommunications business. This is a basic movement in business so as to improve its converging market strategy, including combined mobile and fixed line offers, etc. This reorganization created the conditions for the beginning of the process to obtain operational and financial synergies.

Additionally, as a consequence of this merger, on July 6, 2011, Vivo Part. filed a statement with the Securities and Exchange Commission ("SEC") in order to cancel its registration for the program of American Depositary Shares ("ADSs"), since all its ADSs were converted into ADSs of Telefônica Brasil, plus payment currency in lieu of fractional Telefônica Brasil ADSs, which was approved on July 7, 2011.

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The second and third stages of the corporate restructuring, disclosed to the market on June 15, 2011, seek to continue the simplification process of the organizational structure of the Companies, so as: (i) to focus all authorizations for the rendering of SMP (personal mobile service) services (originally held by Vivo Part and Vivo S.A.), and (ii) simplify the current corporate structure, eliminating the structure of Vivo Part., which due to the referred concentration of commitments became a holding company.

In the second stage, held on October 1, 2011 assets, rights and obligations of Vivo Part. related to mobile operations in Minas Gerais were awarded to Vivo S.A., a subsidiary of Vivo Part. As a result, Vivo S.A. became the only mobile operator in the group.

As there was no reason to maintain Vivo Part. as the holding of Vivo S.A. and after Anatel's approval of the third stage of corporate restructuring, on August 16, 2011, Telefonica Brasil merged Vivo Part.'s equity, extinguishing Vivo Part. on October 3, 2011, what simplified and rationalized the Companie's cost structures.

Accounting of Acquisition of Vivo Part. by Telefônica Brasil

Considering that accounting for business combinations between entities under common control has still not been specifically specified by local accounting regulations (CPCs) and IFRS, a company must apply the hierarchy provided for in paragraphs 10-12 of CPC Technical Pronouncement 23 – "Accounting Policies, Changes in Accounting Estimates and Errors" (equivalent to IAS 8 – paragraphs 10 to 12) to choose the accounting practice to be adopted.

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Therefore, in the absence of a CPC or IFRS regulation which treats similar or related matters, and in the lack of guidance in the Conceptual Structure for the Elaboration and Presentation of Financial Statements, management can also consider the most recent technical positions taken on by other accounting regulatory bodies which use a similar conceptual structure to that of CPC to develop accounting pronouncements, or even, other generally accepted accounting literature and practices, so long as they do not conflict with the sources listed in item 11 of CPC 23.

Therefore, an entity can choose to account a business combination between entities under common control by either the acquisition method in accordance with CPC 15/IFRS 3(R) or by the pooling of interest method, with guidance provided by other accounting regulatory bodies with a similar structure to CPCs or IFRSs.

Since the acquisition method results in the revaluation of net assets of one or more entities involved and / or the generation of goodwill, it is necessary that economic substance exists from the perspective of the acquiring entity for this method to be applied, as is the case of this business combination.

Therefore, it is necessary that all the facts and circumstances from the perspective of the acquiring entity should be carefully analyzed, before it is concluded that a transaction has economic substance. If there was no economic substance, the pooling of interests method would be the only method that may be applied to that transaction.

Management understands that this transaction has economic substance having considered the following factors in its evaluation and documentation:

a) Objectives of the transaction: The acquisition of control of Vivo Part. by Telefónica had as its main objective the integration of fixed and mobile telecommunications services in Brazil as the telecommunication segment is already moving in this direction. Therefore, Telefónica must integrate necessarily its fixed and mobile operations in Brazil, so as to operate more efficiently and with the possibility of competing with the other companies in the telecom segment.

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The merger of Vivo Part.'s shares into Telefônica Brasil represents the first step towards the integration of the businesses and immediately generates gains due to the rationalization of structures and synergies, as well as avoids risks of claims by the shareholders of both companies, especially at this moment, in which some activities could be focused in one or in the other company. In addition, the shareholders of both companies will benefit from the higher liquidity of the shares in the stock exchange.

b) Involvement of third parties in the transaction, such as non-controlling shareholders: Vivo Part. had a significant number of non-controlling shareholders, representing 40.4% of its capital stock, which voted and approved the merger of shares in Telefônica Brasil, with abstention of only one shareholder who held 103 shares, which is not significant considering the Company's capital. Telefônica Brasil, which had around 12% of non-controlling shareholders, had its operation approved by unanimous votes of the present shareholders.

c) If the transaction was conducted or not at fair value: The exchange ratio of shares was determined based on the recommendations of independent special committees and in their economic values, based on the discounted cash flow method, calculated by the financial advisors of Vivo Part.'s Committee, Signatura Lazard Financial Advisory Services Ltda. ("Signatura Lazard"), and Telefônica Brasil's committee, Banco Santander S.A. ("Santander").

According to item 4.2 of the Merger Protocol the shareholders of Vivo Part. received in exchange of the shares they owned, new shares issued by the Telefônica Brasil, by the same type as those held by Vivo Part shareholders. The exchange of shares was approved as follows: for each common and preferred share of Vivo Part., 1.55 new shares of the same type were issued by Telefônica Brasil. Therefore, Telefônica Brasil issued 619,364,658 shares (212,767,241 common shares and 406,597,417 preferred shares) as payment for the 100% of the shareholdings of Vivo Participação S.A. The value of the issued shares in the total amount of R$31,222,630 was calculated based on the economic value of Vivo Part.

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The Company adopted fair value based on economical value report due to the fact that it is a transaction between two companies under common control, which value per share approximated the value paid by SP Telecom in March 2011 pursuant to the OPA (Public Tender Offer) that resulted in the acquisition of 2.65% of Vivo Part.'s capital held by non-controlling shareholders. As previously mentioned, this value substantially reflects the price paid by Telefónica in the acquisition of control of Vivo Part. from Portugal Telecom, with the differences pointed out mainly due to the premium paid by Telefonica in the acquisition of control and also due to the natural evolution of business between the data-base considered by the parent company (September 2010) and the data-base used by Telefônica Brasil (March 2011).

d) Existing activities in the companies involved in the transaction: The exchange of shares between Vivo Part. (mobile operator) and Telefônica Brasil (fixed line operator) is part of the strategy of integrating both activities, considering that the acquirer (Telefônica Brasil) did not have mobile operations. Telecom companies in Brazil are working towards obtaining integrated business so as to maintain competitiveness. Therefore, the activities of Vivo Part. and Telefônica Brasil are complementary in the current telecom business scenario and must be managed jointly for their development.

e) If the transaction conducts entities jointly to a 'reporting entity' which did not exist previously: The group's strategy is to integrate its fixed line and mobile services in one 'reporting entity' which did not previously exist, aiming at sharing the synergy gains in the telecom segment in Brazil between shareholders.

f) The transaction altered the control of Vivo Part.: As a consequence of the exchange of shares process and in order to have only one reporting entity, Vivo Part. became a full subsidiary of Telefônica Brasil and was merged in the final stage of the corporate restructuring.

Therefore, we conclude that the merger of Vivo's shares into Telefônica Brasil has economic substance, and therefore, acquisition method of accounting should be used, as provided for in CPC 15/ IFRS 3 (R).

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As provided below, the Company has also evaluated the transaction in order to determine properly the acquirer. In addition, if in a business combination CPC 36/IAS 27 is applied and it is not possible to indicate clearly which of the combined entities is the acquirer, additional guidance in CPC 15/ IFRS 3 (R) includes various other factors which must be considered in the determination of which entity is the acquirer.

In a business combination which takes place mainly through an exchange of shares, usually the acquirer is the entity that issues its shares to exchange with the acquired interest. However, in some business combinations, named reversed acquisitions, the entity which issues the shares can be considered the acquired entity.

In the identification of the acquirer in a business combination which takes place upon the exchange of shares, CPC 15/IFRS 3 (R), paragraphs B13 to B18, require that other relevant factors be considered, including the following:

a) In a business combination based on exchange of shares, the acquirer is normally the entity which issues the equity instruments: Telefônica Brasil issued the shares in exchange of shares owned by Vivo Part.'s shareholders, turning Vivo Part. a fully-owned subsidiary of Telefônica Brasil. Additionally, the final stage of such corporate restructuring was to merge Vivo Part. into Telefônica Brasil, and therefore Vivo Part. will no longer exist. Telefônica Brasil issued shares held by it in exchange for interest in Vivo Part., increasing its capital stock by R$31,222,630.

b) The composition of the Senior Management of the combined entity. The acquirer is normally the company whose former Senior Management is prevailing in the combined entity: The CEO and CFO of Telefônica Brasil, among other key–functions, remained in these positions until the merger of shares. The equivalent positions in Vivo Part. were extinguished.

c) The composition of Board of Directors (or equivalent body) of the combined entity. Usually the acquirer is the entity whose shareholders have the ability to elect, appoint or remove most members of the board of directors of the combined entity: The Board of Directors of Telefônica Brasil remains and the Board of Vivo Part. no longer exists after the merger by Telefônica Brasil.

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d) Additionally, the guidance to identify the acquirer also considers that it is normally the entity whose relative size (measured, for instance, in assets, revenues and profit) is significantly larger than the acquired entity: Both companies have similar sizes, which, however must not be a determining fact to be considered in the identification of the acquirer. The most important fact to be considered is actually the essence of this acquisition, which is the acquisition of Vivo Part. from Portugal Telecom by Telefónica in Spain. As a result, shares were exchanged upon this restructuring process so Telefônica Brasil and Vivo Part. could have their businesses integrated, generating the synergies expected by the management and by the market. Therefore, independently of the size of the companies it is important to consider the essence of the transaction which is the acquisition of Vivo Part by Telefônica Brasil to make the previously mentioned synergies possible.

Based on the afore-mentioned, Management concluded that Telefonica Brasil is the acquirer on this transaction.

The fair value of the identifiable assets acquired and liabilities assumed of Vivo Part. were measured and recognized at acquisition date.

These values were determined upon various measurement methods of evaluation for each type of asset and/or liability based on the best available information. The advice of experts has also been considered in addition to the various other considerations made in determining these fair values.

The methods and assumptions used to measure these fair values were as follows:

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Licenses

The fair value of the licenses has been determined through the use of Multi-period Excess Earnings Method (MEEM), which is based on a calculation of discounted cash flows of the estimated future economic benefits attributable to the licenses, net of the elimination of charges related to contributing assets involved in the generation of such cash flows and excluding the cash flows attributable to the customer base.

This method assumes that intangible assets rarely generate income on their own. Thus, cash flows attributable to the licenses are those remaining after the return on investment of all of the contributing assets required to generate the projected cash flows. The allocated fair value of the licenses on the acquisition date was R$12,876,000, which is being amortized over a 27.75 year period for accounting purposes.

Customer base

The customer base has been measured using the MEEM, which is based on a discounted cash flow analysis of the estimated future economic benefits attributable to the customer base, net of the elimination of charges involved in its generation. An analysis of the average length of customer relationships, using the retirement rate method, was performed in order to estimate the remaining useful life of the customer base.

The objective of the analysis of useful lives is to estimate a survival curve that predicts future customer churn of our current client base. The so-called "Iowa Curves" were considered to approximate the survival curve of customers. The allocated fair value of the licenses on the date of the acquisition was R$ 2,042,000, which is being amortized over a 8.5 year period for accounting purposes.

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Trademark

The fair value of the trademark was calculated using the "relief-from-royalty" method. This method establishes that an asset’s value is calculated by capitalizing the royalties saved by holding the intellectual property. In other words the trademark owner generates a gain in holding the intangible asset rather than paying royalties for its use. The royalties saving was calculated by applying a market royalty rate (expressed as a percentage of revenues) to future revenues expected to be generated from the sale of products and services associated with the intangible asset. A market royalty rate is the rate, normally expressed as a percentage of net revenues, that a knowledgeable, interested owner would charge a knowledgeable, interested user for the use of an asset in an arm’s length transaction. The allocated fair value of the licenses on the date of the acquisition was R$1,642,000, which is being amortized over a 19.5 year period for accounting purposes.

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

In R$ thousands (provisional data)	**Vivo Participações S.A. Fair value**
Current assets	7,244,124
Non-current assets	28,134,683
Deferred tax asset, net(2)	417,883
Other non-current assets	2,385,177
Property, plant and equipment	6,198,358
Intangible assets (1)	19,133,265
Current liabilities	(7,964,209)
Non-current liabilities	(5,352,456)
Other non-current liabilities (3)	(5,352,456)
Net asset amount	**22,062,142**
Cost of shareholdings	31,222,630
Goodwill of the transaction	**9,160,488**

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

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

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

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At the date of issuance of these consolidated financial statements, the Company was concluding the process of determining the fair value of the identifiable assets acquired and liabilities assumed from Vivo Part. and, accordingly, new information obtained about facts and circumstances existing at the acquisition date, may result in some adjustments to the provisional allocation of intangibles and goodwill. The conclusion of this process is expected to be carried out within a maximum of twelve months from the date of acquisition.

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

According to /IFRS 3 (R) - Business Combination, the acquirer must recognize, on the date of acquisition, contingent liabilities assumed on a business combination even if it is not likely that the outflow of resources to settle the liability are necessary, as long as a present obligation arising from past events exists and its fair value can be reliably measured. In compliance with the criteria above, in this acquisition, a contingent liability at fair value of R$283,000 was recognized, based on the possible cash outflow estimated for its settlement on the acquisition date (see note 20).

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

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

From the acquisition date and up to the date of issuance of these financial statements (December 31, 2011), Vivo Part. (until September 2011) and Vivo S.A. have contributed with R$16,125,386 of the net combined operating revenue and R$2,615,068 of the combined net profit.

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

For the fiscal year ended December 31, 2011 (unaudited)

	Telefônica Brasil Consolidated for the fiscal year ended December 31, 2011	**Vivo Consolidated for the three months period ended March 31, 2011**	**Elimination (b)**	**Telefôni Brasil Combin**
Net operating revenue	**29,128,740**	**4,812,330**	**(802,456)**	**33,138,**
Costs of goods and services (a)	(14,380,171)	(2,217,733)	773,395	(15,824,5
Gross profit	14,748,569	2,594,597	(29,061)	17,314,
Operating (expenses) income	**(8,951,203)**	**(1,489,121)**	**29,061**	**(10,411,2**
Selling (a)	(7,010,125)	(1,180,178)	36,545	(8,153,7
General and administrative (a)	(2,383,236)	(310,416)	-	(2,693,6
Other operating income (expenses), net	442,158	1,473	(7,484)	436,
Operating income before financial expense, net	**5,797,366**	**1,105,476**	**-**	**6,902,**
Financial expense, net	(139,692)	(39,794)	-	(179,4
Income before income tax and social contribution	**5,657,674**	**1,065,682**	**-**	**6,723,**
Income tax and social contribution	(1,295,475)	(355,476)	-	(1,650,9
Net income for the period (c)	**4,362,199**	**710,206**	**-**	**5,072,**
Atributted to equity holders of the parent company	4,355,318	-	-	5,065,
Attributed to participation of non-controlling shareholders	6,881	-	-	6,

(a) Includes depreciation and amortization expenses amounting to R$5,131,853.

(b) Includes mainly revenues and interconnection costs.

(c) Combined net income would be R$4,940,938 in 2011, should the effects of the amortization of intangible assets of the first 3 months of 2011 (R$199,193), net of deferred income taxes amounting to R$67,726, have been included.

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5. Cash and cash equivalents

	Company		Consolidated	
	2011	2010	2011	2010
Bank accounts	17,969	4,257	77,404	8,930
Short-term investments	808,933	1,084,832	2,862,938	1,547,785
Total	826,902	1,089,089	2,940,342	1,556,715

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

6. Trade accounts receivable, net

	Company		Consolidated	
	2011	2010	2011	2010
Billed amounts	1,823,017	1,601,572	3,461,465	1,854,151
Interconnection receivable	941,614	164,979	1,855,801	188,609
Accrued unbilled amounts	129,741	1,196,912	930,178	1,336,441
Gross accounts receivable	2,894,372	2,963,463	6,247,444	3,379,201
Allowance for doubtful accounts	(607,736)	(607,450)	(1,056,729)	(765,633)
Total	2,286,636	2,356,013	5,190,715	2,613,568
Current	1,653,269	1,765,086	4,103,377	2,008,325
Past-due – 1 to 30 days	371,256	371,541	631,923	394,371
Past-due – 31 to 60 days	97,504	91,385	204,775	95,206

Past-due – 61 to 90 days	46,932	37,339	115,125	41,096
Past-due – 91 to 120 days	24,188	18,613	49,815	19,088
Past-due – more than 120 days	93,487	72,049	85,700	55,482
Total	2,286,636	2,356,013	5,190,715	2,613,568
Current	2,286,636	2,356,013	5,105,860	2,546,225
Non-current	-	-	84,855	67,343

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Changes in Allowance for doubtful accounts

	Company		Consolidated	
	2011	2010	2011	2010
Opening balance	(607,450)	(671,460)	(765,633)	(833,639)
Provision charged to selling expenses (Note 26)	(300,905)	(327,302)	(506,581)	(386,340)
Business combination	-	-	(218,171)	-
Consolidation of TVA	-	-	(3,659)	-
Write-offs	300,619	391,312	437,315	454,346
Ending balance	(607,736)	(607,450)	(1,056,729)	(765,633)

Subsidiary A.Telecom offers “Posto Informático”, a product that consists of the lease of IT equipment to small- and medium-sized companies for fixed installments received over the agreed term. Considering the related contractual conditions, the Company classified this product as “Finance Lease” in the financial statements as of December 31, 2011 and 2010 (note 3.g).

The consolidated accounts receivable as of December 31, 2011 and 2010 reflect the following effects:

	2011	2010
Present value of minimum payments receivable	261,933	112,352
Unrealized financial income	8,941	23,213
Gross investment in finance lease receivables	270,874	135,565
Allowance for doubtful accounts	(69,375)	(18,102)
Financial Leases receivable, net	201,499	117,463
Current	177,078	45,009

Non-current	84,855	67,343

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Aging list of financial leases receivable:

Year	Gross Investment	Present Value
Falling due within one year	177,078	177,078
Falling due within five years	93,796	84,855
Total	270,874	261,933

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

7. Inventories

	Company		Consolidated	
	2011	2010	2011	2010
Consumption materials	54,124	73,584	94,547	100,579
Resale items (*)	7,030	46,632	435,032	66,564
Other inventories	6,333	7,806	6,468	10,052
Allowance for reduction to net recoverable value and obsolescence	(35,651)	(92,920)	(64,326)	(99,696)
Total current	31,836	35,102	471,721	77,499

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

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

	Company		Consolidated	
	2011	2010	2011	2010
Opening balance	(92,920)	(70,237)	(99,696)	(75,928)
Additions	(10,191)	(24,484)	(37,462)	(31,568)
Write-offs	67,460	1,801	95,149	7,800
Business combination	-	-	(18,852)	-
Consolidation of TVA	-	-	(3,465)	-
Ending balance	(35,651)	(92,920)	(64,326)	(99,696)

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The reduction in the balance of resale items is explained due to the disposal process made through auctions and reuse in the Company's plant.

8. Deferred and recoverable taxes

8.1 Recoverable taxes

	Company		Consolidated	
	2011	2010	2011	2010
Withholding taxes	106,072	70,558	152,919	91,185
Recoverable income tax and social contribution	1,051,864	13,422	1,143,988	27,088
ICMS (state VAT) (*)	422,679	397,745	1,665,896	534,323
ICMS (state VAT)-Convênio 39/Portaria CAT 06	284,959	313,177	307,832	313,177
PIS and COFINS	43,898	4,789	210,950	17,726
Other	9,141	1,720	28,440	2,535
Total	1,918,613	801,411	3,510,025	986,034
Current	1,130,761	480,691	2,495,066	659,357
Non-current	787,852	320,720	1,014,959	326,677

(*) The amount recorded as of December 31, 2011 refers mainly to credits on the acquisition of property, plant and equipment items, available for offset against VAT obligations in 48 months.

8.2 Deferred taxes

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

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	Company		Consolidated	
	2011	2010	2011	2010
Deferred Assets				
Tax loss carry-forwards – Income tax and social contribution (a)	-	-	348,576	2,325
Provisions for tax, labor and civil claims	582,695	302,607	736,312	302,607
Post-retirement benefit plans	98,833	74,460	98,833	74,460
Allowance for doubtful accounts	97,466	100,194	178,433	100,194
Fust Provision	89,294	73,251	151,985	73,251
Allowance for obsolescence of modems and others	8,745	18,713	8,745	18,713
Employee Profit sharing	43,368	38,730	82,564	38,730
Accelerated depreciation	101,668	46,318	433,512	46,318
Allowance for reduction of inventory to recoverable value	12,121	31,593	17,542	31,593
Provision for loyalty program	-	-	23,399	-
Derivatives	37,352	33,188	69,387	33,188
Merged tax credits – DABR (b)	22,076	34,691	46,962	34,691
Provisions	129,087	129,798	354,916	129,798
Income tax and social contribution on other temporary differences	99,143	128,144	308,462	128,144
	1,321,848	1,011,687	2,859,628	1,014,012
Deferred liabilities				
Technological innovation Law	(224,254)	(238,957)	(333,156)	(238,957)
Exchange rate variation	(14,742)	(25,811)	(14,742)	(25,811)
Merged tax credits (b)	(207,668)	(136,015)	(207,668)	(136,015)
Client portfolio	(630,896)	-	(630,896)	-
Trademarks and patents	(536,808)	-	(536,808)	-
License	(79,976)	-	(79,976)	-
Effects of goodwill generated by the merger of Telemig and Telemig Participações into TCO IP S.A.	(258,695)	-	(258,695)	-
Effect of goodwill generated on the acquisition of Vivo Part.	(53,374)	-	(53,374)	-
Income tax and Social contribution on other temporary differences	(104,389)	(109,550)	(104,389)	(109,550)
	(2,110,802)	(510,333)	(2,219,704)	(510,333)
Total non-current asset (liability), net	(788,954)	501,354	639,924	503,679

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a) Tax loss carryforward and negative tax base: represent the amount recorded by the Company's subsidiaries which, pursuant to the Brazilian legislation, may be offset up to the limit of 30% of the taxable income computed in the coming fiscal years and subject to no statute of limitations. The subsidiaries Telefônica Data S.A. and Telefônica Sistema de Televisão S.A. did not record the potential deferred income and social contribution taxes credit that would arise from the use of the tax loss carryforwards and negative tax bases in the amount of R$54,139 at December 31, 2011, given the uncertainty, at this time, as to these subsidiaries ability to generate sufficient future taxable results to ensure the realization of these deferred taxes.

Below we present tax credit amounts from tax loss carryforwards recognized and not recorded by the Company`s subsidiaries. As of December 31, 2011, there was no significant change in the Company´s business or those of its subsidiaries that would indicate the need for a provision for the aforementioned tax credits.

	Consolidated		
	Income Tax	Social Contribution	Total
Tax-loss carry-forward and negative base at 12/31/2011	1,195,277	1,154,399	2,349,677
Tax credit (25% + 9%)	298,819	103,896	402,715
Tax credit recognized	259,011	89,565	348,576
Tax credit not recognized	39,808	14,331	54,139

	Consolidated		
	Income tax	Social Contribution	Total
Tax-loss carry-forward and negative base at 12/31/2010	130,435	130,435	260,870
Tax credit (25% + 9%)	32,609	11,739	44,348
Tax credit recognized	1,710	615	2,325
Tax credit not recognized	30,899	11,124	42,023

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

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

	Company				
Deferred Tax Assets	December 31, 2010	Additions	Write-offs/realization	Business Combination	December 31, 2011
Other deferred assets	1,011,687	133,216	(74,609)	251,554	1,321,848
Total	1,011,687	133,216	(74,609)	251,554	1,321,848

	Consolidated				
Deferred Tax Assets	December 31, 2010	Additions	Write-offs/realization	Business Combination	December 31, 2011
Tax losses	2,325	-	(393,067)	739,318	348,576
Other deferred assets	1,011,687	252,826	(108,222)	1,354,761	2,511,052
Total	1,014,012	252,826	(501,289)	2,094,079	2,859,628

	Consolidated			
Deferred Tax Assets	December 31, 2009	Additions	Write-offs	December 31, 2010
Tax losses	1,716	609	-	2,325
Other deferred assets	926,990	111,175	(26,478)	1,011,687
Total	928,706	111,784	(26,478)	1,014,012

	Company					
Deferred Tax Liabilities	December 31, 2010	Additions	Write-o ffs / realization	Business Combination	Other comprehensive income	December 31, 2011
Deferred liabilities	510,333	246,024	(57,339)	1,433,126	(21,342)	2,110,802
Total	510,333	246,024	(57,339)	1,433,126	(21,342)	2,110,802

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	Consolidated					
Deferred Tax Liabilities	December 31, 2010	Additions	Write-offs	Business Combination	Other comprehensive income	December, 31 2011
Deferred liabilities	510,333	274,332	(155,452)	1,611,833	(21,342)	2,219,704
Total	510,333	274,332	(155,452)	1,611,833	(21,342)	2,219,704

	Consolidated				
Deferred Tax Liabilities	December 31, 2009	Additions	Write-offs/realization	Other comprehensive income	December, 31 2010
Deferred liabilities	364,642	207,869	(3,669)	(58,509)	510,333
Total	364,642	207,869	(3,669)	(58,509)	510,333

At December 31, 2011, the Company projects deferred tax (liabilities) assets to be realized as follows:

Year	**Company**	**Consolidated**
2012	240,635	1,337,875
2013	93,927	93,927
2014	1,758	1,758
2015	(31,700)	(31,700)
2016	(35,603)	(35,603)
From 2017	(1,057,971)	(726,333)
Total	(788,954)	639,924

These recoverable amounts are based on projections that may change in the future.

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9. Escrow deposits

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

	Company				
	Nature				
	Labor Claims	Tax Litigation	Civil Litigation	Freeze of assets by court order	Total
Non-current as of 12/31/2010	553,534	539,919	526,581	76,383	1,696,417
Additions	126,575	46,324	122,489	289,242	584,630
Write-offs / reversal	(39,080)	(595)	(57,693)	(321,273)	(418,641)
Monetary restatement	38,620	60,821	36,235	-	135,676
Transfers	32,954	-	(30,029)	(2,925)	-
Merger of Vivo Part.	5,457	802,742	3,764	5,919	817,882
Non-current as of 12/31/2011	718,060	1,449,211	601,347	47,346	2,815,964

	Company				
	Nature				
	Labor claims	Tax litigation	Civil litigation	Freeze of assets by court order	Total
Non-current as of 12/31/2009	435,842	477,441	376,177	37,491	1,326,951
Additions	104,104	32,095	116,780	72,500	325,479
Write-offs/reversals	(11,980)	-	(17,437)	-	(29,417)
Monetary restatement	14,316	30,415	28,673	-	73,404
Transfers	11,252	(32)	22,388	(33,608)	-
Non-current as of 12/31/2010	553,534	539,919	526,581	76,383	1,696,417

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	Consolidated Nature				
	Labor Claims	Tax Litigation	Civil Litigation	Freeze of assets by court order	Total
Non-current as of 12/31/2010	555,322	546,387	528,887	80,087	1,710,683
Business combination	54,939	1,146,771	77,336	58,113	1,337,159
Consolidation of TVA	2,488	24,128	6,542	1,743	34,901
Additions	139,123	72,745	141,146	314,373	667,387
Write-offs / reversal	(42,796)	(5,605)	(76,361)	(340,605)	(465,367)
Monetary restatement	39,847	133,211	39,177	-	212,235
Transfers	40,782	1,166	(1,442)	(40,506)	-
Merger of Ptelecom	-	19,667	-	-	19,667
Non-current as of 12/31/2011	789,705	1,938,470	715,285	73,205	3,516,665
Current	18,501	15,207	61,687	21,026	116,421
Non-current	771,204	1,923,263	653,598	52,179	3,400,244

	Consolidated Nature				
	Labor Claims	Tax Litigation	Civil Litigation	Freeze of assets by court order	Total
Non-current as of 12/31/2009	436,153	481,664	377,301	40,222	1,335,340
Additions	104,480	33,840	117,414	75,441	331,175
Write-offs / reversal	(11,980)	-	(17,839)	-	(29,819)
Monetary restatement	14,355	30,920	28,712	-	73,987
Transfers	12,314	(37)	23,299	(35,576)	-
Non-current as of 12/31/2010	555,322	546,387	528,887	80,087	1,710,683

See note 20, Provisions for further details of the matters that gave rise to these deposits.

On December 31, 2011, the Company and its subsidiaries had several judicial tax deposits totaling R$1,938,470 (Company R$1,449,211).

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

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PIS and COFINS

The subsidiary Vivo is part in judicial claims involving the following matters: i) claim arising from tax debits offsetting with credits derived from overpayments not recognized by the tax authorities; ii) tax debt derived from underpayment due to fire in the ancillary statements (DCTFs); and iii) disputes referring to changes in rates and increase in the taxable bases introduced by Law No. 9718/98.

As of December 31, 2011, the balance of escrow deposits amounted to R$68,532. The amounts provisioned related to such escrow deposits are disclosed in note 20.

CIDE

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

As of December 31, 2011, the balance of escrow deposits amounted to R$123,228 (Company R$4,852). The amounts provisioned related to such escrow deposits are in note 20.

FISTEL

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

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

As of December 31, 2011, the amount deposited totaled R$767,530 (Company R$767.530). There are amounts provisioned of R$733,038 related to such escrows deposits which are disclosed in note 20.

IRRF

The Company and its subsidiaries filed writs of mandamus claiming its right not to have IRRF (Withholding Income Tax) incidence over: (a) remittances to other countries for outcoming traffic (fixed operators); (b) interest on shareholder’s equity paid (mobile operators).

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As of December 31, 2011, the balance of court deposits amounted to R$53,760 (Company R$46,051). There are amounts provisioned of R$24,753 related to such escrow deposits which are disclosed in note 20.

In addition to those discussions, the Company and its subsidiaries are parties to other judicial claims involving the following matters: **(a)** IRRF levied on rent and royalties income, salary, and fixed-rate financial investments; **(b)** debts referring to the offsetting of IRPJ and CSLL overpayments not recognized by the Federal tax authorities, and debt referring to fines derived from the untimely payment of IRRF.

As of December 31, 2011, the balance of escrow deposits amounted to R$7,709. The amounts provisioned related to such escrow deposits are disclosed in note 20.

IRPJ

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

As of December 31, 2011, the balance of escrow deposits amounted to R$23,866 (Company R$22,617). There are amounts provisioned of R$1,249 related to such escrow deposits which are disclosed in note 20.

EBC (Empresa Brasil de Comunicação) Contribution

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

As of December 31, 2011 the amounts deposited totaled R$254,328 (Company R$31,053). The amounts provisioned related to such escrow deposits are disclosed in note 20.

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

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

On December 31, 2011, the balance of escrow deposits totaled R$75,278.

Guarantee fund for years of service (FGTS)

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

As of December 31, 2011, the value deposited totaled R$62,154. The amounts provisioned related to these escrow deposits are disclosed in note 20.

Tax on Net Income (ILL)

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

As of December 31, 2011, the total value deposited amounted to R$46,770.

Universalization of telecommunications services fund (FUST)

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

As of December 31, 2011, the amount deposited totaled R$299,545 (Company R$291,019). The amounts provisioned related to these escrow deposits are disclosed in note 20.

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Provisional Contribution Tax on Financial Transactions (CPMF)

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

As of December 31, 2011, the amount deposited totaled R$20,220. The amounts provisioned related to these escrow deposits are disclosed in note 20.

State VAT (ICMS)

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

As of December 31, 2011, the amount deposited totaled R$29,974 (Company R$33). There are amounts provisioned of R$29,941 related to these judicial deposits which are disclosed in note 20.

Other taxes and contributions

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

As of December 31, 2011, the amount deposited totaled R$105,576 (Company R$81,634).

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10. Prepaid expenses

	Company		Consolidated	
	2011	2010	2011	2010
Advertising and publicity	817	817	171,566	817
Rents	5,386	4,901	20,992	4,901
Insurance	6,452	8,563	10,289	8,714
Software maintenance	13,161	14,328	14,503	14,889
Financial charges	-	-	3,426	-
Other assets	11,889	12,014	34,280	12,051
Total current	37,705	40,623	255,056	41,372
Advertising and publicity	-	-	835	-
Rents	7,496	9,226	11,912	9,226
Insurance	860	4,511	1,695	4,511
Financial charges	-	-	5,317	-
Other assets	9,934	10,910	12,379	10,910
Total non-current	18,290	24,647	32,138	24,647

11. Other assets

	Company		Consolidated	
	2011	2010	2011	2010
Advances	47,889	51,972	62,123	53,704
Related parties receivables (Note 32)	190,333	208,696	40,285	95,452
Subsidy on the sale of handsets	-	-	53,408	-
Suppliers receivables	7,050	59,769	184,748	59,769
Dividends and interest on shareholders'equity	172,679	2,201	-	-
Other assets	43,015	50,501	83,248	57,190
Total current	460,966	373,139	423,812	266,115
Receivables from Barramar S.A. (a)	-	-	52,248	56,700
Amounts linked to National Treasury securities	13,819	12,884	13,819	12,884

Pension assets surplus (note 35)	29,621	26,561	31,210	27,171
Related parties receivables (Note 32)	37,068	33,847	20,214	16,943
Other assets	28,713	36,406	30,802	40,110
Total non-current	109,221	109,698	148,293	153,808

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

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12. Investments

	2010	Additions	Merger of TBS, Portelcom e Ptelecom	Result of Equity Method	Dividends received	Other Comprehensive Income	Consolidation of TVA	Merger Vivo Participac
Subsidiaries (I)	1,266,272	9,129,193	47,724	2,562,983	(1,040,211)	564	-	(1,965,(
Aliança Atlântica Holding B.V.	60,248	-	-	1,057	(12,835)	3,553	-	
A. Telecom S.A.	612,934	-	-	110,037	-	(114)	-	
Companhia AIX de Participações	68,900	-	-	3,251	(7,376)	-	-	
Companhia ACT de Participações	6	-	-	(3)	-	-	-	
Telefônica Data S.A.	206,424	114,000	-	(122,036)	-	167	-	
Telefônica Sistemas de Televisão S.A.	259,770	-	-	(46,383)	-	-	-	
Vivo Participações S.A.	-	9,011,273	47,724	1,533,157	-	-	-	(10,592,
Vivo S.A.	-	-	-	1,081,911	(1,020,000)	(3,042)	-	8,627
GTR Participações e Empreendimentos S.A (b)	2,055	-	-	18	-	-	-	
Lemontree Participações S.A. (b)	17,047	3,920	-	(1,286)	-	-	-	
	32,392	-	-	3,125	-	-	-	

Comercial Cabo TV São Paulo S.A. (b)								
TVA Sul Paraná S.A. (b)	6,496	-	-	135	-	-	-	
Goodw ill (I)	1,064,643	11,468,537	-	-	-	-	-	(2,324,
Added value of acquired assets net attributable to the company (c) (I)	-	10,742,820	-	(254,333)	-	-	-	(10,488,
Other investments (a) (I) (II)	39,658	-	-	-	-	(4,202)	-	
Zon Multimédia – direct interest	9,036	-	-	-	-	(2,299)	-	
Other investiments	30,622	-	-	-	-	(1,903)	-	
Total company investiment (I)	2,370,573	31,340,550	47,724	2,308,650	(1,040,211)	(3,638)	-	(14,777,
Other investment (a) (II)	3,189	-	-	-	-	(810)	-	
Zon Multimédia – indirect interest	3,189	-	-	-	-	(810)	-	
Total consolidated investiment (II)	100,837	-	-	-	-	(5,012)	(57,990)	

(a) Other investments are measured at fair value.

(b) Consolidated from January 1, 2011 as mentioned in Note 3.d.

(c) Comprise the allocation of assets identifiable R$16,560,000, contingent liability in R$283,000, net of deferred taxes in R$5,534,180, related to the acquisition of Vivo Part, which were incorporated by the Company with the merger of that company on October 03, 2011 (see Note 4).

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	2009	Result of Equity Method	Future Capital Contribution	Received dividends	Other comprehensive Income	Write-o (residu value)
Wholly-owned subsidiaries (I)	**1,232,119**	**(191,936)**	**205,694**	**(15,747)**	**(21,848)**	
Aliança Atlântica Holding B.V.	66,461	13,100	-	(3,575)	(15,738)	
A.Telecom S.A.	648,016	(34,409)	-	-	(673)	
Companhia AIX de Participações	66,009	9,269	5,794	(12,172)	-	
Companhia ACT de Participações	3	3	-	-	-	
Telefonica Data S.A.	178,696	(129,635)	162,800	-	(5,437)	
Telefonica Sistemas de Televisão S.A.	272,934	(50,264)	37,100	-	-	
Goodwill (I)	1,064,643	-	-	-	-	
Associates (I) (II)	**55,101**	**2,889**	**3,557**	**(3,557)**	**-**	
GTR Participações e Empreendimentos S.A.	2,121	(66)	60	(60)	-	
Lemontree Participações S.A.	14,292	2,755	1,029	(1,029)	-	
Comercial Cabo TV São Paulo S.A.	31,844	548	2,336	(2,336)	-	
TVA Sul Paraná S.A.	6,844	(348)	132	(132)	-	
Other investments (*) (I) (II)	**223,668**	**-**	**-**	**-**	**(108,648)**	**(75,36**
Portugal Telecom – direct interest	170,777	-	-	-	(95,415)	(75,36
Zon Multimédia – direct interest	13,049	-	-	-	(4,013)	
Other investments	39,842	-	-	-	(9,220)	
Total company investiment (I)	**2,575,531**	**(189,047)**	**209,251**	**(19,304)**	**(130,496)**	**(75,36**
Other investments (*) (II)	**61,530**	**-**	**-**	**-**	**(15,705)**	**(42,63**
Portugal Telecom – indirect interest	56,925	-	-	-	(14,289)	(42,63
Zon Multimédia – indirect interest	4,605	-	-	-	(1,416)	
Total consolidated investment (II)	**340,299**	**2,889**	**3,557**	**(3,557)**	**(124,353)**	**(117,99**

(*) Other investments are measured at fair value.

The Company sold the consolidated interest held in Portugal Telecom on June 21, 2010, which generated the following effects:

	Company	Consolidated
Sale amount	153,880	205,149
Acquisition cost	(75,362)	(117,998)

Net gain from the sale	78,518	87,151

Jointly-owned companies consolidated on a proportional basis

The Group has ownership interest of 50% in Aliança Atlântica Holding B.V., Companhia AIX de Participações and Companhia ACT de Participações, which are consolidated on a proportional basis. The business purpose of each company is detailed in Note 1.c).

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The amounts of assets, liabilities, revenues and expenses related to Telefônica Brasil’s interest in entities consolidated proportionally at December 31, 2011 and 2010 included in the consolidated financial statements are set out below:

	2011			2010		
	Cia ACT	Cia AIX	Aliança Atlântica	Cia ACT	Cia AIX	Aliança Atlântica
Current assets	4	3,501	49,655	7	4,820	57,456
Non-current assets	-	65,461	2,378	-	72,146	3,189
Current liabilities	1	2,338	9	1	5,727	397
Non-current liability	-	1,849	-	-	2,339	-
Shareholders’ equity	3	64,775	52,024	6	68,900	60,248
Revenue	25	27,491	1,139	27	31,254	13,200
Expenses	(28)	(24,240)	(82)	(24)	(21,985)	(99)
Net income for the year	(3)	3,251	1,057	3	9,269	13,101

13. Property, plant and equipment, net

	Company						
	Annual depreciation rate %	Net book value as of 12/31/2010	Additions	Disposals, net	Transfers, net (b)	Depreciation	Net book value as of 12/31/2011
Switching equipment	10,00	1,231,455	53,956	(2,235)	198,390	(240,446)	1,241,120
Transmission equipment	5,00 a 10,00	3,672,915	382,707	(19,391)	444,550	(416,865)	4,063,916
Terminal equipment and modems	10,00 a 66,67	1,005,549	566,649	(4,217)	33,190	(637,342)	963,829
Infrastructure	4,00 a 12,50	2,794,729	23,565	(20,641)	133,118	(284,306)	2,646,465
Other	10,00 a 20,00	194,790	58,176	(2,186)	18,274	(61,060)	207,994

Provision for losses (a)	(26,064)	-	8,597	-	-	(17,467)
Property, plant and equipment in progress	702,585	738,425	(13,442)	(841,908)	-	585,660
Total	9,575,959	1,823,478	(53,515)	(14,386)	(1,640,019)	9,691,517

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	Company						
	Annual depreciation rate %	Net book value as of 12/31/2009	Additions	Disposals, net	Transfers, net (b)	Depreciation	Net book value as of 12/31/2010
Switching equipment	10,00	1,036,035	115,233	91	295,672	(215,576)	1,231,455
Transmission equipment	5,00 a 10,00	3,314,783	339,370	(4,189)	391,203	(368,252)	3,672,915
Terminal equipment and modems	10,00 a 66,67	968,498	466,104	(3,843)	928	(426,138)	1,005,549
Infrastructure	4,00 a 12,50	2,961,235	64,042	(40,405)	92,716	(282,859)	2,794,729
Other	10,00 a 20,00	198,538	58,839	(658)	5,649	(67,578)	194,790
Provision for losses (a)		-	(669)	-	(25,395)	-	(26,064)
Property, plant and equipment in progress		502,520	972,440	(11,623)	(760,752)	-	702,585
Total		8,981,609	2,015,359	(60,627)	21	(1,360,403)	9,575,959

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	Consolidated								
	Annual depreciation rate %	Net book value as of 12/31/2010	Additions	Disposals, net	Transfers, net (b)	Depreciation	Business Combination	Consolidation of TVA	Ne valu 12/3
Switching equipment	10,00	1,234,081	60,166	(5,087)	390,972	(346,804)	617,757	-	1,
Transmission equipment	5,00 a 10,00	3,709,166	377,411	(49,123)	1,106,119	(847,229)	2,441,209	25,282	6,
Terminal equipment and modems	10,00 a 66,67	1,274,037	991,417	(4,819)	1,081	(1,002,764)	258,714	29,387	1,
Infrastructure	4,00 a 12,50	2,811,505	228,124	(61,059)	492,876	(703,375)	1,851,056	845	4,
TV equipments and materials	8,00 a 20,00	187,343	125,865	-	(53,488)	(109,607)	-	29,056	
Other	10,00 a 20,00	218,469	160,948	(4,879)	48,747	(193,108)	556,973	1,232	[illegible]
Provision for losses (a)		(41,373)	-	8,985	8,953	-	-	-	(
Property, plant and equipment in progress		807,469	2,068,327	(12,609)	(2,009,147)	-	472,649	2,170	1,
Total		10,200,697	4,012,258	(128,591)	(13,887)	(3,202,887)	6,198,358	87,972	17,

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	Consolidated						
	Annual depreciation rate %	Net book value as of 12/31/2009	Additions	Disposals, net	Transfers, net (b)	Depreciation	Net book value as of 12/31/2010
Switching equipment	10,00	1,038,595	115,444	91	295,996	(216,045)	1,234,081
Transmission equipment	5,00 to 10,00	3,354,458	339,740	(4,188)	391,947	(372,791)	3,709,166
Terminal equipment and modems	10,00 to 66,67	1,183,554	575,672	(4,121)	79,378	(560,446)	1,274,037
Infrastructure	4,00 to 12,50	2,990,801	71,235	(40,405)	96,139	(306,265)	2,811,505
TV equipments and materials	8,00 to 20,00	327,898	17,066	(261)	(82,586)	(74,774)	187,343
Other	10,00 to 20,00	225,996	64,325	(1,299)	5,729	(76,282)	218,469
Provision for losses (a)		(15,985)	7	-	(25,395)	-	(41,373)
Property, plant and equipment in progress		566,820	1,013,334	(12,170)	(760,515)	-	807,469
Total		9,672,137	2,196,823	(62,353)	693	(1,606,603)	10,200,697

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

(b) See transfers made on Intangible assets.

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Below is the breakdown of cost and accumulated depreciation as of December 31, 2011 and 2010:

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

	Company			Consolidated		
2010	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Switching equipment	11,785,535	(10,554,080)	1,231,455	11,795,681	(10,561,600)	1,234,081
Transmission equipment	19,068,117	(15,395,202)	3,672,915	19,122,768	(15,413,602)	3,709,166
Terminal equipment and modems	4,182,292	(3,176,743)	1,005,549	4,777,349	(3,503,312)	1,274,037
Infrastructure	8,368,613	(5,573,884)	2,794,729	8,477,774	(5,666,269)	2,811,505
TV materials and equipment	-	-	-	614,921	(427,578)	187,343
Other	1,328,946	(1,134,156)	194,790	1,429,962	(1,211,493)	218,469
Provision for losses	(26,064)	-	(26,064)	(41,373)	-	(41,373)
Property, plant and equipment in progress	702,585	-	702,585	807,469	-	807,469
Total	45,410,024	(35,834,065)	9,575,959	46,984,551	(36,783,854)	10,200,697

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14. Intangible assets, net

	Consolidated	
	2011	2010
Goodwill	10,225,280	1,064,792
Other intangibles assets	19,828,404	665,682
Total	30,053,684	1,730,474

Following is the opening of goodwill on these dates:

Goodwill	2010	Consolidated Business Combination	2011
Ajato Telecomunicações Ltda.	149	-	149
Goodwill Spanish and Figueira (merged in TDBH) (a)	212,058	-	212,058
Santo Genovese Participações Ltda. (b)	71,892	-	71,892
Telefônica Televisão Participações S.A. (c)	780,693	-	780,693
Vivo Participações S.A. (d)	-	7,169,577	7,169,577
Telemig Celular S.A.	-	133,896	133,896
Telemig Celular Participações S.A.	-	1,485,172	1,485,172
Global Telecom S.A.	-	204,762	204,762
Tele Centro Oeste Celular Participações S. A.	-	150,930	150,930
Ceterp Celular S. A.	-	16,151	16,151
Total	1,064,792	9,160,488	10,225,280

(a) Goodwill arising from the spin-off of Figueira, which was merged into the Company as a result of the merger of Telefônica Data Brasil Holding S.A. (TDBH) in 2006.

(b) Goodwill arising from the acquisition of control over Santo Genovese Participações Ltda. (controlling shareholder of Atrium Telecomunicações Ltda.) in 2004.

(c) Goodwill arising from the acquisition of TTP (formerly Navytree), incorporated in 2008 which is based on a future profitability analysis.

(d) Goodwill arising from the acquisition of Vivo Part. in April 2011.

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	Company						
	Annual depreciation rate %	Net book value as of 12/31/2010	Additions	Disposals, net	Transfers, net	Depreciation	Business Combination
Softwares	20,00	607,788	229,921	-	14,386	(260,370)	-
Customer Portfolio (Network IP)	10,00	14,512	-	-	-	(69,398)	1,917,717
Trademarks and patents	5,00	-	-	-	-	(21,051)	1,599,897
License	3,60 to 20,00	-	-	-	-	(116,000)	12,644,000
Other	10,00 to 20,00	4,489	2,944	-	-	(3,437)	-
Total		626,789	232,865	-	14,386	(470,256)	16,161,614

	Company						
	Annual depreciation rate %	Net book value as of 12/31/2009	Additions	Disposals, net	Transfers, net	Depreciation	Net book value as of 12/31/2010
Softwares	20,00	653,005	227,138	-	(21)	(272,334)	607,788
Customer Portfolio (Network IP)	10,00	21,768	-	-	-	(7,256)	14,512
Other	10,00 to 20,00	18,267	-	-	-	(13,778)	4,489
Total		693,040	227,138	-	(21)	(293,368)	626,789

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	Consolidated						
	Annual depreciation rate %	Net book value as of 12/31/2010	Additions	Disposals, net	Transfers, net	Depreciation	Business Combination
Softwares	20,00 to 33,33	638,975	380,942	(64)	161,984	(632,725)	1,312,044
Customer Portfolio (Network IP)	9,00 to 15,00	14,512	-	-	-	(193,681)	2,042,000
Trademarks and patents	5,00	-	-	-	-	(63,154)	1,642,000
License	3,60 a 20,00	-	811,754	-	-	(483,743)	14,031,970
Goodwill	According to contractual terms	-	2,976	-	-	(1,962)	6,670
Other	10,00 to 20,00	12,195	10,436	(314)	(1,263)	(7,842)	1,487
Software in progress		-	183,179	-	(146,834)	-	97,094
Total		665,682	1,389,287	(378)	13,887	(1,383,107)	19,133,265

	Consolidated						
	Annual depreciation rate %	Net book value as of 12/31/2009	Additions	Disposals, net	Transfers, net	Depreciation	Net book value as of 12/31/2010
Softwares	20,00	682,776	239,986	-	(159)	(283,628)	638,975
Customer Portfolio (Network IP)	10,00	21,768	-	-	-	(7,256)	14,512
Other	10,00 to 20,00	24,132	4,604	-	(534)	(16,007)	12,195
Total		728,676	244,590	-	(693)	(306,891)	665,682

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	Company			Consolidated		
2011	Cost	Accumulated Depreciation	Net book value	Cost	Accumulated Depreciation	Net book value
Softwares	3,003,719	(2,411,994)	591,725	8,744,914	(6,883,758)	1,861,156
Customer Portfolio (Network IP)	1,990,278	(127,447)	1,862,831	2,114,561	(251,730)	1,862,831
Trademarks and patents	1,601,408	(22,562)	1,578,846	1,643,511	(64,665)	1,578,846
License	12,644,000	(116,000)	12,528,000	15,937,373	(1,577,392)	14,359,981
Goodwill	-	-	-	38,800	(31,116)	7,684
Other	187,711	(183,715)	3,996	683,021	(658,554)	24,467
Software in progress	-	-	-	133,439	-	133,439
Total	19,427,116	(2,861,718)	16,565,39			