

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)

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Rua Martiniano de Carvalho, 851 – 21 andar

São Paulo, S.P.

Federative Republic of Brazil

(Address of principal executive office)

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

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

Independent auditors' report on the financial statements	1
Balance sheets	3
Statements of income	5
Statements of comprehensive income	6
Statements of changes in shareholders' equity	7
Statements of cash flows	8
Statements of added value	10
Notes to financial statements	11
Management report	167

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.

São Paulo, February 14, 2012

ERNST & YOUNG TERCO

Auditores Independentes S.S.

CRC-2SP015199/O-6

Alexandre Hoepfers

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	
		2011	2010	2011	2010
Assets					
Current assets		4,775,480	4,374,823	11,810,118	5,147,449
	5 and				
Cash and cash equivalents	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

Liabilities and Shareholders' Equity	Note	Company		Consolidated	
		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)

	Note	Company		Consolidated	
		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.

6

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)	(117,60)
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)	(54,47)
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	(6,77)
Participation in comprehensive income of subsidiaries	(2,988)	(6,11)
Net gains (losses) recognized in equity	(39,894)	(126,46)
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 original 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 acquisition of Vivo Part. on 04/27/2011	31,222,630		-
Withdrawal rights paid to shareholders due to the acquisition of Vivo Part.	-		-
Repurchase of shares	-		-
Acquisition 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	-		-

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