

TELESP HOLDING CO
Form 6-K
December 22, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of December, 2006

Commission File Number: 001-14475

TELESP HOLDING COMPANY

(Translation of registrant's name into English)

Rua Martiniano de Carvalho, 851 21andar

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

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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

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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TELESP HOLDING COMPANY

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Item

1. Press Release entitled *Telecomunicações de São Paulo S.A. - Telesp - Quarterly Information* dated on September 30, 2006.

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Quarterly Information

Telecomunicações de São Paulo S.A. -

TELESP

Quarter ended September 30, 2006

with Special Review Report of Independent Auditors

(A free translation of the original issued in

Portuguese)

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

QUARTERLY INFORMATION

September 30, 2006

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SPECIAL REVIEW REPORT OF INDEPENDENT AUDITORS

(A free translation of the original issued in Portuguese)

To the Board of Directors and Shareholders

Telecomunicações de São Paulo S.A. - TELESP

São Paulo - SP

1. We have conducted a special review of the Quarterly Information (ITR) (Parent Company and Consolidated) of Telecomunicações de São Paulo S.A. - TELESP and its subsidiaries for the quarter and nine-months period ended September 30, 2006, which comprised the balance sheet, the statements of income, the performance report and other relevant information, prepared under responsibility of the Company and subsidiaries' management and in accordance with the accounting practices adopted in Brazil.
2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Public Accountants - IBRACON, in conjunction with the Federal Accounting Council, mainly comprising: (a) inquiries of and discussions with the officials responsible for the Company and subsidiaries' accounting, financial and operational areas, as to the main criteria adopted in preparing the quarterly information; and (b) review of information and subsequent events that had or might have had relevant effects on the Company and its subsidiaries' financial position and operations.
3. Based on our special review, we are not aware of any material modifications that should be made to the above mentioned Quarterly Information (Parent Company and Consolidated), for it to be in conformity with the accounting practices adopted in Brazil, applied consistently with the standards established by the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM), specifically applicable to the preparation of Quarterly Information.

São Paulo (SP), November 9, 2006

Ernst & Young

Auditores Independentes S.S.

CRC-2SP015199/O-6

Luiz Carlos Marques

Accountant CRC-1SP147693/O-5

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BALANCE SHEETS

September 30, 2006 and June 30, 2006

(In thousands of reais R\$)

(A free translation of the original issued in Portuguese)

	Parent Company		Consolidated	
	09/30/06	06/30/06	09/30/06	06/30/06
Assets				
Current assets	5,908,644	4,724,497	6,069,857	4,787,049
Cash and cash equivalents	856,632	216,675	919,391	264,979
Trade accounts receivable, net	3,100,581	3,036,819	3,183,064	3,055,618
Deferred and recoverable taxes	1,629,411	1,136,574	1,672,750	1,164,808
Other recoverable amounts	81,062	60,183	85,262	61,676
Inventories	74,233	77,171	74,519	77,416
Other assets	166,725	197,075	134,871	162,552
Non-current assets	1,145,605	1,027,516	1,225,510	1,120,173
Deferred and recoverable taxes	518,719	492,332	554,101	517,673
Escrow deposits	534,366	482,868	535,227	483,444
Other assets	92,520	52,316	136,182	119,056
Permanent assets	12,333,169	12,037,515	12,175,342	11,922,346
Investments	596,822	502,799	245,283	247,556
Property, plant and equipment, net	11,422,632	11,478,253	11,605,058	11,606,474
Deferred charges	313,715	56,463	325,001	68,316
Total assets	19,387,418	17,789,528	19,470,709	17,829,568

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	Parent Company		Consolidated	
	09/30/06	06/30/06	09/30/06	06/30/06
Liabilities and shareholders equity				
Current liabilities	6,421,831	4,409,243	6,524,035	4,428,989
Loans and financing	1,665,187	120,105	1,665,187	120,105
Trade accounts payable	1,220,863	1,188,898	1,300,843	1,204,599
Taxes payable	1,807,144	1,425,925	1,856,853	1,452,370
Dividends and interest on capital	599,448	619,615	599,448	619,615
Reserve for contingencies	78,924	71,104	78,989	71,168
Payroll and related charges	182,390	157,311	200,854	163,198
Temporary losses on derivatives	284,042	277,775	284,042	277,775
Other	583,833	548,510	537,819	520,159
Non-current liabilities	1,490,304	3,271,941	1,453,921	3,274,765
Loans and financing	516,398	2,066,815	516,398	2,066,815
Taxes payable	20,678	21,335	20,678	21,335
Reserve for contingencies	817,594	1,089,547	817,794	1,089,733
Other	135,634	94,244	99,051	96,882
Deferred income			17,470	17,470
Shareholders equity	11,475,283	10,108,344	11,475,283	10,108,344
Capital	6,575,198	5,978,074	6,575,198	5,978,074
Capital reserves	2,686,623	2,687,161	2,686,623	2,687,061
Profit reserves	659,556	659,556	659,556	659,556
Retained earnings	1,553,906	783,553	1,553,906	783,553
Total liabilities and shareholders equity	19,387,418	17,789,528	19,470,709	17,829,568

See accompanying notes.

Table of Contents**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

STATEMENTS OF INCOME

Quarters ended September 30, 2006 and 2005

(In thousands of reais R\$, except earnings per share)

(A free translation of the original issued in Portuguese)

	Parent Company		Consolidated	
	Quarter ended 09/30/06	Quarter ended 09/30/05	Quarter ended 09/30/06	Quarter ended 09/30/05
Telecommunications services	5,014,984	5,212,075	5,199,095	5,290,641
Revenue deductions	(1,477,644)	(1,540,887)	(1,546,802)	(1,568,831)
Net operating revenue	3,537,340	3,671,188	3,652,293	3,721,810
Cost of services provided	(1,860,047)	(1,907,158)	(1,927,729)	(1,924,426)
Gross profit	1,677,293	1,764,030	1,724,564	1,797,384
Operating expenses	(418,943)	(715,277)	(457,289)	(744,381)
Selling	(424,385)	(503,204)	(437,913)	(516,304)
General and administrative	(234,958)	(215,935)	(256,614)	(226,625)
Equity in subsidiaries	(1,174)	(479)	(212)	(3,642)
Other, net	241,574	4,341	237,450	2,190
Income from operations before financial expenses, net	1,258,350	1,048,753	1,267,275	1,053,003
Financial expenses, net	(47,171)	(348,446)	(47,224)	(350,215)
Nonoperating income, net	6,679	11,642	6,864	11,699
Income before taxes	1,217,858	711,949	1,226,915	714,487
Income and social contribution taxes	(406,030)	(243,206)	(415,087)	(245,744)
Reversal of interest on capital		241,000		241,000
Net income	811,828	709,743	811,828	709,743
Number of shares outstanding at the end of quarter (in thousands)	506,220	492,030		
Earning per thousand shares R\$	1.60371	1,44248		

See accompanying notes.

Table of Contents**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

STATEMENTS OF INCOME

Nine-month periods ended September 30, 2006 and 2005

(In thousands of reais R\$, except earnings per share)

(A free translation of the original issued in Portuguese)

	Parent Company		Consolidated	
	09/30/06	09/30/05	09/30/06	09/30/05
Telecommunications services	15,009,553	14,855,234	15,404,840	15,061,264
Revenue deductions	(4,386,487)	(4,345,017)	(4,527,345)	(4,421,426)
Net operating revenue	10,623,066	10,510,217	10,877,495	10,639,838
Cost of services provided	(5,687,206)	(5,657,815)	(5,801,671)	(5,712,535)
Gross profit	4,935,860	4,852,402	5,075,824	4,927,303
Operating expenses	(1,684,557)	(2,025,172)	(1,801,316)	(2,098,886)
Selling	(1,348,200)	(1,301,687)	(1,392,722)	(1,355,124)
General and administrative	(651,511)	(620,236)	(694,101)	(655,124)
Equity in subsidiaries	28,420	(37,394)	(220)	(19,823)
Other, net	286,734	(65,855)	285,727	(68,815)
Income from operations before financial expenses, net	3,251,303	2,827,230	3,274,508	2,828,417
Financial expenses, net	(548,661)	(930,380)	(550,870)	(936,978)
Nonoperating income, net	13,304	40,363	13,684	40,807
Income before taxes	2,715,946	1,937,213	2,737,322	1,932,246
Income and social contribution taxes	(913,002)	(669,917)	(934,378)	(664,950)
Reversal of interest on capital	290,000	600,000	290,000	600,000
Net income	2,092,944	1,867,296	2,092,944	1,867,296
Number of shares outstanding at the end of quarter (in thousands)	506,220	492,030		
Earning per thousand shares R\$	4.13446	3.79509		

See accompanying notes.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

1. Operations and Background

a) Shareholding control

Telecomunicações de São Paulo S.A. - Telesp, hereinafter referred to as the Company or Telesp, is headquartered at Rua Martiniano de Carvalho, 851, in the capital of the State of São Paulo. Telesp belongs to the Telefónica Group, telecommunications industry leader in Spain and present in several European and Latin American countries. At September 30, 2006, Telefónica S.A., the Group head company, held total indirect shareholding in the Company capital of 87.95%, 85.57% of which are common shares and 89.13% are preferred shares.

b) Operations

The Company renders fixed line telephone services in the São Paulo State under a Fixed Switch Telephone Service Concession Agreement STFC granted by the National Telecommunications Agency Anatel, which is in charge of regulating the telecommunications sector in Brazil. The Company's area of operation reaches approximately 95.0% of the São Paulo State, and approximately 97.8% of its population, including the municipality of São Paulo, the biggest in Brazil.

The Company is registered with the Brazilian Securities Commission (CVM) as a publicly held company and its shares are traded on the São Paulo Stock Exchange (BOVESPA). The Company is also registered with the US Securities and Exchange Commission (SEC) and its American Depository Shares (ADSs - level II) are traded on the New York Stock Exchange (NYSE).

c) Concession agreement

The Company is a concessionaire of the fixed switch telephone service (STFC) in Region 3, which comprises the State of São Paulo, in Sectors 31, 32 and 34 established in the General Concession Plan (PGO).

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

1. Operations and Background (Continued)

c) Concession agreement (Continued)

The STFC Concession Agreement was extended at December 22, 2005, for a period of 20 years, and may be amended at December 31, 2010, December 31, 2015 and December 31, 2020. This condition allows ANATEL to establish new conditions and new universalization and quality goals, under the conditions prevailing at the time.

Pursuant to the Concession Agreement, all assets pertaining to the Company's equity and indispensable to the provision of the services described in said agreement are considered returnable and are part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the Concession Agreement. As of September 30, 2006, the net book value of such returnable assets is estimated at R\$8,171,159 (R\$8,453,497 as of June 30, 2006), comprised of switching and transmission equipment, public use terminals, external network equipment, energy equipment, and system and operation support equipment.

Every two years, over the twenty years of the new period, the public companies shall pay a renewal fee equivalent to 2% (two per cent) of the STFC income for the year prior to payment, net of taxes payable thereon.

Beginning 2006, the Company has been recording a provision for the concession renewal fee on an accrual basis (Note 22). Exceptionally, the first payment of this biannual fee will be in April 2007 based on the 2006 net income. Since this fee refers to two years, the Company will recognize 1% of the annual net income as cost of services in the net income for each year.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

1. Operations and Background (Continued)

d) Telecommunication service providers and subsidiaries

A. Telecom S.A.

New corporate name of Assist Telefônica S.A., still a wholly-owned subsidiary and closely-held company, including in its business purpose the rendering of services related to: electronic monitoring, including sale, rent, installation, operation and maintenance; billing and collection of voice and data communication services; automated voice services, providing access to information and services through fixed telephones, mobiles or public telephones, using voice and text recognition and authentication; administration and exploration of service stores and other similar or related services, including administration of franchises; production of property items in connection with equipment, devices and telecommunications and IT networks in general, in addition to installation services already rendered; operation and maintenance of telephony, data and IT internal networks; value-added services, including services related to internet content, connection and access, technology services and all necessary support referring to worldwide computer network; installation, operation and maintenance of internet, intranet and extranet solutions; sale, rent and maintenance of telecommunications and IT equipment and devices in general.

On March 1, 2006 the then subsidiary Santo Genovese Participações Ltda., after having merged into its subsidiary Atrium Telecomunicações Ltda., was acquired by A.Telecom S.A., ceasing to exist as a result of such operation. A. Telecom remained a wholly-owned subsidiary of Telesp, and also began carrying out the activities formerly performed by Atrium.

The Company believes that the acquisition of Santo Genovese by A.Telecom meets the interests of the shareholders, members and customers, and will allow the maximization of synergies through the unification of activities within a single company. It will also help rationalize the management, simplify the corporate and administrative structure and, at the same time, offer its customers more integrated services with strengthened commercial structure.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

1. Operations and Background (Continued)

d) Telecommunication service providers and subsidiaries (Continued)

Aliança Atlântica Holding B.V.

This company headquartered in Amsterdam, Netherlands, is a 50-50 joint venture formed in 1997 between Telebrás and Portugal Telecom. With the spin-off of Telebrás in February 1998, Telebrás' equity interest in Aliança Atlântica was transferred to the Company. Currently, 50% of Aliança Atlântica is owned by the Company and 50% by Telefónica S.A.

Companhia AIX de Participações

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

Companhia ACT de Participações

The business purpose is to participate in Refibra Consortium, render technical advisory services for preparation of projects for the conclusion of the Refibra Network, making the necessary studies to render them economically feasible, as well as monitoring of status of activities related to the Consortium. Currently, Telesp holds 50% interest in this company.

Telefônica Empresas S.A.

The business purpose is to render telecommunications services as well as the development, implementation and installation of projects related to integrated business solutions and telecommunications consulting as well as activities related to rendering of technical assistance and equipment and telecommunications network maintenance services. Telefônica Empresas became a wholly-owned subsidiary of the Company after the corporate reorganization which was carried out (see Note 2).

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

2. Corporate Restructuring

On March 9, 2006, the Board of Directors of Telesp and of Telefônica Data Brasil Holding Ltda. (TDBH), both under control of the Telefônica Group, approved the proposal that aims at a restructuring of the Multimedia Communication Services (MCS) of Telefônica Empresas S.A. and Telesp. The operation will have the following steps:

- (i) acquisition of TDBH by Telesp, whereby TDBH members will receive Telesp shares in accordance with the exchange ratio announced. With this operation, Telefônica Empresas S.A. will become a fully-owned subsidiary of Telesp. Telesp will succeed TDBH in all its rights and obligations; and,
- (ii) split-off of Telefônica Empresas, with transfer of the SCM activities and assets to Telesp in the regions in which such services is already provided by Telesp.

The Extraordinary General Meetings of the Companies held on April 28, 2006 approved the proposed corporate reorganization. However, due to a preliminary injunction granted in connection with a judicial proceeding filed against TDBH with the 14th Civil Court of the São Paulo State by minority shareholders, the General Shareholders Meeting of TDBH was authorized by the Judiciary Branch, however the effects thereof were temporarily suspended until the referred to ruling was reconsidered by the Reporting Judge of Appeal No. 448.590-4/3 with the 10th Appellate Court of the São Paulo state.

The referred to injunction was revoked on July 25, 2006, as such, the effects of the corporate reorganization were generated as from publication of the judicial proceeding on July 28, 2006.

Takeover of Telefônica Data Brasil Holding S.A. TDBH and split-off of Telefônica Empresas S.A. DATA

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NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

2. Corporate Restructuring (Continued)

The Company took over the net assets of Telefônica Data Brasil Holding S.A. TDBH and the split-off portion of Telefônica Empresas S.A. DATA, and the book amounts as of December 31, 2005 were considered, based on valuation report prepared by a specialized company, including the financial flow occurred until July 31, 2006.

	TDBH	DATA
<u>Assets</u>		
Current assets	7,415	111,321
Noncurrent assets		163,817
Permanent assets	548,560	200,351
	555,975	475,489
<u>Liabilities</u>		
Current liabilities	287	278,714
Noncurrent liabilities		16,361
	287	295,075
Merged net assets	555,688	180,414

3. Presentation of the Quarterly Reviews

The consolidated interim financial statements include the accounts of the subsidiaries A. Telecom S.A. and Telefonica Empresas S.A. fully consolidated and of the jointly-owned subsidiaries Aliança Atlântica Holding B.V., Companhia AIX de Participações and Companhia ACT de Participações, which were fully or proportionally consolidated in accordance with CVM Instruction No. 247/96.

As the corporate restructuring mentioned above took place on July 28, 2006, the consolidated results of the Company include the results of its subsidiary Telefônica Empresas as from August 2006. The balance sheet balances have been fully consolidated. The comparative information presented in this document does not include the retroactive effects of this operation.

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions have been eliminated.

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NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

3. Presentation of the Quarterly Reviews (Continued)

Certain accounts were reclassified in the September 30, 2005 statement of income, to allow adequacy and consistency thereof with the current period. However, the amount of these reclassifications is not material in relation to the quarterly information, as such, they were not detailed herein.

4. Summary of Principal Accounting Practices

The September 30, 2006 quarterly information was prepared in accordance with the accounting practices adopted in Brazil, which comprise, among others, the rules applicable to public telecommunications service concessionaires as well as the accounting rules and procedures established by the Brazilian Securities Commission - CVM, consistent with the rules adopted to prepare the financial statements for the last financial year. Quarterly information shall be analyzed together with the referred to financial statements.

5. Cash and Cash Equivalents

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Cash and banks	15,145	11,843	20,014	15,025
Temporary cash investments	841,487	204,832	899,377	249,954
Total	856,632	216,675	919,391	264,979

Temporary cash investments are liquid investments restated based on the Interbank Deposit Certificate (CDI) rate variation and are held with first-rated banks.

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NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

6. Trade Accounts Receivable, Net

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Billed amounts	2,344,515	2,429,263	2,360,820	2,458,532
Unbilled amounts	1,268,353	1,202,815	1,359,868	1,201,961
Gross accounts receivable	3,612,868	3,632,078	3,720,688	3,660,493
Allowance for doubtful accounts	(512,287)	(595,259)	(537,624)	(604,875)
Total	3,100,581	3,036,819	3,183,064	3,055,618
Current	2,293,921	2,200,956	2,417,400	2,177,636
Past due 1 to 30 days	513,630	517,021	491,048	531,403
Past due 31 to 60 days	158,111	173,699	149,661	186,020
Past due 61 to 90 days	73,124	105,954	66,993	112,488
Past due 91 to 120 days	66,587	65,495	66,941	67,371
Past due more than 120 days	507,495	568,953	528,645	585,575
Total	3,612,868	3,632,078	3,720,688	3,660,493

7. Deferred and Recoverable Taxes

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Withholding taxes	78,543	63,314	80,921	64,128
Prepaid income tax	599,918	343,943	611,220	349,947
Prepaid social contribution tax	220,343	122,336	223,911	124,250
Deferred taxes	924,750	850,120	966,131	884,965
Tax loss carryforwards Income tax			17,511	18,586
Tax loss carryforwards Social contribution tax			6,305	6,692
Reserve for contingencies	297,318	387,123	297,408	387,208
Postretirement benefit plans	16,320	15,976	16,320	15,976
Allowance for doubtful accounts	114,489	99,240	119,029	102,509
Allowance for reduction of inventory to market value	34,960	36,738	35,006	36,784
Merged tax credit (*)	135,391		135,391	
Income tax on other temporary differences	239,906	228,708	249,383	233,243

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Social contribution tax on other temporary differences	86,366	82,335	89,778	83,967
ICMS (state VAT) (**)	315,411	231,305	325,938	232,939
Other	9,165	17,888	18,730	26,252
Total	2,148,130	1,628,906	2,226,851	1,682,481
Current	1,629,411	1,136,574	1,672,750	1,164,808
Noncurrent	518,719	492,332	554,101	517,673

(*) Amount merged due to split-off of Telefonica Empresas S.A. (Note 2).

(**) Refers to tax credits derived from the purchase of fixed assets, available for offset in 48 months.

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NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

7. Deferred and Recoverable Taxes (Continued)**Deferred income and social contribution taxes**

Considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable income discounted to present value based on a technical feasibility study, approved by the Board of Directors on November 21, 2005, as provided for in CVM Instruction No. 371/2002, the Company estimates the realization of the deferred taxes as of September 30, 2006 as follows:

Year	Parent	
	Company	Consolidated
2006	187,482	141,523
2007	263,634	315,415
2008	155,797	159,811
2009	112,675	112,699
After 2010	205,162	236,683
Total	924,750	966,131

The recoverable amounts above are based on projections subject to changes in the future.

Merged tax credit

As mentioned in Note 2, as a result of the corporate restructuring of July 28, 2006, the Company merged goodwill generated from the acquisition of investment at Figueira Administração e Participações S.A., which held telecommunications network operating assets of Banco Itaú S.A., in addition to investments in Galáxia Administrações e Participações S.A., a company having authorization for SCM (Multimedia Communication Service).

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NOTES TO QUARTERLY INFORMATION (Continued)

September 30, 2006

(In thousands of reais, unless otherwise stated)

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7. Deferred and Recoverable Taxes (Continued)**Merged tax credit** (Continued)

The book entries maintained for Company's corporate and tax purposes were made in specific goodwill and provision accounts (merged) and the corresponding amortization, reversal of provision and tax credit realization are as follows:

	Parent Company Sept/2006
Goodwill, net of accumulated amortization	398,209
Provision, net of reversals	(262,818)
Net amount	135,391

	Parent Company Sept/2006
Goodwill amortization during the period	(13,681)
Reversal of provision during the period	9,029
Tax credit during the period	4,652

Effect on result for the year

For purposes of calculation of the tax credit resulting from the takeover, the income and social contribution tax rates are 25% and 9% respectively.

As shown above, goodwill amortization, net of provision reversal and the related tax credit, did not generate any effects on net income for the period ended September 30, 2006.

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7. Deferred and Recoverable Taxes (Continued)**Merged tax credit (Continued)**

For a fair presentation of the Company's financial position and results of its operations, the net amount of R\$135,391 (R\$107,379 in noncurrent assets and R\$28,012 in current assets), which essentially represents the merged tax credit, was reclassified in the balance sheet to deferred and recoverable taxes, in noncurrent assets, in accordance with CVM Instruction No. 349, of March 6, 2001. Goodwill amortization and provision reversal are recognized in the accounting records as operating income and expenses and the corresponding tax credit is recognized in the financial statements as provision for income and social contribution taxes.

8. Other Recoverable Amounts

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Advances to employees	24,625	15,823	27,099	16,593
Advances to suppliers	34,565	23,336	35,606	23,941
Other recoverable amounts	21,872	21,024	22,557	21,142
Total current	81,062	60,183	85,262	61,676

9. Inventories

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Consumption materials	88,943	90,365	88,952	90,374
Resale items	76,608	83,234	77,021	83,606
Public telephone prepaid cards	11,149	11,380	11,149	11,380
Scraps	355	246	355	246
Allowance for reduction to recoverable value and obsolescence	(102,822)	(108,054)	(102,958)	(108,190)
Total current	74,233	77,171	74,519	77,416

The allowance for reduction to recoverable value and obsolescence takes into consideration timely analyses carried out by the Company.

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10. Other Assets

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Prepaid expenses	98,224	100,241	99,020	100,186
Receivables from Barramar S.A. (*)			66,944	68,310
Intercompany receivables - current	57,793	48,703	44,790	37,217
Onlending of foreign currency loans	26,561	26,478	1,305	1,476
Tax incentives, net of allowance	411	411	411	411
Amounts linked to National Treasury securities	9,561	9,386	9,561	9,386
Receivables - sale of property/scraps	14,379	24,629	14,379	24,629
Other assets	8,367	17,032	13,976	18,706
Total	215,296	226,880	250,386	260,321
Current	166,725	197,075	134,871	162,552
Noncurrent	48,571	29,805	115,515	97,769

(*) Refer to receivables from Barramar S.A., recorded by Companhia AIX de Participações, net of allowance for doubtful accounts.

11. Escrow Deposit

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Civil litigation	90,294	63,044	90,330	63,080
Tax litigation	310,772	298,825	311,412	299,201
Labor claims	133,300	120,999	133,485	121,163
Total noncurrent	534,366	482,868	535,227	483,444

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12. Investments

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Investments carried under the equity method	423,076	326,988		
Aliança Atlântica Holding B.V.	58,114	58,338		
A. Telecom S.A.	219,715	205,778		
Companhia AIX de Participações	61,237	62,846		
Companhia ACT de Participações	25	26		
Telefonica Empresas S.A.	83,985			
Negative and positive goodwill on acquisition of investments	82,326	84,377	99,796	101,847
Negative goodwill on acquisition of shares - Companhia AIX de Participações	(17,470)	(17,470)		
Goodwill on merger - Katalyx Cataloguing do Brasil Ltda.	945		945	
Goodwill on acquisition - Santo Genovese Participações Ltda.	119,820	119,820	119,820	119,820
Amortization of goodwill - Santo Genovese Participações Ltda.	(20,969)	(17,973)	(20,969)	(17,973)
Investments carried at cost	91,420	91,434	145,487	145,709
Portugal Telecom	75,362	75,362	129,429	129,637
Other companies	26,781	26,795	26,781	26,795
Other investments	3,360	3,360	3,360	3,360
Tax incentives	15,164	15,164	15,164	15,164
Allowance for losses	(29,247)	(29,247)	(29,247)	(29,247)
Total	596,822	502,799	245,283	247,556

The negative goodwill on the acquisition of shares of Companhia AIX de Participações recorded by the Company was allocated to Deferred Income in the consolidated balance sheet, according to Article 26 of CVM Instruction No. 247/96.

The goodwill on the acquisition of control of Santo Genovese Participações Ltda. (parent company of Atrium Telecomunicações Ltda.), dated December 24, 2004, has been amortized on a straight-line basis over 10 years, and is based on future profitability study.

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12. Investments (Continued)Acquisition of Santo Genovese Participações Ltda. by A.Telecom S.A.

On March 1, 2006 the Company approved the proposed acquisition of Santo Genovese by A.Telecom, kicking off the corporate reorganization process of its subsidiaries A.Telecom S.A. (former Assist Telefônica S.A), Santo Genovese Participações Ltda. and Atrium Telecomunicações Ltda., which entailed substitution of units of interest of Santo Genovese, held by Telesp, for shares issued by A.Telecom and fully attributed to the Company in lieu of the investment held in Santo Genovese.

The merger of the net equity of Santo Genovese resulted in a capital increase in A. Telecom, of R\$16,969.

The main financial information of the subsidiaries, as of September 30, 2006 and June 30, 2006, is as follows:

	Aliança Atlântica	A. Telecom	Sept/2006 Companhia AIX	Companhia ACT	Telefonica Empresas
Paid-up capital	110,301	270,969	460,929	1	210,025
Capital reserve					1,139
Retained earnings (accumulated deficit)	5,926	(51,254)	(338,454)	49	(127,179)
Shareholders equity	116,227	219,715	122,475	50	83,985
Shares (thousands)					
Number of subscribed and paid-up shares	88	407,154	298,562	1	24,163
Number of common shares owned	44	407,154	149,281	0,5	24,163
Ownership percentage	50%	100%	50%	50%	100%

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12. Investments (Continued)

	June/2006			
	Aliança Atlântica	A. Telecom	Companhia AIX	Companhia ACT
Paid-up capital	110,725	270,969	460,929	1
Retained earnings (accumulated deficit)	5,950	(65,191)	(335,236)	50
Shareholders equity	116,675	205,778	125,693	51
Shares (thousands)				
Number of subscribed and paid-up shares	88	407,154	298,562	1
Number of common shares owned	44	407,154	149,281	0,5
Ownership percentage	50%	100%	50%	50%

The Company's equity in subsidiaries is as follows:

	Sept/2006	Sept/2005
Aliança Atlântica	2,743	(17,515)
A. Telecom	39,757	(10,749)
Companhia AIX de Participações	(4,405)	(4,561)
Companhia ACT de Participações	(1)	1
Telefonica Empresas S.A.	(13,276)	
Santo Genovese	3,602	(4,570)
Total	28,420	(37,394)

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13. Property, Plant and Equipment, Net

	Annual depreciation rate %	Parent Company						Net book value
		Sept/2006			June/2006			
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	
Property, plant and equipment		40,578,224	(29,494,460)	11,083,764	39,737,334	(28,546,002)	11,191,332	
Switching and transmission equipment	12.5	16,358,144	(13,326,007)	3,032,137	16,037,751	(12,910,003)	3,127,748	
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10	11,965,276	(8,988,545)	2,976,731	11,660,756	(8,705,938)	2,954,818	
Transmission equipment - modems	20	651,030	(499,814)	151,216	617,634	(477,013)	140,621	
Underground and undersea cables, poles and towers	5.00 to 6.67	398,936	(226,142)	172,794	397,542	(222,256)	175,286	
Subscriber, public and booth equipment	12,5	2,017,281	(1,331,446)	685,835	1,999,327	(1,282,497)	716,830	
IT equipment	20	521,186	(448,699)	72,487	511,691	(436,135)	75,556	
Buildings and underground cables	4	6,472,583	(3,553,528)	2,919,055	6,459,314	(3,499,404)	2,959,910	
Vehicles	20	64,485	(37,893)	26,592	59,264	(36,242)	23,022	
Land		254,005		254,005	253,800		253,800	
Other	10.00 to 20.00	1,875,298	(1,082,386)	792,912	1,740,255	(976,514)	763,741	
Property, plant and equipment in progress		338,868		338,868	286,921		286,921	
Total		40,917,092	(29,494,460)	11,422,632	40,024,255	(28,546,002)	11,478,253	
Average annual depreciation rates - %		10.62			10.57			
Assets fully depreciated		16,052,391			15,277,690			

	Annual depreciation rate %	Consolidated						Net book value
		Sept/2006			June/2006			
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	
Property, plant and equipment		40,903,790	(29,644,463)	11,259,327	39,949,402	(28,630,576)	11,318,826	
Switching and transmission equipment	12.5	16,368,910	(13,333,142)	3,035,768	16,042,170	(12,910,812)	3,131,358	
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and	10	12,018,009	(8,999,625)	3,018,384	11,701,981	(8,711,020)	2,990,961	

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furniture							
Transmission equipment - modems	20	660,152	(505,507)	154,645	617,634	(477,013)	140,621
Underground and undersea cables, poles and towers	5.00 to 6.67	412,712	(228,276)	184,436	411,318	(224,143)	187,175
Subscriber, public and booth equipment	12,5	2,075,762	(1,347,547)	728,215	2,033,385	(1,296,666)	736,719
IT equipment	20	547,512	(460,890)	86,622	519,129	(439,570)	79,559
Buildings and underground cables	4	6,473,068	(3,553,596)	2,919,472	6,459,364	(3,499,426)	2,959,938
Vehicles	20	65,120	(38,142)	26,978	59,563	(36,364)	23,199
Land		254,005		254,005	253,800		253,800
Other	10.00 to 20.00	2,028,540	(1,177,738)	850,802	1,851,058	(1,035,562)	815,496
Property, plant and equipment in progress		345,731		345,731	287,648		287,648
Total		41,249,521	(29,644,463)	11,605,058	40,237,050	(28,630,576)	11,606,474
Average annual depreciation rates - %		12.29				10.62	
Assets fully depreciated		16,083,969				15,286,077	

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14. Deferred Charges

Deferred charges as of September 30, 2006 and June 30, 2006 are as follows:

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Pre-operating expenses (a)	6,509	9,298	11,334	14,361
Cost	55,788	55,788	73,109	65,279
Accumulated amortization	(49,279)	(46,490)	(61,775)	(50,918)
Goodwill on acquisition of the IP network (b)	45,351	47,165	45,351	47,165
Cost	72,561	72,561	72,561	72,561
Accumulated amortization	(27,210)	(25,396)	(27,210)	(25,396)
Merged goodwill TDBH (c)	261,855		261,855	
Cost	301,276		301,276	
Accumulated amortization	(39,421)		(39,421)	
Other			6,461	6,790
Cost			12,059	12,059
Accumulated amortization			(5,598)	(5,269)
Total	313,715	56,463	325,001	68,316

- (a) Pre-operating expenses refer to costs incurred in the pre-operating stage of long-distance services; amortization began in May 2002, over a period of 60 months.
- (b) The goodwill on acquisition of the IP network in December 2002 refers to the acquisition of the assets for the Switched IP and Speedy Link services of Telefônica Empresas S.A. The portion regarded as goodwill and recorded in deferred charges corresponds to the customer portfolio of the business. According to an appraisal report, the economic grounds of the goodwill is the expected future profitability, for an amortization period of 120 months.
- (c) The goodwill resulting from takeover of Telefonica Data Brasil Holding S.A. (TDBH) refers to the corporate restructuring that took place in July 2001, with the split-off of Figueira. According to the Company business plans, such goodwill is recoverable in future operations, within a maximum period of 60 (sixty) months from the takeover date.

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15. Loans and Financing

Consolidated	Currency	Annual		Balances as of Sept/2006		
		interest rate		Current	Long-term	Total
		%	Maturity			
Mediocrédito	US\$	1.75%	2014	6,677	42,507	49,184
Loans in foreign currency (*)			Up to 2009	141,983	473,891	615,874
Loans in local currency	R\$	130% do CDI	In 2006	999		999
Total				149,659	516,398	666,057

Consolidated	Currency	Annual		Balances as of June/2006		
		interest rate		Current	Long-term	Total
		%	Maturity			
Mediocrédito	US\$	1.75%	2014	6,882	45,568	52,450
Loans in foreign currency (*)			Up to 2009	95,747	521,247	616,994
Total			In 2009	102,629	566,815	669,444

(*) The breakdown of loans in foreign currency is as follows:

Consolidated	Currency	Interest rate	Principal	Interest	Balance as of
					Sept/2006
Resolution 2770	US\$	0.135% e 4.80%	321,879	19,184	341,063
Untied Loan JBIC	JPY	Libor + 1.25%	273,934	877	274,811
Total			595,813	20,061	615,874

Consolidated	Currency	Interest rate	Principal	Interest	Balance as of
					June/2006

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Resolution 2770		US\$	4.80%	270,852	15,767	286,619
Untied Loan	JBIC	JPY	Libor + 1.25%	328,479	1,896	330,375
Total				599,331	17,663	616,994

Loans and financing with Mediocrédito are guaranteed by the Federal Government.

The loan from Japan Bank for International Cooperation - JBIC includes restrictive covenants related to the maintenance of certain financial indices, which to date have been met.

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15. Loans and Financing (Continued)Long-term debt maturities (Consolidated)

Year	Amount
2008	389,120
2009	97,851
2010	6,539
Thereafter	22,888
Total	516,398

16. Debentures

Consolidated	Currency	Annual		Balance as of Sept/2006		
		%	Maturity	Current	Long-term	Total
Debentures	R\$	103.50% of CDI rate	Up to 2007	1,515,528		1,515,528
Total				1,515,528		1,515,528

Consolidated	Currency	Annual		Balance as of June/2006		
		%	Maturity	Current	Long-term	Total
Debentures	R\$	103.50% of CDI rate	Up to 2007	17,476	1,500,000	1,517,476
Total				17,476	1,500,000	1,517,476

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On September 3, 2004, the Company announced a Securities Distribution Program (Program) and, under the Program, the first issue of Telesp debentures (Offering).

The Offering consisted of the issue of 150,000 simple nonconvertible unsecured debentures, with a face value of R\$10, in the total amount of R\$1,500,000, of a single series, maturing on September 1, 2010 (six years). The debentures bear interest with quarterly payments, equivalent to 103.5% of the DI (interbank deposit) average daily rate calculated and published by the CETIP (Clearing House for the Custody and Financial Settlement of Securities).

The adjustment to the interest rate of debentures is estimated for September 1, 2007.

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17. Taxes Payable

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Taxes on income				
Income tax	684,880	431,253	693,675	437,177
Social contribution tax	247,241	155,482	250,419	157,622
Deferred taxes				
Income tax	57,600	61,059	57,600	61,059
Social contribution tax	20,735	21,980	20,735	21,980
Indirect taxes				
ICMS (state VAT)	686,258	656,952	707,165	665,004
PIS and COFINS (taxes on revenue)	65,319	65,766	74,028	70,924
Other	65,789	54,768	73,909	59,939
Total	1,827,822	1,447,260	1,877,531	1,473,705
Current	1,807,144	1,425,925	1,856,853	1,452,370
Noncurrent	20,678	21,335	20,678	21,335

18. Payroll and Related Charges

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Salaries and fees	21,261	19,983	25,432	19,982
Payroll charges	106,701	85,480	117,492	90,396
Accrued benefits	5,124	4,201	5,423	4,217
Employee profit sharing	49,304	47,647	52,507	48,603
Total	182,390	157,311	200,854	163,198

19. Consignments on Behalf of Third Parties

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006

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Collateral for deposits	1,859	1,857	1,859	1,857
Amounts charged to users	109,736	109,614	95,446	96,012
Retentions	57,555	65,890	60,511	67,314
Other consignments	1,032	1,028	1,021	1,028
Total	170,182	178,389	158,837	166,211

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20. Dividends and Interest on Shareholders' Equity

	Parent Company/Consolidated	
	Sept/2006	June/2006
Dividends	154,298	158,322
Telefónica Internacional S.A.		2,792
Telefônica Data do Brasil Ltda.	3,813	3,711
Minority shareholders	150,485	151,819
Interest on shareholders' equity	445,150	461,293
Telefónica Internacional S.A.		13,247
Telefônica Data do Brasil Ltda.	18,093	17,610
Minority shareholders	427,057	430,436
Total	599,448	619,615

The interest on shareholders' equity and dividends payable to minority shareholders refer to declared but unclaimed amounts.

21. Provisions for Contingencies

The Company, as an entity and also as the successor to the merged companies, and its subsidiaries are involved in labor, tax and civil lawsuits filed with different courts. The Company's management, based on the opinion of its legal counsel, recognized reserves for those cases in which an unfavorable outcome is considered probable. The table below shows the composition of the provision by nature of the claims and the evolution in the third quarter of 2006:

Consolidated	Labor	Nature		Total
		Tax	Civil	
Balances as of 6/30/2006	391,806	604,894	164,201	1,160,901
Additions	7,901	29,380	12,309	49,590
Write-offs	(16,451)	(*) (260,686)	(9,013)	(286,150)
Monetary restatement	13,811	(9,468)	(**) (35,269)	(30,926)
Split-off amounts - Telefonica Empresas	3,248		120	3,368
Balances as of 9/30/2006	400,315	364,120	132,348	896,783
Current	40,686	25,113	13,190	78,989
Noncurrent	359,629	339,007	119,158	817,794

(*) The Company filed a lawsuit challenging the extension of the COFINS (Social Contribution Tax on Gross Revenue for Social Security Financing until February 2004) and PIS (Social Contribution Tax on Gross Revenue for Social Integration Program until November 2002) tax bases, with the inclusion of financial revenues, securitization and changes in foreign exchange rate. Despite the preliminary injunction suspending the change in the calculation criteria, the recent Federal Supreme Court precedent on the unconstitutionality of the tax base broadening, and the risk being classified as possible by the legal counsel, the Company maintained the provision of R\$274,277 in the event the judicial understanding is unfavorable.

However, a judicially determined favorable decision was handed down on October 20, 2006. Consequently, the Company carried out the reversal of the amounts accrued, R\$257,623 of which concerned reversal of provision for contingencies and R\$16,654 referring to monetary restatement for 2006. Such effects are included in the balance sheet and statement of income as of September 30, 2006.

(**) On August 14, 2006, the São Paulo Court of Justice judged the motions to clarify presented by the Company requesting the change in the date in which interest is accrued on the amount challenged by WCR do Brasil Serviços Ltda., handing down a favorable decision to the Company.

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21.1. Labor contingencies

The Company has various labor contingencies and recorded a provision of R\$400,315, consolidated, to cover probable losses. The amounts involved and respective degrees of risk are as follows:

Risk	Amount Involved		
	Telesp	A. Telecom	Total
Probable	400,072	243	400,315
Possible	119,852		119,852
Remote	2,098,655	6,685	2,105,340
Total	2,618,579	6,928	2,625,507

These contingencies involve a number of lawsuits, mainly related to salary differences, salary equalization, overtime, employment relationship with employees of outsourced companies and hazardous duty premium, among others.

None of these contingencies recorded is higher than 1% of the total amount recorded.

21.2. Tax contingencies

Risk	Amount involved		
	Telesp	A. Telecom	Total
Probable	364,120		364,120
Possible	2,416,143	9,881	2,426,024
Remote	2,443,235	11,168	2,454,403
Total	5,223,498	21,049	5,244,547

Based on the assessment of the Company's legal counsel and management, a reserve for tax contingencies was recorded for the claims considered as probable risk amounting to R\$364,120 as of September 30, 2006. The principal tax contingencies, assessed as remote, possible and probable risk, are as follows:

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21.2. Tax contingencies (Continued)

Claims by the National Institute of Social Security (INSS) referring to:

- a) Legal proceedings for the collection of Workers Compensation Insurance (SAT) and joint liability of the Company for payment of social security contributions allegedly not made by contractors, considered a possible risk, in the amount of R\$282,933. Based on a partially unfavorable court decision, management decided to provide for R\$101,375 relating to the portion of the total amount for which the likelihood of loss is probable.
- b) Discussion regarding social security contribution on certain amounts paid for compensation of salary losses resulting from economic plans (Plano Verão and Plano Bresser), in the approximate amount of R\$135,654 for which an unfavorable outcome is considered possible. Based on higher court decisions and an unfavorable court decision in a similar case involving another company of the group, the Company's management decided to provide for R\$93,504 to cover potential losses, despite the legal counsel's classification of possible risk.
- c) Notification demanding social security contributions, SAT and amounts for third parties (National Institute for Agrarian Reform and Settlement (INCRA) and Brazilian Mini and Small Business Support Agency (SEBRAE)) on the payment of various salary amounts for the period from January 1999 to December 2000, in the amount of approximately R\$57,099, considered a possible risk. These lawsuits are awaiting trial court decision and at the last administrative stage, respectively. No provision was recorded based on the risk classification of this matter.
- d) Notification demanding social security contributions for joint liability in 1993, in the amount of approximately R\$185,348, for which the risk is considered possible. This proceeding is at the second administrative stage. No provision was made based on the risk classification of this matter.
- e) Legal proceedings imposing fines of R\$161,982 for payment of dividends when the Company had allegedly a debt to the INSS. No provision was made for the balance, for which the likelihood of loss is assessed as possible. This proceeding is at the second administrative stage. No provision was made based on the risk classification of this matter.

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21.2. Tax contingencies (Continued)

Claims by the National Institute of Social Security (INSS) referring to: (Continued)

- f) On December 20, 2005 notices were served concerning the period from May 1995 to December 1998 requiring the payment of social security contributions by means of arbitration of the tax base and considering the existence of joint liability between the Company and the service providers in general and those related to civil construction. The amount of R\$233,946, which refers to the use of inadequate criteria for calculation of the arbitrated tax base, and of R\$176,524, corresponding to the wrong definition of civil construction for arbitration, as will be shown by means of technical reports requested to Engineering Institutes, were assessed as remote risk of loss by the legal counsel. The amount of R\$782,277 is classified as possible risk of loss in view of the legal arguments that support the procedure adopted by the Company and does not consider the joint liability. The process is at the first lower court. No provision was made based on the risk classification of this matter.

- g) On December 20, 2005, notices were served concerning the period from January 1995 to December 1998, requiring the payment of social security contributions on amounts paid for Labor Claims of CETERP and CTBC, using the provision recorded in the Company's balance sheet as calculation base. As per legal counsel, the risk is classified as possible in view of the lack of legal grounds for arbitration of the contributions based on accounting provision. An administrative defense was presented, and the amount totals R\$5,268. No provision was made based on the risk classification of this matter

Claims by the Finance Secretary of the State of São Paulo, referring to:

- h) Tax assessments on October 31 and December 13, 2001, related to ICMS (state VAT) allegedly due on international long-distance calls, amounting to approximately R\$20,216 for November and December 1996 and amounting to R\$150,940 from January 1997 to March 1998, at the second administrative stage, assessed as possible risk, and R\$185,564 for the period from April 1998 to December 1999, at the second administrative stage, assessed as remote risk. No provision was recorded based on the risk classification of these matters.

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21.2. Tax contingencies (Continued)

Claims by the Finance Secretary of the State of São Paulo, referring to: (Continued)

- i) Tax assessment on February 29, 2000 demanding payment of the ICMS allegedly due on cell phone activation tariff in the period from January 1995 to December 1997, plus fines and interest, amounting to approximately R\$289,600 assessed as remote risk. The claim is at the 1st administrative stage. No provision was recorded based on the risk classification of this matter.
- j) Tax assessment on July 2, 2001 demanding the difference in ICMS paid without late-payment fine, amounting to R\$6,092, assessed as possible risk. The claim is awaiting appellate court decision. No provision was recorded based on the risk classification of this matter.
- k) Tax assessment notice related to the untimely used credits in the period from January to April 2002, in the amount of R\$31,090, for which the risk is considered possible. The claim is at the 2nd administrative stage. No provision was recorded based on the risk classification of this matter.
- l) Tax assessment notice related to the use of ICMS credits on acquisition of consumption materials, in the amount of R\$11,256, for which the risk is considered possible. The claim is at the 2nd administrative stage. No provision was recorded based on the risk classification of this matter.
- m) Tax assessment notices related to the non-reversal of ICMS credits in proportion to tax-exempt and non-taxed sales and services in the period from January 1999 to June 2000, in addition to an ICMS credit unduly taken in March 1999. The total amount involved is R\$109,836. The risk is considered possible by legal counsel. The claim is at the 2nd administrative stage. No provision was recorded based on the risk classification of this matter.
- n) Notifications of around R\$8,213 regarding the former Ceterp's loss of the tax benefit established by State Decree No. 48237/03, due to underpayment for an error in the calculation of the debt, assessed as possible risk. The claim is at the 2nd administrative stage. No provision was recorded based on the risk classification of this matter.

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21.2. Tax contingencies (Continued)

Claims by the Finance Secretary of the State of São Paulo, referring to: (Continued)

- o) Tax collection lawsuits demanding about R\$4,552 of ICMS differences for the period from May 1999 to June 2003. The Company is gathering the documents to prove that the amounts have been effectively paid. Guarantee is being provided and defense is being prepared for presentation in the lower court. The risk is assessed as possible. No provision was recorded based on the risk classification of this matter.

Litigation at the Federal and Municipal levels:

- p) FINSOCIAL, currently COFINS, was a tax on gross operating revenues, originally established at a rate of 0.5% and gradually and subsequently raised to 2.0%. Such rate increases were judicially challenged with success by several companies, which resulted in tax credits from overpayments. These credits were offset by CTBC (company merged into the Company in November 1999) against current amounts of COFINS due. Claiming that those offsets made by CTBC were improper, the Federal Government made an assessment in the amount of R\$16,735, considered a possible loss. The claim is at the higher court. No provision was recorded based on the risk classification of this matter.
- q) Litigation contesting the levy of corporate income tax, social contribution tax, PASEP and COFINS on telecommunications services of Centrais Telefônicas de Ribeirão Preto S.A. - CETERP, merged in November 2000, based on paragraph 3 of Article 155 of the Federal Constitution, according to which, with the exception of ICMS (state VAT) and taxes on exports and imports, no other taxation applies to services. The Company assesses this case as probable loss and has recorded a reserve of R\$52,653. The claim is in the higher court.

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21.2. Tax contingencies (Continued)

Litigation at the Federal and Municipal levels: (Continued)

- r) Lawsuit seeking a court decision declaring the nonexistence of a legal tax relationship between Telesp and the Federal Government, the defendant, which would require the Company to pay the Social Contribution for Intervention in the Economic Order (CIDE) on remittances to be made based on contracts with foreign residents, since the unconstitutionality of said tax is clear. The lawsuit also seeks offset against other taxes payable, in the amount of R\$2,190, monetarily restated, related to the CIDE payment made in March 2002. The Company made an escrow deposit of R\$2,178 for the remittance made on October 18, 2002. Despite the risk considered to be possible, the Company recognized a reserve for the unpaid amounts, in the amount of R\$29,162. The claim is at the lower court.
- s) Tax collection claim demanding differences regarding income tax, based on DCTF's (Declaration of Federal Tax Credits and Debits) for the first half of 1999, amounting to approximately R\$5,292, assessed as possible risk. These claims are at the 1st administrative stage and no provision was recorded based on the risk classification.
- t) At the municipal level, the Company has contingencies related to IPTU (municipal real property tax), ISS (municipal service tax), fine and interest in the amount of R\$12,511, which have all been accrued for due to the existence of favorable and unfavorable decisions regarding this matter.
- u) The Municipal Government of São Paulo assessed the Company, alleging differences in the payment of the ISS (municipal service tax), a fine of 20% not paid, in the amount of R\$18,894. No reserve has been recorded for this contingency, since the attorneys responsible for this case assessed the risk as possible. The claim is at the lower court.

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21.2. Tax contingencies (Continued)

Litigation at the Federal and Municipal levels: (Continued)

- v) On December 15, 2005, ANATEL issued Pronouncement No. 1 (subsequently renumbered to Pronouncement No. 7), whereby it confirmed the understanding that interconnection expenses are not excluded from FUST, thus changing the previous position which provided for such exclusion. The Pronouncement is applied retroactively to January 2001. Thus, through ABRAFIX (Brazilian Association of Fixed Telephony Companies), on January 9, 2006, the Company filed for a writ of mandamus with a view to ensuring the possibility of excluding interconnection expenses from the FUST calculation base. The proceeding is at trial court, and on April 10, 2006, a decision was issued whereby retroactive application of the Pronouncement was denied. The contingency risk was assessed as possible by the Company's legal advisors. The amount involved in the period from January 2001 through November 2005 totals R\$117,837. No provision was recorded based on the risk classification of this matter.
- x) IRS tax delinquency notice claiming Corporate Income Tax (IRPJ) that was offset in the Corporate Income Tax Return DIPJ/2002 with Withholding Income Tax (IRRF) retained by public agencies on services rendered in 2001. This case is pending judgment at first administrative level. Since it involves the risk of a probable loss, a provision was set in the amount of R\$1,330.

There are other contingencies that have also been accrued for, in the amount of R\$62,329, for which the risk is assessed by management as probable.

21.3. Civil contingencies

Risk	Amount Involved		
	Telesp	A. Telecom	Total
Probable	132,326	22	132,348
Possible	687,166	242	687,408
Remote	794,417	11,323	805,740
Total	1,613,909	11,587	1,625,496

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21.3. Civil contingencies (Continued)

These contingencies assessed as possible risk involve various matters: unacknowledged title to telephone line, indemnity for material and personal damages, among others, in the amount of approximately R\$267,242.

In addition, we describe below the most relevant civil contingencies, including their risk assessment:

- The Company is also involved in civil class actions related to the Community Telephone Plan (PCT), where the telephone expansion plan buyers who did not receive shares in return for their financial investments seek an indemnity, in the municipalities of Diadema, São Caetano do Sul, São Bernardo do Campo and Ribeirão Pires, involving a total amount of approximately R\$288,284. The risks involved were assessed as possible by legal counsel. The claims are at appellate court level.

- The Association of the Participants of the Sistel in the State of São Paulo - ASTEL moved against the Company, Fundação Sistel de Seguridade Social and others, a class action questioning subjects related to the Plan of Medical Assistance for Retirees - PAMA, considering in synthesis: (i) prohibition of the collection of contribution of the retirees included in the PAMA; (ii) the registration in the PAMA of the retirees and assisted people whose registrations were suspended for insolvency; (iii) revaluation of the economic necessities of the PAMA; (iv) restoration of the basis of incidence of the contributions on the total and gross amount of the payroll of all the employees of the company; (v) reaccreditation of all the hospitals, clinics, laboratories and doctors discredited by Sistel and (vi) review of the accounting distribution of shareholders' equity. Company Management, based on the opinion of its legal counsel, assessed this suit as a possible risk, and the respective amount involved is estimated to be R\$131,882. Based on the risk classification, no provision was recorded.

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21.3. Civil contingencies (Continued)

On June 9, 2000, WCR do Brasil Serviços Ltda. proposed enforcement proceedings following ordinary procedural steps against the Company, claiming the collection of the alleged difference between the amounts calculated by Telesp regarding the use of the 0900 Service and the amounts transferred to that company. The duly updated proceeding amount at September 30, 2006 totals R\$59,328 (R\$94,707 as of June 30, 2006). On October 1, 2004 the decision handed down by the 13th Civil Court of the central jurisdiction of São Paulo was published, by which the proceeding was deemed valid. On December 14, 2004 an appeal against the decision was filed, which was distributed to the 26th Panel of Judges of São Paulo. On May 26, 2006, the appeal against the decision was judged partially valid, and the content was maintained. On August 14, 2006, the São Paulo Court of Justice judged the motions to clarify presented by the Company requesting the change in the date in which interest is accrued on the amount challenged by WCR do Brasil Serviços Ltda., handing down a favorable decision to the Company, reducing the originally accrued amount of R\$35,379. In view of the result of the proceeding, the risk is considered probable and a provision was therefore set up.

22. Other Liabilities

	Parent Company		Consolidated	
	Sept/2006	June/2006	Sept/2006	June/2006
Provision for post-retirement benefit plans (Note 33)	48,001	46,988	48,001	46,988
Advances from customers	47,160	68,104	47,160	68,104
Amounts to be refunded to subscribers	62,314	51,001	61,730	45,972
Accounts payable - sale of share fractions after the reverse split process	98,998	99,230	98,998	99,230
Concession renewal fee (*)	91,738	61,991	91,738	61,991
Other	42,323	35,410	52,772	52,647
Total	390,534	362,724	400,399	374,932
Current	306,097	287,548	309,740	297,109
Noncurrent	84,437	75,176	90,659	77,823

(*) Beginning 2006, the liabilities under the Concession Agreement mentioned in Note 1C have been recognized.

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23. Shareholder s Equity**Capital**

Capital as of September 30, 2006 is R\$6,575,198 and June 30, 2006 is R\$5,978,074. Subscribed and paid-up capital is represented by shares without par value, as follows:

	Sept/2006	June/2006
Common shares	168,802,663	164,061,698
Preferred shares	337,417,342	327,968,193
Common treasury share	17,207	
Preferred treasury share	60	
Total shares	506,237,272	492,029,891
Book value per share in R\$	22.67	20.54

Preferred shares are nonvoting but have priority in the reimbursement of capital and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company s bylaws and clause II, paragraph 1, article 17, of Law No. 6404/76, with wording of Law No. 10303/01.

At the Special General Meeting held on March 9, 2006, the shareholders approved, by unanimous voting, the cancellation of 1,562,387 (one million, five hundred and sixty-two thousand, three hundred and eighty-seven) treasury shares issued by the Company, namely, 1,258,508 (one million, two hundred fifty-eight thousand, five hundred and eight) common shares and 303,879 (three hundred and three thousand, eight hundred and seventy-nine) preferred shares, resulting from the share reverse split process occurred in Telesp in 2005, which were purchased by the Company in an auction held at the São Paulo Stock Exchange (BOVESPA) on July 15, 2005.

On July 28, 2006 there was a capital increase of R\$597,124 to include the shareholders from the takeover of Telefônica Data Brasil Holding S.A. (see Note 2). The following shares were issued:

	Sept/2006
Common Shares	4,758,172
Preferred Shares	9,449,209
Total Shares	14,207,381

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23. Shareholder s Equity*Dividends and interest on shareholders equity*

On May 23, 2006, the Company s Board of Directors approved the payment of intermediate dividends and interest on shareholders equity for 2006. Said payment involved outstanding Telesp existing before and after the takeover of Telefônica Data Brasil Holding S.A., as follows:

a) Intermediate dividends fiscal year 2006

Intermediate dividends in the amount of R\$1,169,604, based on retained earnings at December 31, 2006, which will be attributed to the minimum mandatory dividends for the fiscal year 2006:

a.1) Telesp shares

Statement of Intermediate Dividends in the amount of R\$1,136,784, shown below:

Type of share	Common	Preferred (*)
Amount per share R\$	2.166017	2.382619

(*) 10% higher than the amount attributed to each common share, according to article 7 of the Company s bylaws.

Such dividends were attributed to the holders of common and preferred shares registered in our records at the end of May 23, 2006. After such date, the shares were considered ex-dividends. The payment of said dividends began on June 26, 2006.

a.2) TDBH shares

Intermediate dividends in the amount of R\$32,820, concerning Telesp shares issued upon takeover of TDBH, paid as from September 22, 2006, as shown below:

Type of share	Common	Preferred (*)
Amount per share R\$	2.166017	2.382619

(*) 10% higher than the amount attributed to each common share, according to article 7 of the Company s bylaws.

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23. Shareholders Equity (Continued)*Dividends and interest on shareholders' equity (Continued)*a) Intermediate dividends - fiscal year 2006 (Continued)a.2) TDBH shares (Continued)

Such dividends were attributed to the holders of Telesp common and preferred shares registered in our records upon updating of the Telesp records, to reflect the issue of new shares to the existing holders of TDBH shares, at the end of August 29, 2006. After such date, the shares were considered ex-dividends.

b) Interest on shareholders' equity - fiscal year 2006

Interest on shareholders' equity referring to the fiscal year 2006, in the amount of R\$290,000, subject to 15% withholding income tax, resulting in net interest of R\$ 246,500. Said interest may be attributed to the minimum mandatory dividends for the fiscal year 2006.

b.1) Telesp shares

Interest on shareholders' equity, in the amount of R\$281,862, subject to 15% withholding income tax, resulting in net interest of R\$239,582, shown below:

	Immune or Exempt	Corporate Entities	
	Corporate Entities	Withholding	and Individuals
Amount per share (R\$)	(Gross amount)	Income Tax (15%)	(Net amount)
Common shares	0.537057	0.080558	0.456499
Preferred shares (*)	0.590763	0.088614	0.502149

(*) 10% higher than the amount attributed to each common share, according to article 7 of the Company's bylaws.

Payment of the above interest began on June 26, 2006. The corresponding credit was made in the Company's book records on May 23, 2006, individually to each shareholder, based on the share position at the end of May 23, 2006. As from May 24, 2006, the shares were considered ex-interest on shareholders' equity.

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23. Shareholders Equity (Continued)b) Interest on shareholders equity fiscal year 2006 (Continued)b.2) TDBH shares

Interest on shareholders equity, in the amount of R\$8,138, subject to 15% withholding income tax, resulting in net interest of R\$6,917, concerning Telesp shares issued upon takeover of TDBH, paid as from September 22, 2006, as follows:

	Immune or Exempt Corporate Entities	Withholding Income Tax	Corporate Entities and Individuals
Amount per share (R\$)	(Gross amount)	(15%)	(Net amount)
Common shares	0.537057	0.080558	0.456499
Preferred shares (*)	0.590763	0.088614	0.502149

(*) 10% higher than the amount attributed to each common share, according to article 7 of the Company's bylaws.

The corresponding credit was made in the Company's book records on August 29, 2006, individually to each holder of Telesp common and preferred shares, registered in our records upon updating of the Telesp records, to reflect the issue of new shares to the existing holders of TDBH shares. After such date, the shares were considered ex-interest.

c) Interest on shareholders equity fiscal year 2005

The Company's Board of Directors further approved, on May 23, 2006, the date of June 26, 2006 as the beginning date for payment of interest on shareholders equity, declared on December 12, 2005, attributed to holders of common and preferred Company shares with share position at the end of the 30th of December, 2005, in the amount of R\$380,000, subject to 15% withholding income tax, resulting in net interest of R\$323,000, shown below:

	Immune or Exempt Corporate Entities	Withholding Income Tax	Corporate Entities and Individuals
Amount per share (R\$)	(Gross amount)	(15%)	(Net amount)
Common shares	0.724048	0.108607	0.615441
Preferred shares (*)	0.796453	0.119468	0.676985

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(*) 10% higher than the amount attributed to each common share, according to article 7 of the Company's bylaws.

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24. Net Operating Revenue

	Parent Company		Consolidated	
	Sept/2006	Sept/2005	Sept/2006	Sept/2005
Subscription	4,248,031	4,233,492	4,248,031	4,233,121
Activation	87,406	70,353	87,406	70,354
Local service	2,341,249	2,373,217	2,407,522	2,373,217
Domestic long distance (i)	2,218,131	2,409,477	2,273,935	2,409,477
Intraregional	1,532,344	1,654,735	1,571,250	1,654,735
Interregional	685,787	754,742	702,685	754,742
International long distance	118,125	114,107	118,059	114,107
Network (i)	3,133,168	3,111,877	3,203,891	3,111,877
Use of network	404,846	562,615	404,846	562,615
Public telephones (i)	419,710	317,427	419,710	317,427
Business communication (i)	1,298,243	954,364	1,351,730	948,566
Assignment of means (i)	310,180	293,108	301,083	293,107
Other (i)	430,464	415,197	588,627	627,396
Gross operating revenue	15,009,553	14,855,234	15,404,840	15,061,264
Taxes on gross revenue	(3,984,537)	(3,913,093)	(4,111,950)	(3,984,012)
ICMS (State VAT)	(3,403,839)	(3,344,119)	(3,493,678)	(3,392,503)
PIS and COFINS (taxes on revenue)	(559,346)	(549,723)	(590,693)	(569,246)
ISS (municipal service tax)	(21,352)	(19,251)	(27,579)	(22,220)
IPI (Federal VAT)				(43)
Discounts	(401,950)	(431,924)	(415,395)	(437,414)
Net operating revenue	10,623,066	10,510,217	10,877,495	10,639,838

- (i) For the better presentation of Operating Revenue to the market and regulatory agency, ANATEL, the Company made reclassifications to the amounts as of September 2005. The main reclassifications were made to the captions Domestic long distance , Network , Public telephones , Business communications , Assignment of means and Other .

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25. Cost of Services Provided

	Parent Company		Consolidated	
	Sept/2006	Sept/2005	Sept/2006	Sept/2005
Depreciation and amortization	(1,742,136)	(1,791,492)	(1,759,330)	(1,803,313)
Personnel	(159,477)	(152,678)	(175,298)	(157,416)
Materials	(30,813)	(38,519)	(31,540)	(38,842)
Network interconnection	(2,650,688)	(2,649,278)	(2,666,809)	(2,658,304)
Outside services	(840,317)	(835,126)	(875,063)	(857,884)
Other	(263,775)	(190,722)	(293,631)	(196,776)
Total	(5,687,206)	(5,657,815)	(5,801,671)	(5,712,535)

26. Selling Expenses

	Parent Company		Consolidated	
	Sept/2006	Sept/2005	Sept/2006	Sept/2005
Depreciation and amortization				