Fontana Peter Thomas
Form 4
October 04, 2010

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Fontana Peter Thomas

(Last) (First) (Middle)

515 POST OAK BLVD., STE. 600

(Street)

HOUSTON, TX 77027

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Weatherford International Ltd./Switzerland [WFT]

3. Date of Earliest Transaction (Month/Day/Year)
10/01/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP Western Hemisphere

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Registered Shares	10/01/2010		A		1,436	A	(1)	214,850	D	
Registered Shares								7,764	I	By 401(k)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Fontana Peter Thomas 515 POST OAK BLVD., STE. 600 HOUSTON, TX 77027			VP Western Hemisphere	

Signatures

Joseph C. Henry, by Power of Attorney	10/04/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Transaction was a grant of restricted share units and therefore has no price. Units vested on transaction date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Operating expenses:

Selling expense

7a

(1,924,439
)

(1,810,377
)

(1,606,645
)
General and administrative expense

7b

(982,623
)

(863,920
)

(746,802
)
Other operating income (expense), net

8

276,241

(168,254
)

(189,847
)

Operating income before financial expense, net

4,231,690

3,835,827

3,269,326

Financial expense, net

9

(331,055
)

(460,332
)

(404,208
)

Operating income

3,900,635

3,375,495

2,865,118

Nonoperating income, net

10

23,623

37,799

40,102

Income before income tax and social contribution

3,924,258

3,413,294

2,905,220

Income tax and social contribution

11

(1,108,107

)

(871,347

)

(724,071

)

Net income for the year

2,816,151

2,541,947

2,181,149

Shares outstanding at December 31 (in thousands)

505,841

492,030

493,592,279(1

)

Earnings per share outstanding at December 31 (Reais)	
	5.5673
	5.1662
	0.0044

*(1) On May 11, 2005, the shareholders approved a reverse stock split in the proportion of 1,000 (one thousand) shares to 1 (one) share of the same class. Had the reverse stock split occurred on December 31, 2004, shares outstanding would be 493,592 thousands in 2004 and earnings per share would have amounted to 4.4189 in 2004 (See Note 32)***).**

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(In thousands of Reais)

	Years ended December 31,		
	2006	**2005**	**2004**
SOURCE OF FUNDS:			
From operations:			
Net income for the year	2,816,151	2,541,947	2,181,149
Items not affecting working capital	2,733,178	2,733,321	2,884,494
Depreciation and amortization	2,641,554	2,675,136	2,736,811
(Income) loss from equity holdings in subsidiaries	(1,034)	17,829	461
Monetary and exchange variations on noncurrent items, net	45,252	(89,811)	1,444
(Gain) loss on permanent asset disposals	5,787	6,569	(6,372)
Reserves for contingencies	(119,788)	101,995	135,170
Amortization of goodwill	34,481	41,355	32,043
Pension and other post-retirement plans, net of funding	30,059	312	(37,658)
Tax credit realization (accrual)	77,715	(44,439)	5,258
Other	19,152	24,375	17,337
Total from operations	5,549,329	5,275,268	5,065,643
From third parties:			
Increase in long-term liabilities	25,774	336,327	1,738,700
Unclaimed dividends	180,956	91,927	45,472
Donations and subsidies for investment	474	593	1,241
Transfer from noncurrent to current assets	114,587	144,864	242,658
Transfer from fixed asset to prepaid expenses	19,605	-	-
Escrow deposits	76,558	36,510	-
Net working capital from TDBH’s merger	7,128	-	-
Proceeds from sale of property, plant and equipment	16,783	29,299	14,549
Others	32	4,609	-
Total sources	5,991,226	5,919,397	7,108,263
USES OF FUNDS:			
Increase in noncurrent assets	2,562,273	2,031,809	1,571,448
Recoverable VAT	106,068	189,266	62,141
Prepaid expenses	24,874	842	-
Related companies	18,928	-	-
Escrow deposits	485,595	163,742	33,928
Advance for future share acquisition	200,000	-	-
Investments	-	-	115,879
Property, plant and equipment	1,721,360	1,674,482	1,340,562
Others	5,448	3,477	18,938

Transfer from long-term to current liabilities	1,450,445	369,531	600,889
Treasury Shares - Purchase	17,719	58,892	-
Cancellation of shares - TDBH	41	-	-
Dividends/interest on shareholders´ equity	3,129,604	3,770,000	3,098,290
Working capital consolidated from TDBH	95,163	-	-
Working capital consolidated from Santo Genovese Participações Ltda	-	-	2,754
Other	-	5,726	8
Total uses	7,255,245	6,235,958	5,273,389
Increase (decrease) in working capital	(1,264,019)	(316,561)	1,834,874
Changes in working capital represented by:			
Current assets			
At the beginning of year	4,166,334	4,161,865	4,121,165
At the end of year	4,679,051	4,166,334	4,161,865
	512,717	4,469	40,700
Current liabilities			
At the beginning of year	4,484,837	4,163,807	5,957,980
At the end of year	6,261,573	4,484,837	4,163,806
	1,776,736	321,030	(1,794,174)
Increase (decrease) in working capital	(1,264,019)	(316,561)	1,834,874

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(In thousands of Reais)

		Capital Reserves					
	Share capital	Share premium	Donations and subsidies	Other capital reserves	Legal reserve	Retained Earnings	Total
Balances at December 31, 2003	**5,978,074**	**2,737,087**	**6,756**	**188**	**550,498**	**2,996,457**	**12,269,060**
Donations and subsidies for investments	-	-	1,241	-	-	-	1,241
Unclaimed dividends	-	-	-	-	-	45,472	45,472
Net income for the year	-	-	-	-	-	2,181,149	2,181,149
Appropriations:							
Transfer for reserves	-	-	-	-	109,058	(109,058)	-
Dividends	-	-	-	-	-	(2,209,690)	(2,209,690)
Interest on shareholders equity	-	-	-	-	-	(755,310)	(755,310)
Witholding tax on interest on shareholders' equity	-	-	-	-	-	(133,290)	(133,290)
Balances at December 31, 2004	**5,978,074**	**2,737,087**	**7,997**	**188**	**659,556**	**2,015,730**	**11,398,632**
Donations and subsidies for investments	-	-	593	-	-	-	593
Treasury Shares acquisition	-	-	-	(58,892)	-	-	(58,892)
Unclaimed dividends	-	-	-	-	-	91,927	91,927
Net income for the year	-	-	-	-	-	2,541,947	2,541,947
Appropriations:							
Dividends	-	-	-	-	-	(2,790,000)	(2,790,000)
Interest on shareholders equity	-	-	-	-	-	(833,000)	(833,000)
Witholding tax on interest on shareholders' equity	-	-	-	-	-	(147,000)	(147,000)
Balances at December 31, 2005	**5,978,074**	**2,737,087**	**8,590**	**(58,704)**	**659,556**	**879,604**	**10,204,207**
Merged capital - TDBH	597,124	-	-	-	-	-	597,124
Merged losses - TDBH		-	-	-	-	(41,476)	(41,476)
Donations and subsidies for investments	-	-	475	-	-	-	475
Treasury Shares cancellation	-	(58,892)	-	58,892	-	-	-
	-	-	-	(17,719)	-	-	(17,719)

Recess right to the shareholders due to TDBH's merger - treasury shares							
Unclaimed dividends	-	-	-	-	-	180,956	180,956
Net income for the year	-	-	-	-	-	2,816,151	2,816,151
Appropriations:							
Dividends	-	-	-	-	-	(2,349,604)	(2,349,604)
Interest on shareholders equity	-	-	-	-	-	(663,000)	(663,000)
Witholding tax on interest on shareholders' equity	-	-	-	-	-	(117,000)	(117,000)
Balances at December 31, 2006	**6,575,198**	**2,678,195**	**9.065**	**(17,531)**	**659,556**	**705,631**	**10,610,114**

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(In thousands of Reais)

	Years ended December 31, (a)		
	2006	**2005**	**2004**
Cash flows from operations:			
Net income for the year	2,816,151	2,541,947	2,181,149
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	2,641,554	2,675,136	2,736,811
Monetary /exchange variation on loans and financing	(70,531)	(247,152)	(94,473)
(Gain) loss on permanent asset disposals	5,787	6,569	(6,372)
Loss from equity holding of subsidiaries	(1,034)	17,829	461
Amortization of goodwill on acquisition of CETERP	34,481	41,355	32,043
Allowance for doubtful accounts	412,997	415,273	428,911
Pension and other post-retirement benefit plans, net of funding	30,059	312	(37,658)
Other	5,462	5,687	5,173
(Increase) decrease in operating assets:			
Trade accounts receivable	(826,158)	(502,541)	(685,553)
Other current assets	(161,656)	(37,858)	(9,003)
Other noncurrent assets	(166,901)	(203,751)	103,852
Increase (decrease) in operating liabilities:			
Payroll and related accruals	17,619	18,206	1,707
Accounts payable and accrued expenses	89,366	323,170	57,636
Taxes other than income taxes	85,323	50,242	85,520
Other current liabilities	149,809	399,156	138,041
Accrued interest	(4,292)	(13,890)	(64,028)
Income tax and social contribution	51,679	(70,146)	623,788
Reserve for contingencies	(98,748)	146,640	127,347
Other noncurrent liabilities.	(3,851)	(28,958)	(19,021)
Cash provided by operations	5,007,116	5,537,226	5,606,331
Cash flows used in investing activities:			
Additions to investments, net of cash acquired	-	(21,055)	(95,107)
Advance for future share acquisiton	(200,000)	-	-
Additions to property, plant, and equipment	(1,720,886)	(1,673,889)	(1,338,907)
Proceeds from asset disposals	16,783	29,299	14,549
Cash received on consolidation of CIA ACT de Participações	-	-	1

Cash received on consolidation of Santo Genovese Participações	-	-	4,336
Cash received on TDBH's merger	18,584	-	-
Cash used in investing activities	(1,885,519)	(1,665,645)	(1,415,128)
Cash flows used in financing activities:			
Loans repaid	(1,382,621)	(1,720,014)	(2,812,988)
New loans obtained	1,254,379	1,622,421	2,726,220
Net payments on derivative contracts	(144,274)	(356,384)	(422,426)
Treasury Shares - Purchase	(17,719)	(58,892)	-
Dividends paid	(3,081,782)	(3,133,833)	(3,658,365)
Cash used in financing activities	(3,372,017)	(3,646,702)	(4,167,559)
Increase (decrease) in cash and cash equivalents	(250,420)	224,879	23,645
Cash and cash equivalents at beginning of year	463,456	238,577	214,932
Cash and cash equivalents at end of year	213,036	463,456	238,577

(a) See supplemental cash flow information in Note 12.

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of and for the years ended December 31, 2006, 2005 and 2004
(Amounts expressed in thousands of *Reais*, unless otherwise indicated)

1. Operations and background

a. Controlling shareholders

Telecomunicações de São Paulo S.A. - Telesp (formerly Telesp Participações S.A. - TelespPar - "TelespPar"), hereafter referred to as the "Company" or "Telesp", was formed pursuant to Article 189 of Law No. 9,472/97 of the General Telecommunications Law based on Decree No. 2,546 on April 14, 1998, as part of the privatization of the Telebrás System. The Company is controlled by Telefónica S.A., which as of December 31, 2006, holds indirectly 85.57% of the common shares and 89.13% of the preferred shares of the Company.

b. Operations

The Company provides fixed-switch telephone service (STFC) in São Paulo State through a Concession Agreement regulated by the Brazilian Government's regulatory authority, the National Telecommunications Agency - ANATEL. The Company also has, directly or indirectly through its subsidiaries, ANATEL's authorizations to provide other telecommunication services, as data communication to the business market and broadband internet on *Speedy* brand. 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 city, which is the biggest in Brazil.

The Company is registered with the Brazilian Securities Commission (CVM) as a listed company and its shares are traded on the São Paulo Stock Exchange (BOVESPA). The Company is also registered with the Securities and Exchange Commission - SEC, in the United States of America, and its American Depository Shares - ADSs, level II are traded on the New York Stock Exchange - NYSE.

c. The STFC Concession Agreement

The Company is a concessionaire of fixed-switch telephone service (STFC) to provide fixed telephone service - local and national long distance services for telephone calls from sectors 31, 32, and 34 from region 3, which comprises the State of São Paulo, established in the General Concession Plan (PGO).

The Concession Agreement's renewal, dated December 22, 2005, in force since January 1, 2006, awarded as an onerous title, will be valid until December 31, 2025. However, the agreement can be reviewed on December 31, 2010, 2015 and 2020. Such condition allows ANATEL to set up new requirements and goals for universalization and quality of telecommunication services, according to the conditions in force by that moment.

The Concession Agreement establishes that all assets owned by the Company and 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 by that moment. On December 31, 2006, the net book value of reversible assets is estimated at R$8,027,464 (R$9,129,592 in 2005), comprised of switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

Every two years, during the agreement's new 20-year period, public regime companies will have to pay a renewal fee which will correspond to 2% of its prior-year SFTC revenue, net of taxes and social contributions (See Note 4.l). Exceptionally, the first payment of this biannual fee will be in April, 2007, based on the 2006 STFC net revenues.

d. The telecommunications services subsidiaries and associated companies

A.Telecom S.A.:

A. Telecom S.A. (formerly Assist Telefônica S.A), is a closely held company, wholly-owned by the Telesp. It is engaged primarily in providing the telecommunication and data services and customer internal telephony network maintenance. The principal services are as follows:

i) Digital condominium, integrated solution of equipment and services for voice transmission, data and images on commercial buildings;

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ii) Installation, maintenance, exchange and extension of new points of internal telephony wire in companies and houses;

(iii) iTelefônica, provider of free internet access;

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

(v) Speedy Corp, broadband provider developed specially to the corporate market.

***Aliança Atlântica Holding B.V.*:**

A company formed under the laws of the Netherlands in Amsterdam, is a joint venture originally established in 1997 by Telebrás and Portugal Telecom, in which Telebrás held a 50% share ownership and Portugal Telecom held the remaining 50%. As a result of the privatization of the Telebrás System in February 1998, Telebrás' share ownership in Aliança Atlântica was transferred to the Company. As of December 31, 2006, the Company holds a 50% interest in Aliança Atlântica and Telefónica S.A. holds the remaining 50%.

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

Companhia ACT is engaged in providing technical assistance for the preparation of Rede Refibra project, by providing studies to make it more profitable, as well as inspect the activities in progress related to the project. 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 telecommunication 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 in July, 2006 (See Note 2).

2. Corporate Restructuring

Merger of Atrium Telecomunicações Ltda. into A.Telecom S.A.

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., and was extinguished as a result of such operation. A.Telecom began carrying out the activities formerly performed by Atrium.

The operation purpose was to allow the maximization of synergies through the unification of activities within a single company. It also helps rationalize management, simplify the corporate and administrative structure and, at the same time, offer its custumers more integrated services with strengthened commercial structure.

Merger of Telefônica Data Brasil Holding S.A. and partial spin-off of Telefônica Empresas S.A.

On March 9, 2006, Telesp and Telefônica Data Brasil Holding S.A. (TDBH), both under control of Telefónica Group, announced the proposal for restructuring of the Multimedia Communication Services ("MCS") activities of Telefônica Empresas S.A. and Telesp. The operation would have the following steps:

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(Amounts expressed in thousands of *Reais*, unless otherwise indicated)

(i) Acquisition of TDBH by Telesp, whereby TDBH members will receive Telesp shares in accordance with the exchange ratio announced. With this operation, Telefônica Empesas S.A. will become a wholly-owned subsidiary of Telesp. Telesp will succeed TDBH in all its rights and obligations; and,

(ii) Partial spin-off of Telefônica Empresas, with transfer of the SCM activities and assets to Telesp in the regions in which such services are already provided by Telesp.

The Special 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 effects were temporarily suspended until the referred ruling was reconsidered by the Reporting Judge of Appeal n.º 448.590-4/3 with the 10th Appellate Court of the São Paulo State.

The referred 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.

The Company took over the net assets of Telefônica Data Brasil Holding S.A. - TDBH, considering the book value as of December 31, 2005, based on a valuation report prepared by a specialized company, including the financial flow occurred until July 31, 2006. The merged net assets were as follows:

	TDBH
<u>Assets</u>	
Current assets	7.415
Noncurrent assets	548.560
	555.975
<u>Liabilities</u>	
Current liabilities	287
Merged net assets	555.688

The consolidated financial statements as of December 31, 2005, presented herein for comparison purposes do not comprise these restructuring effects and such effects were considered immaterial for the presentation of "pro-forma" amounts.

3. Presentation of the financial statements

The accompanying individual and consolidated financial statements as of December 31, 2006 and 2005 were prepared in accordance with accounting practices adopted in Brazil, which are based on accounting practices emanating from Brazilian corporate law (“BR CL”) and accounting standards and procedures established by the Brazilian Securities Commission (CVM).

The authorization to the financial statements’ conclusion occurred in an Executive Commitee Meeting on February 9, 2007.

Assets and liabilities are classified as “current” when their realization or liquidation will probably occur in the next twelve months. Otherwise, they will be classified as noncurrent assets and liabilities.

Accounting estimates are considered for the financial statements preparation process. Such estimates are based on objective and subjective factors according to management’s judgment for the appropriate amounts to be recorded in the financial statements.

Transactions which involve estimates mentioned above may result in different amounts when realized in subsequent periods due to inaccurate results regarding the estimate process. The Company revises its estimates and assumptions periodically.

The consolidated financial statements include the accounts and transactions of the wholly-owned subsidiaries and the jointly controlled affiliates which are proportionally consolidated, according to the corporate participation described below:

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of and for the years ended December 31, 2006, 2005 and 2004
(Amounts expressed in thousands of *Reais*, unless otherwise indicated)

	2006	2005
A.Telecom S.A.	100%	100%
Telefonica Empresas S.A.	100%	-
Aliança Atlântica Holding B.V.	50%	50%
Companhia AIX de Participações	50%	50%
Companhia ACT de Participações	50%	50%
Santo Genovese Participações Ltda	-	100%

Since 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.

The statement of cash flow is presented for purposes of additional analysis and was prepared based on Accounting Standard and Procedure (NPC) nº 20, issued by the Brazilian Institute of Independent Public Accountants (IBRACON).

For the financial statements as of December 31, 2005 and 2004, certain accounts were reclassified to allow adequacy and consistency thereof with the current period. However, the amount of these reclassifications is not material in relation to the financial statements, and consider the Deliberation nº 488/05's requests for 2006, 2005 and 2004.

4. Summary of the principal accounting practices

a. Cash and cash equivalents

Cash equivalents include all readily liquid temporary cash investments or those which are meant to be held until maturity (three months). They are recorded at cost plus income earned to the balance sheet date.

b. Trade accounts receivable, net

Trade accounts receivable 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 billed at the balance sheet date. Allowance for doubtful account is recorded in order to cover eventual losses.

c. Foreign currency transactions

Transactions in foreign currencies are recorded at the prevailing exchange rate at the date of the transaction. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Exchange differences resulting from foreign currency transactions were recognized in income.

d. Inventories

Inventories are stated at average acquisition cost, net of allowance for reduction to realizable value, and segregated into network expansion and consumption, maintenance or sale inventories. Inventories for use in network expansion are classified as "Construction in progress" under "Property, plant and equipment". Inventories for resale or maintenance are classified as "other assets" in current assets (See Note 20).

e. Investments

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Investments in wholly and jointly-owned subsidiaries are accounted for under the equity method. Investments in wholly-owned subsidiaries are fully consolidated and investments in jointly controlled affiliates are proportionally consolidated in accordance with BR CL (see Note 3). Other investments are recorded at cost, less an allowance for probable losses, when considered necessary. The subsidiaries are consolidated with base date December, 31 for each year.

f. Property, plant and equipment and intangible assets, net

Property, plant and equipment and intangible assets are stated at acquisition and/or construction cost, less accumulated depreciation. Improvement and repair costs when increasing installed capacity or operating life are capitalized; otherwise, these costs are charged to expense in the statements of income as incurred. Depreciation is calculated under the straight-line method based on the estimated useful lives of the assets and as determined by the Public Telecommunications Service regulations. The main depreciation rates are shown in Note 20 and 21.

g. Deferred charges

Deferred charges are comprised of: (i) pre-operating expenses stated at cost and amortized over a period of five years for the Company and in ten years for AIX pre-operating expenses; (ii) goodwill on acquisition of IP network, amortized over a period of ten years; (iii) goodwill Spanish and Figueira resulting from corporate restructuring occurred in 2001, merged by TDBH, which has been amortized over a period of five years (See Note 22).

h. Income tax and social contribution

Corporate income tax and social contribution are accounted for on the accrual basis and are presented net of prepaid taxes, paid during the year. Deferred taxes attributable to temporary differences and tax loss carryforwards are recognized as deferred tax assets and liabilities on the assumption of future realization within the parameters established by CVM Instruction No. 371/02.

i. Loans and financing

Loans and financing include accrued interest to the balance sheet date.

j. Reserve for contingencies, net

Recognized for those cases in which an unfavorable outcome is considered probable at the balance sheet date. This reserve is presented net of the corresponding escrow deposits and classified as labor, civil or tax contingency (See Note 30).

k. Revenue recognition

Revenues related to services rendered are accounted for on the accrual basis. Revenue unbilled 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 phones is deferred and recognized in income as the cards are utilized.

l. Concession agreement’s renewal fee

It is a fee which will be paid every two years, during the 20-year period that the concession agreement is in force, equivalent to 2% of its prior-year SFTC revenue, according to the contract. Expenses are proportionally recognized during corresponding 24 months (See Note 29).

m. Financial expense, net

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Represents interest, monetary and exchange variations arising from financial investments, loans and financing obtained and granted, as well as the results of derivative operations. Interest on shareholders' equity is included in these accounts, however, for disclosure purposes, the amount declared in the year was reversed to debit on retained earnings in equity.

n. Research and development costs

Beginning January 1, 2001, the Company capitalizes research and development costs and amortizes them over 5 years. Prior to 2001, the Company expensed research and development as incurred. In 2006 and 2005, there was no addition to the capitalized research and development costs. In 2004, the Company capitalized research and development costs of R$9,753. At December 31, 2006, 2005 and 2004, the Company had R$9,288, R$17,783 and R$29,362, respectively, of deferred research and development costs recorded as a component of property, plant and equipment in the consolidated balance sheets, net of accumulated amortization of R$48,607, R$40,112 and R$28,533, respectively.

o. Advertising expenses

Advertising expenses are charged to selling expense as incurred. Advertising expenses were R$193,287, R$188,750 and R$179,691 in 2006, 2005 and 2004, respectively.

p. Pension and other post-retirement benefit

The Company provides pension and other post-retirement benefits to employees through separate plans. Actuarial liabilities were calculated using the projected unit credit method as provided by CVM Resolution No. 371/00. Other considerations related to these plans are described in note 31.

q. Derivatives

Gains or losses on derivative transactions are recorded monthly in income. The net amounts payable or receivable regarding derivative operations (exchange swaps) are recorded in the balance sheet, as described in note 9 and 35.

r. Earnings per share

Calculated based on Net Income for the year and the total number of shares outstanding at the balance sheet date.

s. Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities, including allowance for doubtful accounts, unbilled services, interconnection revenues and costs, allowance for inventory reduction to market value, contingencies, pension plans and the estimated useful lives of permanent assets, and the disclosure of contingent assets and liabilities at the balance sheet date, as well as the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

5. Net operating revenue

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	2006	2005	2004
Local services:			
Monthly subscription charges	5,689,614	5,691,344	4,978,923
Activation fees	119,349	97,681	68,783
Measured service charges	3,242,825	3,247,830	3,064,637
Public telephones	584,924	443,166	367,107
Total	9,636,712	9,480,021	8,479,450
Long-distance services:			
Intraregional (i)	2,090,177	2,042,046	2,327,057
Interregional (i)	927,219	1,184,391	732,274
International (i)	152,656	171,270	112,620
Total	3,170,052	3,397,707	3,171,951
Data transmission	2,020,445	1,313,020	909,255
Network usage services	4,243,390	4,220,250	4,039,139
Interconnection services (i)	534,825	753,801	809,170
Goods sold	10,249	8,199	21,051
Network access (i)	397,469	415,196	392,503
Other	783,621	762,726	603,155
Total gross operating revenue	20,796,763	20,350,920	18,425,674
Value added and other indirect taxes	(5,530,866)	(5,371,979)	(4,901,797)
Discounts	(622,876)	(583,840)	(215,247)
Net operating revenue	14,643,021	14,395,101	13,308,630

(i) For a better presentation of Operating Revenue for the market and ANATEL, certain reclassifications were made to some 2005 components of net operating revenue, mainly "Long-distance services", "Interconnection services" and "Network access".

On July 10, 2006 and July 14, 2006, through Notices No. 59.517 and No. 59.665, ANATEL approved the percentage of tariff adjustments for fixed-switch telephone service (STFC), based on criteria established in the local and domestic long-distance concession contracts, effective July 14, 2006 for Local Basic Plan and July 20, 2006 for Domestic Long Distance Basic Plan. The average decreases are as follows: (0.38%) for Local Basic Plan and (2.73%) for Long Distance National Basic Plan.

New rules for interconnection services were effective since January 1, 2006, in accordance with renewal of Local and Domestic Long-Distance Concession Contracts. The tariff for local network (TU-RL) is limited to 50% of the local minute value, which resulted in a tariff decrease of (22.3%) from January 1, 2006.

On June 30, 2005, through Notices No. 51.300 and No. 51.301, ANATEL approved the percentage of tariff adjustments for fixed-switch telephone service (STFC), based on criteria established in the local and domestic long-distance concession contracts, effective July 3, 2005. The average-increases/(decreases) are as follows: 7.27% for local services, 2.94% for long-distance services, (13.32%) for network local services and 2.94% for network long-distance service.

6. Cost of goods and services

	2006	2005	2004
Depreciation and amortization	(2,351,376)	(2,396,179)	(2,495,647)
Network interconnection	(3,554,364)	(3,578,977)	(3,511,690)
Outsourced services	(1,171,748)	(1,198,734)	(1,059,384)
Personnel	(231,371)	(207,997)	(188,186)
Materials	(42,841)	(49,249)	(41,347)
Cost of products sold	(5,481)	(6,199)	(19,294)
Other	(423,329)	(279,388)	(180,462)
	(7,780,510)	(7,716,723)	(7,496,010)

7. Operating expenses

a. Selling expense:

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	2006	2005	2004
Outsourced services	(1,055,174)	(1,016,120)	(886,346)
Allowance for doubtful accounts	(412,997)	(415,273)	(428,911)
Personnel	(299,835)	(246,910)	(204,014)
Materials	(92,269)	(71,851)	(55,725)
Depreciation and amortization	(14,628)	(7,862)	(7,509)
Other	(49,536)	(52,361)	(24,140)
	(1,924,439)	(1,810,377)	(1,606,645)

b. General and administrative expense:

	2006	2005	2004
Outsourced services	(444,227)	(426,838)	(318,225)
Personnel	(226,244)	(153,904)	(147,568)
Depreciation and amortization	(275,550)	(271,095)	(233,655)
Rental and insurance	(13,475)	(6,393)	(18,587)
Materials and others	(23,127)	(5,690)	(28,767)
	(982,623)	(863,920)	(746,802)

8. Other operating income (expense), net

	2006	2005	2004
Taxes other than income taxes	(251,760)	(220,464)	(223,196)
Technical and administrative services	50,371	40,643	56,418
Provision for contingencies, net	194,627	(53,182)	(78,977)
Fines on telecommunication services	116,236	114,625	102,735
Recovered expenses	166,529	88,921	95,392
Amortization of goodwill	(34,481)	(41,355)	(32,043)
Commissions on voice and data communication services (a)	-	-	(95,289)
Allowance for reduction to market value of inventories	(4,569)	(7,518)	(9,626)
Foreign exchange gain (losses) on proportionally consolidated affiliates	1,034	(17,829)	(461)
Other	38,254	(72,095)	(4,800)
	276,241	(168,254)	(189,847)

(a) Refers mainly to commissions paid to Telefônica Empresas S.A., which were recorded as "Selling Expenses - Outsourced Services" in 2005 for a better presentation.

9. Financial expense, net

	2006	2005	2004
Financial income	179,525	180,277	164,727
Financial expense	(463,440)	(512,912)	(387,301)

Exchange/monetary variations	119,197	287,024	117,228
Derivative transactions	(166,337)	(414,721)	(298,862)
	(331,055)	(460,332)	(404,208)

10. Nonoperating income, net

	2006	2005	2004
Gain (loss) on permanent assets disposals	(5,787)	(6,569)	6,372
Other income, net	29,410	44,368	33,730
	23,623	37,799	40,102

11. Income Tax and Social Contribution

Brazilian income taxes include federal income tax and social contribution. For the three-year period ended December 31, 2006 the income tax rate was 25% and social contribution rate was 9%. The tax expense and

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taxes on temporary differences, tax loss, and social contribution loss carryforwards were calculated using the rate of 34%.

The Company recognizes income tax and social contribution monthly on the accrual basis and pays the taxes on an estimated basis, in accordance with the trial balance for suspension or reduction. The taxes calculated on income until the month of the financial statements are recorded in liabilities or assets, as applicable.

The composition of income tax expense is as follows:

Income tax expense	**2006**	**2005**	**2004**
Current:			
Income tax	(833,461)	(711,275)	(337,161)
Social contribution	(302,766)	(258,452)	(116,601)
Deferred:			
Tax loss carryforwards	(6,789)	(415)	(128,098)
Reserve for contingencies	(26,490)	49,858	46,213
Pension and other post-retirement benefits	10,220	77	(12,804)
Merged tax credit on goodwill amortization	(11,629)	-	(219,680)
Derivative transactions	8,137	95,428	-
Allowance for doubtful accounts	43,382	8,843	6,966
Additional indexation expense until 1990	2,657	3,299	5,365
Unrealized exchange rate variation gains	(2,024)	(60,463)	-
Other	10,656	1,753	31,729
Total	28,121	98,380	(270,309)
Total income tax and social contribution expense	(1,108,107)	(871,347)	(724,071)

The following is a reconciliation of the amounts calculated by applying the combined statutory tax rates to the reported income before taxes and the reported income tax expense:

	2006	**2005**	**2004**
Income before taxes as reported in the accompanying financial statements	3,924,258	3,413,294	2,905,220
Tax charged at the combined statutory rate (34%)	(1,334,247)	(1,160,521)	(987,775)
Permanent additions:			
Nondeductible expenses	(37,302)	(19,756)	(14,747)
Loss from changes in equity in subsidiaries	352	(6,062)	(157)
Permanent exclusions:			
Interest on shareholders´ equity	265,200	333,200	302,124
Incentives	7,494	6,564	4,930
Unclaimed interest on shareholders’ equity	(9,604)	(24,772)	(15,317)
Other	-	-	(13,129)
Income tax and social contribution as reported in the	(1,108,107)	(871,347)	(724,071)

accompanying financial statements			
Effective rate	28.2%	25.5%	24.9%

In 2006, 2005 and 2004, the Company treated part or all of its dividends as interest on shareholders´ equity. As a result, under Brazilian tax law, it was entitled to treat this part of the dividend as tax deductible for income tax purposes.

The composition of deferred tax assets and liabilities is as follows:

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Deferred tax assets	**2006**	**2005**
Tax loss carryforwards	21,542	28,331
Reserve for contingencies	300,030	326,520
Pension and other post-retirement benefits	25,508	15,288
Allowance for doubtful accounts	144,790	101,408
Merged tax credit - T.Empresas (See Note 2) (a)	128,413	-
Other temporary differences (b).	368,888	338,100
Total (Note 15)	989,171	809,647
Deferred tax liabilities:		
Additional indexation expense until 1990	22,432	25,089
Unrealized exchange rate variation gains	62,487	60,463
Total	84,919	85,552

(a) Merged tax credit

As mentioned in Note 2, as a result of the merger of TDBH on July 28, 2006, the goodwill generated on the acquisition of investment Figueira Administração e Participações S.A. was merged into the Company. Figueira 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).

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:

Balance Sheet	**Parent Company 2006**
Goodwill, net of amortization	377,686
Reserve, net of reversals	(249,273)
Tax benefit, net	128,413

Income Statement	**Parent Company 2006**
Goodwill amortization	(34,203)
Reversal of reserve	22,574
Tax benefit	11,629
Effect on net income	-

For purposes of calculation of the tax credit arising from the merger, the tax rates applied were 25% for income tax and 9% for social contribution.

As shown above, goodwill amortization, net of provision reversal and related tax credit, did not generate any effects on net income for the period ended December 31, 2006.

For presentation purposes, the net amount of R$128,413 (R$100,396 in noncurrent assets and R$28,017 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.

(b) Other temporary differences

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Income tax credit	**2006**	**2005**
Profit Sharing	22,048	18,216
Accrued losses	13,127	13,126
Other provisions	134,501	115,604
Derivative transactions	76,151	70,168
Allowance for reduction to market value	24,982	28,493
FUST	85	-
Dismantling provision	346	-
Goodwill	1	2,996
Total	271,241	248,603
Social Contribution credit	**2006**	**2005**
Profit Sharing	7,937	6,558
Accrued losses	4,726	4,726
Other provisions	48,421	41,618
Derivative transactions	27,414	25,260
Allowance for reduction to market value	8,993	10,257
Goodwill	-	1,078
FUST	31	-
Dismantling provision	125	-
Total	97,647	89,497
Total other temporary differences	**368,888**	**338,100**

(c) Composition of tax liabilities:

	2006	**2005**
Social contribution payable	16,188	1,411
Federal income tax payable	63,692	21,350
Deferred tax liabilities	84,919	85,552
Total	164,799	108,313
Current	144,747	85,604
Noncurrent	20,052	22,709

Income tax and social contribution payable are presented net of advances paid during the year, according to CVM Deliberation nº 489/2005.

12. Supplemental cash flow information

	2006	**2005**	**2004**
Income tax and social contribution paid	1,049,944	1,072,243	153,799
Interest paid	245,144	322,622	287,921

Noncash transactions:			
Donations and subsidies for investments	472	593	1,241

13. Cash and cash equivalents

	2006	**2005**
Bank accounts	39,871	38,997
Short-term investments	173,165	424,459
	213,036	463,456

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All cash and cash equivalents are denominated in Brazilian Reais. Short-term investments are indexed under CDI (Certificate for Interbank Deposits) rate variation, are readily liquid and are maintained with first line financial institutions.

14. Trade accounts receivable, net

	2006	2005
Billed amounts	2,498,982	2,204,490
Accrued unbilled amounts	1,339,943	1,153,231
Gross accounts receivable	3,838,925	3,357,721
Allowance for doubtful accounts	(560,878)	(574,453)
Total	3,278,047	2,783,268

	2006	2005
Current	2,511,292	2,172,579
Past-due - 1 to 30 days	482,450	473,348
Past-due - 31 to 60 days	167,145	127,630
Past-due - 61 to 90 days	97,949	59,693
Past-due - 91 to 120 days	75,856	40,306
Past-due - more than 120 days	504,233	484,165
	3,838,925	3,357,721

Changes in the allowance for doubtful accounts were as follows:

	2006	2005	2004
Beginning balance	574,453	568,137	574,685
Provision charged to selling expense (Note 7a)	412,997	415,273	428,911
Write-offs	(426,572)	(408,957)	(435,459)
Ending balance	560,878	574,453	568,137

15. Deferred and recoverable taxes

	2006	2005
Withholding tax	88,645	61,484
Recoverable income tax and social contribution	14,716	5,869
Deferred income tax assets (Note 11)	989,171	809,647
State VAT (ICMS) (a)	367,696	230,859
Other	14,435	26,457
	1,474,663	1,134,316
Current	911,624	676,210
Noncurrent	563,039	458,106

(a) State VAT (ICMS)

Refers to credits on the acquisition of property, plant and equipment items which are available to offset State VAT (ICMS) taxes payable generated from service revenues. The utilization of these credits, however, is generally limited to 1/48 of the credit amount per month.

16. Other assets

	2006	2005
Maintenance inventories:		
Consumable supplies	94,883	84,897
Resale items	73,285	90,341
Scrap	351	634
Public telephone prepaid cards	13,063	13,200
Allowance for reduction to market value and obsolescence (a)	(99,927)	(113,971)
Subtotal	81,655	75,101

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Receivables from related parties	71,054	54,043
Prepayments	75,647	65,443
Recoverable advances	81,979	47,465
Receivables from Barramar S.A. (b)	65,579	71,041
Receivables from sale of properties and scrap	1,219	11,607
Other	20,348	24,879
	397,481	349,579
Current	276,344	243,400
Noncurrent	121,137	106,179

a) The allowance for reduction to market value and obsolescence of resale items and consumable supplies was based on a combination of factors that affected the telecommunications sector during the years.

b) Refers to receivables from Barramar S.A. recorded by the Company net of allowance for losses.

17. Advance for future share acquisition

Agreement entered into with Abril Comunicações S.A. - According to Relevant Fact, published on October 31, 2006 and in compliance with the Brazilian Securities and Exchange Commission (CVM) Instruction No. 358, dated 1/3/2002, on October 29, 2006, the Company published the agreement entered into with Abril Comunicações S.A., TVA Sistema de Televisão S.A., and the companies Comercial Cabo TV São Paulo Ltda., TVA Sul Paraná Ltda., and TVA Radioenlaces Ltda. (“Abril”), the Private Agreement of Convergence, Purchase and Sale of business, assets, shares and other agreements (“Contract”), with a view to converging the supply of telephone, broadband and cable TV services (“triple play”), and thus broaden the services to meet the increasing demand of such service users. The operation seeks to combine the expertise of the Abril Group in the production and placement of content and media, and of the Telefônica Group in the telecommunications segment.

For such, according to the terms of the Contract, the Company and Abril will put forth their combined efforts through several formal contract relations of commercial and operating natures. After implementation of a corporate restructuring involving Tevecap S.A. and the companies under its control, referred to above, holders of licenses and assets for rendering of Multichannel Multipoint Distribution Service (MMDS), Cable and Multimedia Communication Services (SCM) for broadband purposes, the objects of acquisition by the Company will be the shares representing 100% of the capital of a company which, on the closing date provided for in the Contract, will hold (i) directly, 100% of the shares representing an MMDS and broadband service company within and out of the state of São Paulo; (ii) indirectly, 100% of the preferred shares, in addition to part of the common shares, within the limits established in current legislation and regulations, of a Cable television service company out of the state of São Paulo; and (iii) indirectly, 100% of the preferred shares, in addition to part of the common shares, within the limits established in current legislation and regulations, of the capital of a Cable television service company within the state of São Paulo.

The effective acquisition of shareholding and the consequent transfer of shares, particularly the acquisition of control of the company holder of the MMDS license, are conditional upon previous approval by the National Communications Agency (ANATEL) and compliance with the other condition precedents provided for in the Contract. The Brazilian Antitrust Agency (CADE) must also analyze the transaction from the competitiveness point of view.

The Company further informs that a Special General Meeting will be held to confirm the Contract signature, in the terms of paragraph 1, article 256 of Law No. 6404/76, after its execution as per the terms above.

In order to meet the contractual conditions, on December 28, 2006, the Company paid the amount of R$200,000 in advance to Abril Group, and received as a warrant assets of TVA's network.

18. Escrow Deposits

	2006	2005
Civil	115,361	59,976
Taxes	205,861	237,320

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Labor	61,972	41,648
Noncurrent	383,194	338,944

The amounts presented above refer to escrow deposits for those cases in which an unfavorable outcome is considered possible or remote.

19. Investments

	2006	**2005**
Investments carried at cost:		
Portugal Telecom	130,658	129,655
Other companies	26,781	26,795
Allowance for losses	(15,903)	(29,247)
Tax incentive investments	-	15,164
Other investments	3,360	3,360
Goodwill on acquisition of Santo Genovese Participações Ltda., net of amortization	95,856	107,838
Goodwill on merger of Katalyx Cataloguing do Brasil Ltda.	945	-
	241,697	253,565

Additional information

· Companhia AIX de Participações

The negative goodwill of R$17,470, on the acquisition of shares of Companhia AIX de Participações recorded by the Company was allocated to “Deferred income” in the consolidated balance sheet in accordance with CVM Instruction nº. 247/96.

· Santo Genovese Participações Ltda.

On December 24, 2004 the Company acquired control of Santo Genovese Participações Ltda. The acquisition cost was R$113,440. The Company paid R$92,668 in December 2004 and the remaining balance during 2005. Goodwill is being amortized over 10 years, and is based on future profitability studies.

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 December 31, 2006 and 2005 are as follows:

	2006				
	Aliança Atlântica	A. Telecom	Companhia AIX	Companhia ACT	Telefonica Empresas
Paid-up capital	112,809	270,969	460,929	1	210,025
Capital reserve	-	-	-	-	1,137
Retained earnings (accumulated deficit)	5,983	(51,512)	(333,537)	50	(145,453)
Shareholders’ equity	118,792	219,457	127,392	51	65,709

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	2006				
	Aliança Atlântica	A. Telecom	Companhia AIX	Companhia ACT	Telefonica Empresas
Shares (thousands)					
Number of subscribed and paid-up shares	88	407,154	298,562	1	215,640
Number of common shares owned	44	407,154	149,281	0,5	215,640
Ownership percentage	50%	100%	50%	50%	100%

	2005				
	Aliança Atlântica	A. Telecom	Companhia AIX	Companhia ACT	Santo Genovese
Paid-up capital	110,763	254,000	460,929	1	76,850
Capital reserve	-	-	-	-	450
Retained earnings (accumulated deficit)	403	(94,614)	(329,644)	50	(60,330)
Shareholders' equity	111,166	159,386	131,285	51	16,970
Shares (thousands)					
Number of subscribed and paid-up shares	88	367,977	298,562	1	51,850
Number of common shares owned	44	367,977	149,281	0,5	51,850
Ownership percentage	50%	100%	50%	50%	100%

The Company's equity in subsidiaries is as follows:

	2006	2005
Aliança Atlântica	4.026	(15.551)
A. Telecom	39.499	(6.809)
Companhia AIX de Participações	(1.946)	(6.041)
Companhia ACT de Participações	-	1
Telefonica Empresas S.A.	(31,552)	-
Santo Genovese	3,603	(4,086)
	13,630	(32,486)

20. Property, plant and equipment, net

a. Composition:

	2006			
	Annual Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Construction-in progress	-	362,253	-	362,253
Automatic switching equipment	12.50 to 20.00	16,574,992	(13,589,154)	2,985,838
Transmission and other equipment	10.00	12,174,146	(9,154,475)	3,019,671
Transmission equipment - modems	20.00	709,915	(533,127)	176,788
Underground and marine cables, poles and towers	5.00 to 6.67	416,911	(232,427)	184,484
Subscriber, public and booth equipment	12.50	2,107,014	(1,399,038)	707,976
Electronic data processing equipment	20.00	575,836	(468,959)	106,877
Land	-	254,005	-	254,005
Buildings and underground ducts	4.00	6,513,350	(3,607,751)	2,905,599
Other assets	20.00	145,230	(100,158)	45,072
		39,833,652	(29,085,089)	10,748,563

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			2005	
	Annual Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Construction-in progress	-	317,246	-	317,246
Automatic switching equipment	12.50 to 20.00	15,893,532	(12,377,428)	3,516,104
Transmission and other equipment	10.00	11,569,647	(8,397,114)	3,172,533
Transmission equipment - modems	20.00	597,184	(439,597)	157,587
Underground and marine cables, poles and towers	5.00 to 6.67	407,157	(215,923)	191,234
Subscriber, public and booth equipment………….	12.50	1,951,370	(1,184,646)	766,724
Electronic data processing equipment	20.00	519,396	(423,587)	95,809
Land	-	253,802	-	253,802
Buildings and underground ducts	4.00	6,429,416	(3,392,543)	3,036,873
Other assets	20.00	92,594	(68,591)	24,003
		38,031,344	(26,499,429)	11,531,915

b. Rentals

The Company rents equipment, building and facilities through agreements that expire at different dates. The monthly rental payments are at an equal amount for the period of the contract, annually restated. Total annual rent expense under these agreements was as follows:

	2006	2005	2004
Rent expense	259,017	223,088	185,224

Rental commitments related primarily to facilities where the future minimum rental payments under leases with remaining noncancellable terms in excess of one year are:

Year ended December 31,	
2007	3,287
2008	3
Total minimum payments	3,290

c. Guarantees

The Company has property items pledged as guarantee in connection with certain legal proceedings as of December 31, 2006. The aggregate amount of claims involved is R$216,659 (R$201,293 in 2005).

21. Intangible assets

	2006			
	Annual Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Patents and trademarks	10.00	1,517	(1,511)	6
Software	20.00	1,928,952	(1,084,052)	844,900
Others	20.00	166,334	(108,327)	58,007
		2,096,803	(1,193,890)	902,913

	2005			
	Annual Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Patents and trademarks	10.00	1,476	(1,470)	6
Software	20.00	1,578,412	(777,758)	800,654
Others	20.00	105,576	(80,128)	25,448
		1,685,464	(859,356)	826,108

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22. Deferred charges

Deferred charges as of December 31, 2006 and 2005 are as follows:

	2006	2005
Preoperating expenses (a)		
Cost	65,279	65,279
Accumulated amortization	(56,973)	(44,863)
	8,306	20,416
Goodwill on the acquisition of the IP network (b)		
Cost	72,561	72,561
Accumulated amortization	(29,024)	(21,843)
	43,537	50,718
Goodwill on Spanish and Figueira (TDBH's merged) (c)		
Cost	301,276	-
Accumulated amortization	(52,965)	-
	248,311	-
Other		
Cost	12,059	12,059
Accumulated amortization	(5,927)	(4,612)
	6,132	7,447
Total	306,286	78,581

(a) Preoperating expenses refer to costs incurred during the preoperating stage for long-distance services, which amortization began in May 2002 and is recorded over a period of 60 months. Pre-operating expenses in subsidiaries are being amortized over 120 months.

(b) Goodwill paid on the acquisition of the IP network in December 2002 refers to the acquisition of the assets and customer portfolio for the "IP Comutado" and "Speedy Link" services of Telefônica Empresas S.A. The portion of the price in excess of the book value of property, plant and equipment items was treated as goodwill and recorded in deferred charges. According to an appraisal report, the economic basis of the goodwill is the expected future Company's profitability and it is amortized over 120 months.

(c) The goodwill resulting from takeover of Telefônica Data Brasil Holding S.A. (TDBH) refers to the corporate restructuring that took place in July 2001, with the spin-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.

23. Payroll and related accruals

	2006	2005
Wages and salaries	22,493	22,385
Accrued social security charges	89,053	71,313

Accrued benefits	18,929	5,221
Employee profit sharing	71,758	63,242
	202,233	162,161

24. Accounts payable and accrued expenses

	2006	2005
Amounts payable to suppliers		
In local currency	1,644,074	1,505,179
In foreign currency	1,696	1,792
Current	1,645,770	1,506,971

25. Taxes other than income taxes

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	2006	2005
Value-added taxes	717,406	676,834
Other indirect taxes on operating revenues (a)	73,293	333,479
Others (b)	46,870	37,076
	837,569	1,047,389
Current	811,668	761,970
Long-term	25,901	285,419

(a) In October, 2006, the Company reversed a federal tax contingency related to the favorable ruling for the Company in the legal process questioning the increase in calculation basis of Contributions for Financing of Social Security (COFINS - applicable until February 2004) and for the Social Integration Program (PIS - applicable until November 2002) with the inclusion of financial revenues, securitizations and foreign exchange rate variations, in the amount of R$274,277 on September 30, 2006 (R$260,536 on December 31, 2005), of which R$123,287 correspond to interest and monetary variation. The effect of the aforesaid reversion is R$257,623 as provision reversal and R$16,654 as monetary restatement for 2006.

(b) Includes FUST payable in the amount of R$66,203 in December, 2006, net of escrow deposits in the amount of R$53,099.

26. Dividends and interest on shareholders' equity payable

	2006	2005
Payable by Telesp to:		
Controlling shareholders	89,849	283,745
Minority shareholders	563,373	619,611
	653,222	903,356

27. Loans and financing

	Currency	Annual Interest rate %	Maturity	2006
Mediocrédito	US$	1.75 %	2007	6,431
Mediocrédito	US$	1.75 %	2008 to 2014	41,798
Other loans in foreign currency	US$/JPY	Various (c)	2007	303,969
Other loans in foreign currency	US$	Various (c)	2008 to 2009	445,680
Loan in local currency	R$	130% of CDI	2007	737
Accrued interest (a)	R$/US$/ JPY/R$	-	2007	2,890
Accrued interest (b)	US$	-	2008 to 2009	22,139
				823,644

Current	314,026
Long-term	509,618

	Currency	**Annual Interest rate %**	**Maturity**	**2005**
Mediocrédito	US$	1.75 %	2006	7,040
Mediocrédito	US$	1.75 %	2007 to 2014	52,802
Other loans in foreign currency	US$/JPY	Various (c)	2006	203,903
Other loans in foreign currency	US$	Various (c)	2007 to 2009	588,068
Loan in local currency	R$	6% + 3.75% spread and CDI + 0.4% per month	2006	1,898
Accrued interest (b)	R$/US$/ JPY/CAN$	-	2006	12,170
Accrued interest (b)	US$	-	2007	9,983
				875,864
Current				225,011
Long-term				650,853

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(a) Refers to interest on loan in local currency (R$304) and loans in foreign currency (R$2,586).

(b) Refers to interest on loans denominated in foreign currency.

(c) Line item represents aggregate of other loans in foreign currency, each with its own respective interest rate. See Note 27a below for detail on respective interest rates.

CDI - Certificate for Interbank Deposits. CDI is an index based upon the average rate per cost of loans negotiated among the banks within Brazil. At December 28, 2006, CDI's rate was 13.17%.

a. Other loans in foreign currency

The composition of other loans in foreign currency is as follows:

	Currency	Annual interest rate -%	2006
Resolution No. 2,770	JPY	0.28 to 5.78	215,118
Resolution No. 2,770	US$	4.80	289,701
"Untied Loan" - JBIC	JPY	LIBOR + 1.25	269,209
			774,028

	Currency	Annual interest rate -%	2005
Resolution No. 2,770	US$	5.70 to 6.9	114,974
Resolution No. 2,770	US$	4.80	302,911
"Untied Loan" - JBIC	JPY	LIBOR + 1.25	395,808
			813,693

b. Guarantees

Loans related to Mediocrédito are guaranteed by Federal Government.

c. Debt acceleration risk

The Company's JBIC - Japan Bank for International Cooperation loan agreement contains standard restrictive clauses (covenants) relating to maintenance of financial ratios. At December 31, 2006, the Company complied with the covenants.

d. Repayment schedule

Long-term debt as of December 31, 2006 is scheduled to be repaid as follows:

Maturity	**Total**
2008	385,191
2009	95,490
2010	6,431
2011	6,431
2012	6,431
Thereafter	9,644
	509,618

28. Debentures

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	Currency	Annual Interest rate %	Maturity	2006
Debentures	R$	103.5 % of CDI	2007	1,500,000
Accrued interest	R$	-	2007	14,514
				1,514,514
Current				1,514,514

	Currency	Annual Interest rate %	Maturity	2005
Debentures	R$	103.5 % of CDI	2007	1,500,000
Accrued interest	R$	-	2006	21,744
				1,521,744
Current				21,744
Long-term				1,500,000

On September 3, 2004, the Company approved a Securities Distribution Program (“Program”) to raise capital for general corporate purposes. Accordingly, the Company filed a registration statement with the Brazilian Securities Commission on October 15, 2004, pursuant to which it may offer from time-to-time over a two-year period, non-convertible and unsecured simple debentures and/or promissory notes up to an aggregate amount of R$3.0 billion.

Pursuant to the Program, the Company issued Debentures maturing on September 1, 2010 in an aggregate principal amount of R$1.5 billion in minimum denominations of R$10.00. The Debentures bear interest commencing the date of issue with quarterly payments and are indexed to 103.5% of the CDI. The Debentures include an adjustment provision on September 1, 2007 that would allow for certain modifications in the terms and conditions governing the Debentures if a certain percentage of the holders vote favorably, including, among other adjustments, payment of principal in 2007 and/or the extension of payment beyond the maturity date of principal and/or interest. Given the presence of the adjustment provision, to be conservative, the Company has recorded its obligation to pay the principal on the Debentures in fiscal year 2007 as opposed to their scheduled maturity date in 2010.

29. Other liabilities

	2006	2005
Consignments on behalf of third parties		
Collateral for deposits	1,858	1,848
Amounts charged to users	96,025	89,712
Retentions	70,684	89,725

Other consignments	1,225	1,337
Total	169,792	182,622
Liabilities with related parties (Note 33)	25,494	76,048
Selling of fraction shares after reverse split of shares (Note 39d)	115,585	99,860
Advances from customers	55,388	58,868
Amounts to be refunded to subscribers	61,667	39,874
Concession renewal fee	121,684	-
Other	58,215	44,163
	607,825	501,435
Current	558,414	455,974
Long-term	49,411	45,461

30. Reserve for contingencies

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	Amounts involved				
	2006				2005
	Labor	Tax	Civil	Total	Total
Beginning balance	343,530	243,468	56,569	643,567	541,136
Additions	51,065	22,902	69,458	143,425	99,965
Payments/Reversal	(49,621)	(19,641)	(35,418)	(104,680)	(63,233)
Monetary Variation	66,804	38,454	34,963	140,221	65,699
Spin-off TEmpresas	3,248	-	120	3,368	-
Ending balance	415,026	285,183	125,692	825,901	643,567
Escrow Deposits	(81,475)	(56,853)	(10,194)	(148,522)	(71,963)
Net	333,551	228,330	115,498	677,379	571,604
Current	57,896	110	42,655	100,661	67,791
Noncurrent	275,655	228,220	72,843	576,718	503,813

The Company's provisioning policy for legal proceedings is based upon the risk of loss being determined as "probable", "possible" or "remote".

The Company, itself and also as successor-in-interest to certain entities, and its subsidiaries are involved in labor, tax and civil proceedings. Company management, in conjunction with and based on the opinion of its legal counsel, has recognized reserves for those cases in which an unfavorable outcome is considered probable, as follows:

Nature	**2006**	**2005**
Labor	415,026	343,530
Tax	285,183	243,468
Civil	125,692	56,569
Total	825,901	643,567
Current	100,661	67,791
Long term	725,240	575,776

Labor contingencies

The Company has various labor contingencies in the amount of R$2,833,034 at December 31, 2006, of which R$415,026 was reserved to cover probable losses.

These contingencies involve several lawsuits, mainly related to wage differences, wage equivalence, overtime, employment relationship with employees of outsourced companies and job hazard premium, among others.

Tax contingencies

The Company has various tax contingencies in the amount of R$5,126,932 at December 31, 2006, of which R$285,183 was reserved to cover probable losses.

The principal tax contingencies for which the risks are considered remote, possible and probable by management and in conjunction with its legal counsel are as follows:

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

a. Several legal proceedings for the collection of *Seguro de Acidente de Trabalho* (Workers Accident Insurance Compensation, or SAT) from January 1986 to June 1997, in the amount of R$310,844. Based on a partially unfavorable court decision, management decided to record a provision of R$102,402 relating to the portion of the total amount for which the likelihood of loss is probable. The Company made an escrow deposit in the amount of R$533.

b. Discussion relating to certain amounts paid under the Company's collective labor agreements, as a result of inflationary adjustments arising out of *Planos Bresser* and *Verão*, in the aggregate amount of R$137,144 for which an unfavorable outcome is considered possible. Based on jurisprudence and a court decision for a similar proceeding involving a related company, management decided to record a provision of R$94,452 relating to the portion of the total amount for which the likelihood of loss is probable.

c. Notification demanding social security contributions, SAT and amounts for third parties (National Institute for Agrarian Reform and Colonization (INCRA) and Brazilian Mini and Small Business Support Agency (SEBRAE)) for the payment of various salary amounts for the period from January 1999 to December 2000, in the amount of R$57,984. These lawsuits are in the 1st lower court and at the last administrative level, respectively. No provision was made for the balance, for which the likelihood of loss is deemed possible.

d. Notification demanding social security contributions for joint liability in 1993, in the amount of R$187,055, for which the risk is considered possible. No provision was made for this lawsuit. This process is at the 2nd administrative level.

e. Legal proceedings imposed fines amounting to R$161,982 for distribution of dividends when the Company was allegedly in debt to INSS. No provision was made for the balance, for which the likelihood of loss is deemed possible. This matter is at the 2nd administrative level.

f. On December 20, 2005, tax deficiency notices related to the period between May/1995 and December/1998 were drawn against the Company, demanding the payment of social security contributions amounts, assessed under an estimated tax base and taking into consideration the existence of a joint liability among the Company, general service providers and civil construction companies. R$236,474, which is based on the tax authority's use of incorrect criteria for determining the amount of the tax, has been deemed at remote risk by legal advisors. R$178,432 is also deemed at remote risk, pending the tax authority's assessment of technical reports from engineering institutes on the proper items that should make up the tax base. The amount of R$791,021 is classified as possible risk, due to the existing judicial arguments towards the maintenance of the procedure adopted by the Company and the removal of the joint liability. Such proceeding is presently at the 1st administrative level and no provision was made.

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

g. Assessments on October 31 and December 13, 2001, related to ICMS (State VAT) allegedly due on international long-distance calls amounting to approximately R$28,301 for the period from November to December 1996, R$208,907 from January 1997 to March 1998 and to R$187,656 for the period from April 1998 to December 1999. All proceedings are at the 2nd administrative level. Considering the risk level (possible), no provision was made.

h. Assessment on July 2, 2001 demanding the difference in ICMS paid without late-payment penalty, amounting to R$6,182, considered as a possible risk. The claim is in the 2nd lower court level. Considering the risk level, no provision was made.

i. Infraction notice related to the use of credits in the period from January to April 2002, in the amount of R$31,444, for which the risk is considered possible. The claim is at the 2nd administrative level. Considering the risk level, no provision was made.

j. Infraction notice related to the non-reversal of ICMS credits in proportion to sales and exempt and non-taxed services in the period from January 1999 to June 2000 and from July 2000 to December 2003, in addition to an ICMS credit unduly used in March 1999. The total amount involved is R$111,405. The risk is considered possible by legal counsel. The claims are at the 2nd and first administrative level, respectively. Considering the risk level, no provision was made.

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k. Notifications amounting to R$8,283 regarding the defunct Ceterp's fiscal benefit loss, through State Order nº 48.237/03, due to underpayment owing to an incorrect calculation of the debt amount, considered as possible risk. Considering its risk level, no provision was made.

· Litigation at the Federal and Municipal levels:

l. 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 led to the creation of taxable credits, caused by higher payments, which were offset by CTBC (company merged into the Company in November 1999) against current payments of related taxes, the COFINS. Claiming that those offsets made by CTBC were improper, the Federal Government made an assessment in the amount of R$18,727, considered as a probable loss. The claim is at the 2nd court level. Considering the risk level, the Company made a provision in this amount.

m. Fiscal execution demanding differences regarding income tax, declared on DCTF's (Federal Tax Contribution Declaration) in 1999, around R$5,494 is considered as possible risk. It is at the 1st administrative level and no provision was made.

n. At the municipal level, the Company has contingencies related to real estate tax (IPTU), municipal tax on services (ISS), fines and charges in the amount of R$4,905, which have been all accrued due to the existence of favorable and unfavorable decisions in relation to the Company's position. The Company made escrow deposits in the amount of R$1,888.

o. The City of São Paulo assessed the Company, alleging differences in the payment of the municipal tax on services (ISS), by the imputation of fines of 20% not paid by the Company, in the amount of R$19,024. The Company did not reserve for this contingency, since the lawyers responsible for this case believe that the risk is possible. The claim is at the 1st court level.

p. On December 15, 2005, ANATEL edited Abridgment nº 01 (subsequently changed to Abridgment nº 07), where it confirmed its opinion not to exclude interconnection expenses from FUST basis, modifying its previous position. The Abridgment has retroactive application, since January, 2001. Thus, through ABRAFIX - Brazilian Fixed Telecommunication Companies Association, on January 9, 2006, the Company petitioned a Security Mandate in order to assure the possibility of excluding interconnection expenses from FUST basis. The lawsuit is at the 1st court level and it is considered as possible for legal counsels. The amount involved is R$120,479 and no provision was made.

q. IRS tax delinquency notice claming 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.

r. There are other contingencies that have also been accrued, for which the involved amount is R$63,367; the risk is considered probable by management.

Civil contingencies

The Company has various civil contingencies in the amount of R$2,471,141 at December 31, 2006, of which R$125,692 was reserved to cover probable losses.

These contingencies are related to different proceedings, including: telephone line with no recognized ownership, material and personal damages indemnity, and others, in which the aggregate amount in controversy is R$451,034. The Company is also involved in public class action lawsuits related to the Community Telephone Plan (PCT), claiming the possible right for indemnity for purchasers of the expansion plans who did not receive shares for their financial investment, in the municipalities of Santo André, Diadema, São Caetano do Sul, São Bernardo do Campo, Ribeirão Pires and Mauá, involving a total amount of approximately R$291,205. The risks involved are considered possible by legal counsel. The claim is in the 2nd court.

Moreover, there is a claim by ASTEL - Sistel Participants Association in São Paulo State, against the Company, Sistel Foundation and others, relating to PAMA - Pension Benefit and Health Care for retirees,

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about the following issues: (i) prohibition of charging contributions from the retirees who joined PAMA; (ii) reinstatement of retirees whose subscriptions were suspended due to default; (iii) revaluation of PAMA's economics needs ; (iv) reapplication of incidence basis of contributions on total and gross amount of payroll of all Company's employee; (v) inclusion of all hospitals, doctors, clinics and laboratories which were excluded by Sistel and (vi) equity accounting distribution review. The Company's management, based on its legal counsel opinion, considers this proceeding as possible risk, with an estimated amount of R$187,999. According to the risk, no provision was recorded.

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 is R$59,929. 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. Since the risk level was considered as probable, provision was made.

31. Pension and other post-retirement benefits

Telesp, together with other companies of the former Telebrás System, sponsors private pension benefit plans and health care plans for retirees, managed by Fundação Sistel de Seguridade Social ("Sistel"). Until December 1999, all sponsors of the existing plans managed by Sistel were unified. On December 28, 1999, the sponsors of the plans managed by Sistel negotiated the conditions for the creation of plans separated by sponsor (PBS Telesp Plan) and the continuation of participation in the unified plans only for participants who were already retired on January 31, 2000 (PBS-A), resulting in a proposal for restructuring the statutes and regulations of Sistel, which was approved by the Supplementary Pension Plan Secretariat on January 13, 2000.

In December, 2004, Visão Prev Sociedade de Previdência Complementar was formed in order to manage Visão Plan and Telesp PBS, which were transferred from Sistel to this new entity. Visão Prev obtained an authorization through Official Letter nº 123, on October 7, 2004, from Supplementary Pension Plan Secretariat. The transfer of the plan's assets and liabilities was effective on February 18, 2005.

The transfer process of Telesp's Visão Plan and Telesp PBS Plan was approved by Supplementary Pension Plan Secretariat through the Official Letter nº 49/DEPAT/SPC and nº 50/DEPAT/SPC, published on January 12, 2005, respectively.

Such transfer did not cause any onus to the participants, since the rules and participants' rights were maintained. Fundação Sistel will continue as PBS-A and PAMA administrator, and Telesp will continue sponsoring these plans with solidarity to the other Sistel sponsors.

Telesp individually sponsors a defined retirement benefit plan (PBS Telesp Plan), which covers less than 1% (0.81%) of the Company's employees. In addition to the supplemental pension benefit, health care (PAMA) is provided to retired employees and their dependents, at shared costs. Contributions for the PBS Telesp Plan are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The method used to determine costing is the capitalization method and the contribution by the sponsoring entity is 6.93% of payroll of employees covered by the plan, of which 5.43% is allocated to the cost of the PBS Telesp Plan and 1.5% to the cost of the PAMA Plan.

As a consequence of the favorable results of Telesp's PBS Plan, there was no contribution for the Past Service in 2006.

For the other Telesp employees, there is an individual defined contribution plan - Visão Telesp Benefit Plan, established by Sistel in August 2000. The Visão Telesp Plan is supported by contributions made by the participants (employees) and by the sponsor, which are credited to participants' individual accounts. Telesp is responsible for the costs of all administrative expenses and plan maintenance, including participant's death and disability risks. The employees participating in the defined benefit plan (PBS Telesp Plan) were granted the option of migrating to the Visão Telesp Plan. The new Plan was also offered to the other employees who did not participate in the PBS Telesp Plan, as well as to new hires. The Company's contributions to the Visão Telesp Plan are equal to those of the employees, varying from 2% to 9% of salary, based on the percentage chosen by the participant.

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Additionally, the Company supplements the retirement benefits of certain employees of the former CTB - Companhia Telefônica Brasileira.

In 2006, the Company made contributions to the PBS Telesp Plan in the amount of R$50 (R$444 in 2005) and the Visão Telesp Plan in the amount of R$25,192 (R$23,585 in 2005).

A.Telecom individually sponsors a defined contribution plan similar to that of Telesp, the Visão A.Telecom Benefit Plan, which covers about 26% of its employees. A. Telecom's contributions to that plan totaled R$301 (R$312 in 2005).

Telefônica Empresas S.A. individually sponsors a defined contribution plan similar to that of Telesp, the Visão Telefônica Empresas. The contributions to this plan from August to December totaled R$506.

The Company recognized actuarial liabilities as provided in CVM Instruction No. 371 of December 13, 2000. The actuarial valuation of the plans was made using the projected unit credit method. For multiemployer plans (PAMA and PBS-A), apportionment of assets is made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

The accrual for the plans as of December 31, 2006 and 2005 is as follows:

Plan	**2006**	**2005**
PBS / Visão Telesp / CTB	23,326	21,857
PAMA	51,604	23,106
Visão Assist	93	-
Total	75,023	44,963

a) Reconciliation between assets and liabilities

			2006		
	PBS/Visão-Telesp/CTB	**PAMA (i)**	**PBS-A (i) (ii)**	**Visão Assist**	**Visão TEmpresas**
Total actuarial liabilities	118,049	111,135	882,270	477	1,055
Fair value of assets	134,241	59,531	1,305,207	384	5,161
Liabilities (assets), net	(16,192)	51,604	(422,937)	93	(4,106)
Unrecorded surpluses	39,518	-	422,937	-	4,106
Recorded balance	23,326	51,604	-	93	-

2005

	PBS/Visão-Telesp/CTB	PAMA (i)	PBS-A (i) (ii)	Visão Assist
Total actuarial liabilities	108,323	77,961	831,651	195
Fair value of assets	109,948	54,855	1,077,350	341
Liabilities (assets), net	(1,625)	23,106	(245,699)	(146)
Unrecorded surpluses	23,482	-	245,699	146
Recorded balance	21,857	23,106	-	-

(i) Refers to Telesp’s proportional share of assets and liabilities of multisponsored plans PAMA and PBS-A.

(ii) Despite the surplus of PBS-A as of December 31, 2006 and 2005, no asset was recognized by the sponsor in view of the legal impossibility of reimbursement of such surplus, in addition to the fact that this is a noncontributory plan, which prevents a reduction of the sponsor’s contributions in the future.

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b) Expenses recognized in income

	2006			
	PBS /Visão Telesp/CTB	PAMA	Visão -Assist	Visão - TEmpresas
Service cost	2,582	-	35	510
Interest cost	11,587	8,616	20	263
Expected return on assets	(14,942)	(6,846)	(47)	(716)
Employees' contributions	(152)	-	-	(14)
	(925)	1,770	8	43

	2005		
	PBS /Visão Telesp/CTB	PAMA	Visão -Assist
Service cost	3,232	41	32
Interest cost	12,100	8,321	26
Expected return on assets	(13,142)	(8,979)	(22)
Employees' contributions	(407)	-	-
	1,783	(617)	36

c) Change in net actuarial liabilities (assets)

	PBS /Visão Telesp/CTB	PAMA	Visão -Assist	Visão - TEmpresas
Liabilities, net - December 31,2004	16,094	18,917	87	-
Expenses for 2005	1,783	(617)	36	-
Companies' contributions for 2005	(6,580)	(20)	(35)	-
Recognition of (gains) losses for the year	(12,922)	4,826	(234)	-
Liabilities (assets), net - December 31,2005	(1,625)	23,106	(146)	-
Expenses for 2006	(925)	1,770	8	43
Companies´ contributions for 2006	(5,609)	(31)	(49)	(341)
Recognition of (gains) losses for the year	(8,034)	26,759	280	(1,222)
Business Combination - TEmpresas consolidation	-	-	-	(2,586)
Liabilities (assets), net - December 31,2006	(16,193)	51,604	93	(4,106)
Actuarial assets not recognized	39,519	-	-	4,106
Actuarial liabilities recognized on Balance Sheet	23,326	51,604	93	-

d) Change in actuarial liabilities

	PBS /Visão-Telesp/CTB	PAMA	PBS-A	Visão Assist	Visão TEmpresas
Actuarial liability as of December 31, 2004	114,700	75,388	768,752	257	-
Cost of current service	3,201	41	-	32	-
Interest on actuarial liabilities	12,073	8,321	83,007	27	-
Benefits paid during the year	(9,313)	(5,845)	(68,604)	-	-
Actuarial (gains) losses for the year	(12,395)	56	48,496	(121)	-
Actuarial liability as of December 31, 2005	108,266	77,961	831,651	195	-
Cost of current service	2,582	-	-	35	510
Interest on actuarial liabilities	11,588	8,616	89,947	20	263
Benefits paid during the year	(9,172)	(5,293)	(71,556)	-	-
Actuarial (gains) losses for the year	3,055	29,851	32,228	227	(574)
Business Combination - TEmpresas consolidation	-	-	-	-	2,529
Migration between plans	1,673	-	-	-	(1,673)
Actuarial liability as of December 31, 2006	117,992	111,135	882,270	477	1,055

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e) Change in plan assets

	PBS /Visão-Telesp/CTB	PAMA	PBS-A	Visão Assist	Visão TEmpresas
Fair value of plan assets at December 31, 2004	98,606	56,471	999,710	170	-
Benefits paid during the year	(9,314)	(5,845)	(68,604)	-	-
Contributions during the year	6,767	20	-	36	-
Return on plan assets during the year	13,141	8,979	117,804	22	-
Gains on Assets	748	(4,770)	28,440	113	-
Fair value of plan assets at December 31, 2005	109,948	54,855	1,077,350	341	-
Benefits paid during the year	(9,172)	(5,293)	(71,556)	-	-
Contributions during the year	5,736	32	-	48	359
Return on plan assets during the year	14,942	6,846	130,537	51	716
Business Combination - TEmpresas Consolidation	-	-	-	-	5,115
Gains on Assets	12,787	3,091	168,876	(56)	(1,029)
Fair value of plan assets at December 31, 2006	134,241	59,531	1,305,207	384	5,161

f) Expenses estimated for 2007

	PBS /Visão Telesp/CTB	PAMA	Visão -Assist	Visão - TEmpresas
Cost of current service	3,349	-	86	248
Interest cost	11,472	11,159	45	98
Expected return on assets	(15,323)	(6,087)	(45)	(604)
Employees' contributions	(191)	-	(1)	(20)
Total	(693)	5,072	85	(278)

g) Actuarial assumptions

	2006		
	PBS/Visão Telesp/Visão Assist/CTB	PAMA	PBS-A
Rate used for present value discount of actuarial liabilities	10.24% p.a.	10.24% p.a.	10.24% p.a.
Expected return on plan assets	11.66% p.a.	10.61% p.a.	13.18% p.a.
Future salary increase rate	6.08% p.a.	6.08 % p.a.	6.08% p.a.
Inflation	4.00% p.a.	4.00% p.a.	4.00% p.a.
Medical cost increase rate	Not applicable	7.12%p.a.	Not applicable
	Not applicable	4.00% p.a.	

Increase in use of medical services for each additional year of age			Not applicable
Benefit growth rate	4.00% p.a.	4.00% p.a.	4.00% p.a.
Capacity factor - salaries	98.00%	Not applicable	Not applicable
Capacity factor - benefits	98.00%	Not applicable	Not applicable
Mortality rate	At-83 segregated by sex	At-83 segregated by sex	At-83 segregated by sex
Disability mortality rate	IAPB-57	Not applicable	Not applicable
Disability rate	Mercer Disability Table	Mercer Disability Table	Not applicable
Turnover table	0.15/(Employment time + 1) up to 50 years old - zero	Not applicable	Not applicable
Retirement age	Age at which participants are first entitled to one of the benefits	Age at which Social Security Retirement is eligible	Not applicable

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Married active participants on retirement date	95.00%	Not applicable	Not applicable
Age difference between participants and spouses	Wives are four years younger than husbands	Not applicable	Not applicable
Number of active participants and dependents	-	-	-
Number of participants’ beneficiaries	-	3,400	5,311
Number of PBS - Telesp Plan/CTB active participants	51	-	-
Number of PBS - Telesp Plan/ CTB retired participants	326	-	-
Number of dependent groups of retirees - PBS - Telesp/CTB	29	-	-
Number of active participants of Visão Telesp Plan (including self-sponsored)	6,810	-	-
Number of active participants of Visão Assist Plan	136	-	-
Number of active participants of Visão Telefônica Empresas	293	-	-

	2005		
	PBS/Visão Telesp/Visão Assist/CTB	**PAMA**	**PBS-A**
Rate used for present value discount of actuarial liabilities	11.30% p.a.	11.30% p.a.	11.30% p.a.
Expected return on plan assets	13.98% p.a.	12.88% p.a.	12.53% p.a.
Future salary increase rate	7.10% p.a.	7.10% p.a.	7.10% p.a.
Inflation	5.00% p.a.	5.00% p.a.	5.00% p.a.
Medical cost increase rate	Not applicable	8.15%p.a.	Not applicable
Increase in use of medical services for each additional year of age	Not applicable	4.00% p.a.	Not applicable
Benefit growth rate	5.00% p.a.	5.00% p.a.	5.00% p.a.
Capacity factor - salaries	98.00%	Not applicable	Not applicable
Capacity factor - benefits	98.00%	Not applicable	Not applicable
Mortality rate	UP94 with 2 years of aggravation segregated by sex	UP94 +2	UP94 with 2 years of aggravation segregated by sex
Disability mortality rate	IAPB-57	Not applicable	Not applicable
Disability rate	Mercer Disability Table	Mercer Disability Table	Not applicable
Turnover table	0.15/(Employment time + 1) up to 50 years old - zero	Not applicable	Not applicable

Retirement age	Age at which participants are first entitled to one of the benefits	Age at which Social Security Retirement is eligible	Not applicable
Married active participants on retirement date	95.00%	Not applicable	Not applicable
Age difference between participants and spouses	Wives are four years younger than husbands	Not applicable	Not applicable
Number of active participants and dependents	-	-	-
Number of participants’ beneficiaries	-	3,282	5,334
Number of PBS - Telesp Plan/CTB active participants	44	-	-
Number of PBS - Telesp Plan/ CTB retired participants	350	-	-
Number of dependent groups of retirees - PBS - Telesp/CTB	23	-	-
Number of active participants of Visão Telesp Plan (including self-sponsored)	6,798	-	-
Number of active participants of Visão Assist Plan	77	-	-

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32. Shareholders' equity

a. Share capital

The Company's authorized share capital at December 31, 2006 was 700 million shares, both common and preferred, with the Board of Directors being the body that is competent to approve any increase and issue of additional shares, within the limit of authorized capital.

Capital as of December 31, 2006 and 2005 is R$6,575,198 and R$5,978,074, respectively. Capital subscribed and paid-up at the balance sheet date was represented by the following shares, without par value:

Number of shares	**2006**	**2005**
Total shares:		
Common shares	168,819,870	165,320,206
Preferred shares	337,417,402	328,272,072
Total	506,237,272	493,592,278
Treasury Shares		
Common shares	(210,578)	(1,258,508)
Preferred shares	(185,213)	(303,879)
Total	(395,791)	(1,562,387)
Total outstanding shares	505,841,481	492,029,891
Shareholders' equity	10,610,114	10,204,207
Book value per outstanding share (R$)		
Common and preferred shares	20.98	20.74

The Company's share capital may be increased only by a decision taken at a shareholders' meeting or by the Board of Directors up to the limit of authorized capital.

In a capital increase, the number of preferred shares, non-voting or restricted vote, cannot exceed 2/3 of issued shares.

The preferred shares are non-voting except under limited circumstances and are entitled to receive cash dividends 10% higher than those attributed to common shares and have priority over the common shares in the case of liquidation of the Company.

At the Special General Meeting held on March 9, 2006, the shareholders approved, by unanimous voting, the cancellation of 1,562,387 treasury shares issued by the Company, namely, 1,258,508 common shares and 303,879 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 merger Telefônica Data Brasil Holding S.A. (See Note 2). The following shares were issued:

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

b. Capital reserves

Share premium

This reserve represents the amount exceeding book value of the shares arising from issuance or capitalization on the date of issuance.

Donations and subsidies

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This reserve represents amounts received as donations of property resulting from plant expansion for telecommunication services.

Other Capital Reserves

These reserves are represented by tax incentive investments and treasury shares.

The treasury shares are resulting from the process of TDBH’s merger by Telesp. The amount of 17,207 common shares and 60 preferred shares were acquired during the ex-TDBH’s dissident period, by the amount of R$0.56 per thousand shares. The treasury shares were acquired through an auction, where the Company acquired 193,371 common shares and 185,153 preferred shares, by the amount of R$41.25 each common share and R$48.68 each preferred share. This acquisition contributed to the necessary liquidity for shareholders’ payment. The total result for these acquisitions was 210,578 common shares and 185,213 preferred shares, in the amount of R$17,719. The average cost was R$44.77. On December 31, 2006, the market value for the registered treasury shares was R$20,151.

c. Income reserves

Legal reserve

Brazilian corporations are required to appropriate 5% of annual net income to a legal reserve until that reserve equals 20% of paid-up share capital, or 30% of nominal paid-up share capital plus capital reserves; thereafter, appropriations to this reserve are not compulsory. This reserve can be used only to increase share capital or offset accumulated losses. The Company did not appropriate legal reserve in 2006 since capital reserves plus legal reserve would exceed 30% of share capital (Law 6,404/76, Article 193).

d. Retained earnings

Net income for 2005 was fully allocated to dividends and interest on shareholders’ equity declared on May 23, 2006. The balance on December 31, 2006, in the amount of R$705,631 refers to the remaining income of 2006, and its destination will be decided at the Shareholders’ Meeting, according to the law 10,303/01. The Company’s management proposes that the remaining balance remains in Retained Earnings for future application on modernization and expansion of telecommunication services. This amount is included in Capital Budget.

e. Dividends

Pursuant to its by-laws, the Company is required to distribute as dividends in respect of each fiscal year ending on December 31, to the extent earnings are available for distribution, an aggregate amount equal to at least 25% of Adjusted Net Income (as defined below). Preferred shares are entitled to receive cash dividends 10% higher than those attributed to common shares.

As determined by Brazilian Corporation Law, and in accordance with the Company’s by-laws, “Adjusted Net Income” is an amount equal to the Company’s net income adjusted to reflect allocations to or from (i) legal reserve and (ii) a contingency reserve for anticipated losses, if any.

For 2006 and 2005, dividends and interest on shareholders' equity were calculated, as follows:

	2006	2005
Statutory minimum dividends based on adjusted net income:		
Net income	2,816,151	2,541,947
Allocation to legal reserve	-	-
Adjusted net income	2,816,151	2,541,947
Statutory minimum dividends of 25%	704,038	635,487
Interest on shareholders' equity, net of income tax on minimum dividends	663,000	833,000
Additional dividends declared	2,349,604	2,790,000
Total dividends paid and declared, net of income tax	3,012,604	3,623,000

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	2006		**2005**	
Amounts per share - R$	Gross	Net	Gross	Net
Interest on shareholders' equity				
Common shares	1.445197	1.228417	1.865213	1.585431
Preferred shares	1.589717	1.351259	2.051734	1.743674

	2006	
Amounts per share - R$	**Common**	**Preferred**
Interest on shareholders' equity - net of income tax	1.228417	1.351259
Interim dividends declared in May 2006	2.166018	2.382619
Interim dividends declared in November 2006	2.186948	2.405643
	5.581383	6.139521

	2005	
Amounts per share - R$	**Common**	**Preferred**
Interest on shareholders' equity - net of income tax	1.585431	1.743974
Interim dividends declared in April 2005	2.849439	3.134382
Interim dividends declared in September 2005	2.457954	2.703750
	6.892824	7.582106

f. Interest on shareholders' equity

Under Brazilian law, a Company may pay interest on shareholders' equity, deductible for tax purposes, in lieu of paying dividends, which are not tax deductible.

As proposed by management, in December 2006 and 2005, interest on shareholders´equity fully attributed to mandatory minimum dividends was credited, pursuant to Article 9 of Law No. 9,249/95, net of withholding income tax.

The proposed interest on shareholders' equity was determined as follows:

	2006	**2005**
Interest on shareholders' equity	780,000	980,000
Common shares	243,787	306,868
Preferred shares	536,213	673,132
Withholding tax	(117,000)	(147,000)
Interest on shareholders' equity included in dividends	663,000	833,000

Tax-exempt shareholders will receive interest on shareholders' equity in full, not subject to withholding tax.

g. Payment of dividends and interest on capital

On May 23, 2006, the Board of Directors approved the distribution of interim dividends in the amount of R$1,169,604 based on retained earnings as of December 31, 2005 and March 31, 2006. The distribution was as follows: R$1,136,784 to the shareholders registered in the Company's records at the end of May 23, 2006 and R$32,820 to the shareholders of common and preferred shares 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; and Interest on shareholders' equity of R$290,000, subject to 15% withholding income tax. (R$246,500 net of income tax), referring to the fiscal year 2006, attributed as follows: R$281,862 (R$239,583 net of income tax) to the shareholders registered in the Company's records at the end of May 23, 2006 and R$8,137 (R$6,917 net of income tax) to the shareholders of common and preferred shares 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. Dividends were paid beginning June 26, 2006 and interest on shareholders' equity from September 22, 2006.

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On November 10, 2006, the Board of Directors approved the payment of interim dividends based on the financial statements as of September, 30, 2006, in the amount of R$1,180,000, and interest on shareholders' equity in the amount of R$370,000 (R$314,500 net of income tax), to the shareholders registered in the Company's records at the November 13, 2006, which started being paid to shareholders on December, 11, 2006.

On December 18, 2006, the Board of Directors approved, *"ad referendum*" of General Shareholders' Meeting, the payment of interest on shareholders' equity credit regarding 2006 in the amount of R$120,000 (R$102,000 net of income tax). The payment date will be decided at the General Shareholders' Meeting.

h. Unclaimed dividends

Dividends and interest on shareholders' equity unclaimed by shareholders within three years from declaration are reversed to retained earnings, in conformity with Law No. 6404, Article 287, II, item a, of December 15, 1976.

33. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

	2006							
	Atento Brasil S.A.	**VIVO**	**Tiws Brasil Ltda.**	**Telefônica S.A.**	**Cia. Telecom. de Chile Transm. Regionales S.A.**	**Telefônica de Argentina S.A.**	**Telefônica de España S.A.**	**Telefônica Empresas S.A.**
ASSETS								
Current assets	**15,460**	**138,603**	**2,257**	**1,676**	**734**	**1,619**	**4,153**	**-**
Trade accounts receivable, net	11,742	135,988	2,167	-	561	1,123	4,153	-
Other assets	3,718	2,615	90	1,676	173	496	-	-
Noncurrent assets	**-**	**-**	**643**	**16**	**-**	**-**	**-**	**-**
Total assets	**15,460**	**138,603**	**2,900**	**1,692**	**734**	**1,619**	**4,153**	**-**
LIABILITIES								
Current liabilities	**34,840**	**173,467**	**9,787**	**1,717**	**521**	**428**	**4,164**	**-**
Accounts payable and accrued expenses	34,439	173,466	7,517	-	521	428	4,164	-
Interest on shareholders' equity	-	-	-	1	-	-	-	-
Other liabilities	401	1	2,270	1,716	-	-	-	-
Long-term liabilities	**-**	**-**	**13**	**-**	**-**	**-**	**-**	**-**
Other long-term liabilities	-	-	13	-	-	-	-	-
Total liabilities	**34,840**	**173,467**	**9,800**	**1,717**	**521**	**428**	**4,164**	**-**

STATEMENT OF INCOME								
Revenue	**18,946**	**184,171**	**2,361**	**125**	**540**	**2,300**	**3657**	**76,046**
Net operating revenue	17,005	146,532	2,337	-	540	2,300	3,657	69,764
Financial income	-	-	-	125	-	-	-	-
Other operating income	1,941	37,639	24	-	-	-	-	6,282
Costs and expenses	**(297,932)**	**(1,624,096)**	**(3,938)**	**-**	**(533)**	**(1,698)**	**(3,919)**	**(155,061)**
Cost of goods and services	(55,865)	(1,589,762)	(3,938)	-	(533)	(1,698)	(3,919)	(90,141)
Selling	(233,372)	(33,350)	-	-	-	-	-	(62,401)
General and administrative	(8,695)	(984)	-	-	-	-	-	(2,519)

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	2006						
	Terra Networks Brasil S.A.	**Telefônica Serv. Empresariais do Brasil Ltda.**	**Telefónica Interna-cional S.A.**	**SP Telecom.**	**Telefônica Pesquisas e Desenv. Ltda**	**Others**	**Total**
ASSETS							
Current assets	**6,569**	**7,671**	**36,376**	**-**	**136**	**8,103**	**223,357**
Trade accounts receivable, net	6,183	298	-	-	1	785	163,001
Other assets	386	7,373	36,376	-	135	7,318	60,356
Noncurrent assets	**13**	**3,110**	**6,755**	**-**	**66**	**3,345**	**13,948**
Total assets	**6,582**	**10,781**	**43,131**	**-**	**202**	**11,448**	**237,305**
LIABILITIES							
Current liabilities	**7,766**	**10,309**	**80,391**	**20,685**	**48,164**	**10,565**	**402,804**
Accounts payable and accrued expenses	7,739	9,874	-	-	45,582	5,421	289,151
Dividends payable	-	-	67,627	20,685	-	1,537	89,850
Loans with related parties	-	-	-	-	-	1,041	1,041
Other liabilities	27	435	12,764	-	2,582	2,566	22,762
Long-term liabilities	**18**	**96**	**-**	**-**	**7**	**2,598**	**2,732**
Other long-term liabilities	18	96	-	-	7	2,598	2,732
Total liabilities	**7,784**	**10,405**	**80,391**	**20,685**	**48,171**	**13,163**	**405,536**
STATEMENT OF INCOME							
Revenue	**62,464**	**1,127**	**2,269**	**-**	**37**	**1,153**	**355,196**
Net operating revenue	62,337	1,092	-	-	37	1,053	306,654
Financial income	-	35	2,269	-	-	100	2,529
Other operating income	127	-	-	-	-	-	46,013
Costs and expenses	**(50,120)**	**(70,926)**	**(13,168)**	**-**	**(11,583)**	**(2,975)**	**(2,235,949)**
Cost of goods and services	(29,751)	-	-	-	(4,391)	(1,175)	(1,781,173)
Selling	(18,530)	-	-	-	(6,794)	-	(354,447)
General and administrative	(1,839)	(70,926)	(13,168)	-	(398)	-	(98,529)
Other operating expenses	-	-	-	-	-	(1,800)	(1,800)

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	2005							
	Atento Brasil S.A.	**VIVO**	**Emergia Brasil Ltda.**	**Telefônica S.A.**	**Cia. Telecom. de Chile Transm. Regionales S.A.**	**Telefónica de Argentina S.A.**	**Telefónica de España S.A.**	**Telefônica Empresas S.A.**
ASSETS								
Current assets	**11,549**	**151,283**	**172**	**2,844**	**1,025**	**2,009**	**2,005**	**16,796**
Trade accounts receivable, net	6,777	149,857	60	-	836	2,009	2,005	14,273
Other assets	4,772	1,426	112	2,844	189	-	-	2,523
Noncurrent assets	**-**	**-**	**30**	**256**	**-**	**-**	**-**	**3,181**
Total assets	**11,549**	**151,283**	**202**	**3,100**	**1,025**	**2,009**	**2,005**	**19,977**
LIABILITIES								
Current liabilities	**41,860**	**201,410**	**7**	**-**	**886**	**2,125**	**3,829**	**20,077**
Accounts payable and accrued expenses	41,858	201,410	-	-	886	2,125	3,829	20,058
Other liabilities	2	-	7	-	-	-	-	19
Long-term liabilities	**-**	**-**	**3,324**	**-**	**-**	**-**	**-**	**12,818**
Other long-term liabilities	-	-	3,324	-	-	-	-	12,818
Total liabilities	**41,860**	**201,410**	**3,331**	**-**	**886**	**2,125**	**3,829**	**32,895**
STATEMENT OF INCOME								
Revenue	**10,121**	**202,077**	**527**	**-**	**594**	**3,343**	**-**	**120,365**
Net operating revenue	10,121	164,204	312	-	594	3,343	-	120,365
Other operating income	-	37,873	215	-	-	-	-	-
Costs and expenses	**(238,140)**	**(1,755,319)**	**(235)**	**-**	**(447)**	**(4,047)**	**(3,783)**	**(234,241)**
Cost of goods and services	(56,960)	(1,718,652)	(235)	-	(447)	(4,047)	(3,783)	(123,677)
Selling	(180,383)	(36,043)	-	-	-	-	-	(107,384)
General and administrative	(797)	(624)	-	-	-	-	-	(3,180)

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	2005							
	Terra Networks Brasil S.A.	**Telefônica Serviços Empresariais do Brasil Ltda.**	**Telefônica Interna-cional S.A.**	**SP Telecom.**	**Telefônica Pesquisas e Desenv. Ltda**	**Telefônica Public. Inform. Ltda**	**Others**	**Total**
ASSETS								
Current assets	**6,512**	**12,662**	**18,318**	**-**	**173**	**6,087**	**1,225**	**232,660**
Trade accounts receivable, net	5,571	14	-	-	-	279	233	181,914
Other assets	941	12,648	18,318	-	173	5,808	992	50,746
Noncurrent assets	**22**	**2,129**	**187**	**-**	**97**	**4**	**3,893**	**9,799**
Total assets	**6,534**	**14,791**	**18,505**	**-**	**270**	**6,091**	**5,118**	**242,459**
LIABILITIES								
Current liabilities	**17,707**	**8,682**	**277,436**	**67,342**	**28,491**	**2,046**	**4,276**	**676,174**
Accounts payable and accrued expenses	17,689	8,682	-	-	28,482	230	3,910	329,159
Dividends payable	-	-	216,404	67,342	-	-	-	283,746
Other liabilities	18	-	61,032	-	9	1,816	366	63,269
Long-term liabilities	**8**	**124**	**-**	**-**	**1**	**3**	**489**	**16,767**
Other long-term liabilities	8	124	-	-	1	3	489	16,767
Total liabilities	**17,715**	**8,806**	**277,436**	**67,342**	**28,492**	**2,049**	**4,765**	**692,941**
STATEMENT OF INCOME								
Revenue	**80,428**	**2,552**	**-**	**-**	**-**	**485**	**3,259**	**423,751**
Net operating revenue	80,428	902	-	-	-	485	3,259	384,013
Financial income	-	798	-	-	-	-	-	798
Other operating income	-	852	-	-	-	-	-	38,940
Costs and expenses	**(69,879)**	**(67,415)**	**(25,835)**	**-**	**(8,654)**	**(833)**	**(3,648)**	**(2,412,476)**
Cost of goods and services	(44,740)	(172)	-	-	(3,538)	-	(2,387)	(1,958,638)
Selling	(24,700)	(374)	-	-	(4,376)	(833)	(876)	(354,969)
General and administrative	(439)	(66,869)	(25,835)	-	(740)	-	(385)	(98,869)

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	2004							
	Atento Brasil S.A.	VIVO	Emergia Brasil Ltda.	Telefônica S.A.	Cia. Telecom. de Chile Transm. Regionales S.A.	Telefónica de Argentina S.A.	Telefónica de España S.A.	Telefônica Empresas S.A.
STATEMENT OF INCOME								
Revenue	**8,809**	**203,418**	**341**	**-**	**-**	**-**	**-**	**103,946**
Net operating revenue	8,809	169,573	341	-	-	-	-	92,478
Other operating income	-	33,845	-	-	-	-	-	11,468
Costs and expenses	**(208,229)**	**(1,896,161)**	**(235)**	**-**	**(944)**	**(3,879)**	**(4,082)**	**(209,308)**
Cost of goods and services	(47,175)	(1,838,729)	(235)	-	(944)	(3,879)	(4,082)	(92,782)
Selling	(161,003)	(57,006)	-	-	-	-	-	(24,577)
General and administrative	(51)	(426)	-	-	-	-	-	(4,131)
Other operating expenses	-	-	-	-	-	-	-	(87,818)

	2004								
	Terra Networks Brasil S.A.	Telefônica Serviços Empresariais do Brasil Ltda.	Telefónica Interna-cional S.A.	Telefónica Procesos y Tecnología de la Inform. S.A.	Telefônica Public. Inform Ltda	Telefónica Móviles	Telefônica Pesquisas e Desenv. Ltda	Others	Total
STATEMENT OF INCOME									
Revenue	**59,699**	**1,248**	**-**	**-**	**525**	**-**	**-**	**115**	**378,101**
Net operating revenue	59,699	821	-	-	525	-	-	115	332,361
Financial income	-	427	-	-	-	-	-	-	427
Other operating income	-	-	-	-	-	-	-	-	45,313
Costs and expenses	**(89,374)**	**(78,563)**	**(24,013)**	**-**	**(4,542)**	**-**	**(8,772)**	**(5,874)**	**(2,533,976)**
Cost of goods and services	(47,228)	(2,992)	-	-	-	-	(2,435)	(4,360)	(2,044,841)
Selling	(41,896)	(1,527)	-	-	(4,542)	-	(5,486)	(450)	(296,487)
General and administrative	(250)	(74,044)	(24,013)	-	-	-	(851)	(1,064)	(104,830)
	-	-	-	-	-	-	-	-	(87,818)

Other operating
expenses

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Trade accounts receivable include receivables for telecommunication services, principally from Vivo S.A., Atento Brasil S.A., Terra Networks Brasil S.A. and Telefónica de España S.A., mainly for long distance services.

Other recoverable amounts in current assets refer mainly to advances to Telefônica Serviços Empresariais do Brasil Ltda.

Other current assets and other noncurrent assets are comprised of credits from Telefónica Internacional S.A., Telefônica Serviços Empresariais do Brasil Ltda., Atento do Brasil S.A., Telefônica Data Holding Ltda., and other group companies, corresponding to services rendered, advisory fees, salaries and other costs paid by the Company to be refunded by the related companies.

Accounts Payable include services provided by Atento Brasil S.A., Vivo S.A., TWIS Brasil, Terra Networks Brasil S.A., Telefônica Pesquisa e Desenvolvimento do Brasil Ltda.; international long distance services rendered mainly by Compañia de Telecomunicaciones de Chile Transmisiones Regionales S.A. and Telefónica de España S.A. and administrative services rendered by Telefônica Serviços Empresariais do Brasil Ltda., related to accounting, financing, human resource, asset management, logistics and IT services.

Intercompany payables in current and noncurrent liabilities are comprised mainly of consulting and management fees payable to Telefónica Internacional S.A., development and software maintenance provided by Telefônica Pesquisa e Desenvolvimento do Brasil Ltda. and reimbursements payable to Telefônica Serviços Empresariais do Brasil Ltda.

Net operating revenue comprises mainly billings to Vivo S.A., Telefônica Empresas S.A., Terra Networks Brasil S.A. and Atento Brasil S.A.

Other Operating Income includes specially network infrastructure to Vivo S.A.

Cost of rendered services refers mainly to expenses of interconnection services and traffic services (mobile terminal), provided by Vivo S.A. and its subsidiaries, call center management services provided by Atento Brasil S.A. and internet - IP Network traffic services, provided by Telefônica Empresas S.A.

Selling expenses primarily refer to the following: data transmission services provided by Telefônica Empresas S.A., marketing services by Atento Brasil S.A., internet services by Terra Networks Brasil S.A. and commissions paid to cellular phone operators with Vivo S.A.

General and administrative expenses refer to administrative services provided by Telefônica Serviços Empresariais do Brasil Ltda and management fees payable to Telefónica Internacional S.A..

34. Insurance (not audited)

The policy of the Company and its subsidiaries, as well as that of the Telefónica Group, requires insurance coverage for all assets and liabilities involving significant amounts and high risks based on management’s judgment, following Telefónica S.A.’s corporate program guidelines. In this context, the Company obeys Brazilian Law in full for contracting insurance coverage.

Insurance	Coverage value
Operational Risks	US$7,752,527
Optional Civil Responsibility	R$1,000
ANATEL Guarantee Insurance	R$5,178

35. Financial instruments

In compliance with the terms of CVM Instruction No. 235/95, the Company has evaluated the book values of its assets and liabilities in relation to market values based on available information and appropriate valuation methodologies. However, the interpretation of market information, as well as the selection of methodologies, requires considerable judgment and reasonable estimates in order to produce adequate realization values. As a result, the estimates presented do not necessarily indicate the amounts, which could be realized in the current

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market. The use of different market approaches and/or methodologies for the estimates may have a significant effect on the estimated realizable values.

Book and market values of financial instruments as of December 31 are as follows:

	2006		**2005**	
Asset (liability)	**Book Value**	**Market Value**	**Book Value**	**Market Value**
Loans and financing	(2,338,158)	(2,334,184)	(2,397,608)	(2,404,200)
Derivatives	(316,318)	(280,178)	(294,255)	(231,793)
Cash and cash equivalents	213,036	213,036	463,456	463,456
	(2,441,440)	(2,401,326)	(2,228,407)	(2,172,537)

The Company has a total interest, direct and indirect, of 0.95% in Portugal Telecom, carried at cost. The investment, at market value, is based on the last quotation of December 2006 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to 9.84 euros (8.55 euros in December 2005):

	2006		**2005**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Portugal Telecom - direct interest	75,362	221,850	75,362	189,267
Portugal Telecom - indirect interest through Aliança Atlântica	55,296	73,950	54,293	63,089
	130,658	295,800	129,655	252,356

The principal market risk factors that affect the Company's business are detailed below:

a. Exchange rate risk

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations, which would increase the balances of loans and financing denominated in foreign currency and the related financial expenses. To reduce this risk, the Company enters into hedge contracts (swaps) with financial institutions.

The Company's indebtedness and the results of operations are significantly affected by foreign exchange rate risk. As of December 31, 2006, 35.18% (36.45% at December 31, 2005) of the Company's debt was denominated in foreign currency (U.S. dollar, Canadian dollar and Japanese Yen); where 99.88% (99.37% in 2005) was hedged by asset positions in foreign currency derivatives instruments (swaps for CDI). Gains or losses on these operations are recorded in income. In 2006, these transactions generated a net loss of R$164,227 (R$414,721 in 2005). The Company has recorded a liability of R$316,318 as of December 31, 2006 (R$294,255 in 2005). Since these operations were made in order to protect the company and cover possible losses, part of the net consolidated loss of R$164,227 on derivatives transactions is compensated with the gains on exchange variation, in the amount of R$70,749.

The book and market values of the Company’s net exposure to exchange rate risk as of December 31, 2006 and 2005 are as follows:

	2006		**2005**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Liabilities				
Loans and financing	(822,603)	(816,608)	(873,966)	(875,581)
Purchase commitments	(65,855)	(65,855)	(37,138)	(37,138)
Asset Position on Swaps	821,625	822,113	868,450	879,560
Net exposure	(66,833)	(60,350)	(42,654)	(33,159)

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Due to the complexity of the process and of the non-significance of the results, the Company decided not to renew the non-financial liabilities hedges denominated in foreign currency. However, it is still monitoring the results of such non-financial liabilities and may decide to contract new hedges in the future if such non-financial exposure starts to be relevant or if the Company so decides for any other reason.

The valuation method used to calculate the market value of loans, financing and derivative financial instruments (foreign exchange swaps) was the discounted cash flow method, considering settlement or realization expectations of liabilities and assets, at market rates prevailing on the balance sheet date.

For BR CL purposes, the hedge (“swaps”) transactions are evaluated at the accrual basis method, which is considered all the contracted terms.

b. Interest rate risk

This risk arises from the possibility that the Company may incur losses due to internal and external interest rate fluctuations affecting the Company’s results.

As of December 31, 2006, the Company had R$822,603 (R$873,966 as of December 31, 2005) of loans and financing in foreign currency, of which R$553,394 (R$478,158 as of December 31, 2005) was at fixed interest rates and R$269,209 (R$395,808 as of December 31, 2005) was at variable interest rates (Libor). To hedge against the exchange risk on these foreign currency debts, the Company has hedge transactions in order to peg these debts to local currency, at floating rates indexed to the CDI at fixed-rates to partially hedge against internal interest rate fluctuations. The loans and financing position is also composed of debentures, issued in 2004, which indexation is based on CDI variation, in the amount of R$1,514,514 (R$1,521,744 in 2005).On the other hand, the company also invests its excess cash (temporary cash investments) of R$173,165 (R$424,459 as of December 31, 2005), mainly in short-term instruments, based on the CDI variation, which reduces this risk. The book values of these instruments approximate market values, since they may be redeemed in the short term.

As of December 31, 2006, the Company had swap transactions - CDI at fixed rate, to partially hedge against fluctuations in internal interest rates. Maturity of such hedged operations, in the amount of R$739,781 and R$168,535, is January 2007 and January 2008, respectively. These derivative operations generated a net consolidated negative result of R$2,110, and this temporary loss is recorded in liabilities and income.

Another risk to which the Company is exposed is the non-matching of the monetary restatement indices for its debt and for accounts receivable. Telephone tariff adjustments do not necessarily follow increases in local interest rates, which affect the Company’s debt.

c. Debt acceleration risk

As of December 31, 2006, certain loan and financing agreements contain restrictive clauses (covenants), typically included in such agreements, relating to cash generation, debt ratios and other restrictions. The Company has complied with these restrictive clauses in full, and such covenants do not restrict its ability to conduct its ordinary course of business.

d. Credit risk

This risk arises from the possibility that the Company may incur losses due to the difficulty in receiving amounts billed to its customers. The credit risk on accounts receivable is dispersed. The Company constantly monitors the level of accounts receivable and limits the risk of past-due accounts, interrupting access to telephone lines in case the customer does not pay the related bills in 30 days. Exceptions are made for telecommunications services that must be maintained for security or national defense reasons.

As of December 31, 2006, the Company’s customer portfolio had no subscribers whose receivables were individually higher than 1% of the total accounts receivable from services.

The Company is also subject to credit risk related to temporary cash investments and receivables from swap transactions. The Company reduces this exposure by diversifying it among first line financial institutions.

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36. Capital expenditures commitment (not audited)

The Company submitted the capital budget for 2007 to the Board of Directors, in the amount of R$1,845,129 (consolidated), which will be approved at the Special General Meeting according to the Law nº 6.404/76, Article 196. The source of funds will be the Company’s cash and financing.

37. Management compensation

For the year ended December 31, 2006, the Company paid approximately R$22,300 (R$23,600 in 2005 and R$19,400 in 2004) as management compensation to the Board of Directors and officers, of which R$15,400 (R$16,100 in 2005 and R$11,500 in 2004) refers to salaries and benefits and R$6,900 (R$7,500 in 2005 and R$7,900 in 2004) to bonus compensation.

38. Other Information

a. On October 27, 2006 was published in the São Paulo’s Official Municipal Gazette, the decree nº 47,817 regulating the Law nº 14,023/05 which foresees obligation to burry all aerial cabling in the city of São Paulo, requiring public service concessionaries in the city to comply with the law. The Company is analyzing the effects of the referred regulation to study its impacts.

b. On January 15, 2007 Telesp and Windsor Investimentos Imobiliários S.A., wholly-owned by Tecnisa S.A., signed a Particular Property Sales Contract, referring to a property owned by Telesp, placed at Avenida Marquês de São Vicente nº 2353 with Avenida Nicolas Boer nº 301, Barra Funda, São Paulo - SP, with total area of 251,380.81m^2, for the amount of R$134,555, which should be paid by Windsor to Telesp by April 15, 2007, at the same time that the Purchasing and Sale Public Deed will be written up. The residual amount on December 31, 2006 is approximately R$46,000.

39. Summary of the differences between BR CL and U.S. GAAP

The Company's accounting policies follow accounting practices adopted in Brazil, which are based on the Brazilian Corporate Law (Law Nº 6,404/76, as amended), certain regulations prescribed by ANATEL, accounting standards and procedures established by the Brazilian Securities Commission (CVM) and the accounting standards issued by the Independent Auditors Institute of Brazil (Instituto dos Auditores Independentes do Brasil - IBRACON). A summary of the Company’s principal current accounting policies that differ significantly from U.S. GAAP is set forth below.

a. Monetary Restatement of 1996 and 1997

The Company changed the basis of presentation of its financial statements from the Constant Currency Method to BR CL in 2003. Under BR CL, the effects of monetary restatement are recorded until December 31, 1995. Since Brazil was still considered a highly inflationary economy until 1997, the U.S. GAAP reconciliation herein presented includes an adjustment to record monetary restatement up to December 31, 1997. The amortization of the asset appreciation, which was originated from such monetary restatement has been recognized in the reconciliation to U.S. GAAP. The loss related to monetary restatement on disposal of such assets is classified for U.S. GAAP purposes as a component of other operating expenses.

b. Different criteria for capitalizing and depreciating capitalized interest

Until December 31, 1998, under BR CL, as applied to companies in the telecommunications industry, interest attributable to construction-in-progress was computed at the rate of 12% per annum of the balance of construction-in-progress and that part which related to interest on third party loans was credited to interest expense based on actual interest costs with the balance relating to its own capital being credited to capital reserves. Since January 31, 1999, as permitted under BR CL, the Company did not capitalize interest attributable to construction-in-progress under BR CL.

Under U.S. GAAP, in accordance with the provisions of SFAS 34, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under U.S. GAAP, capitalized interest is added to the individual assets and is depreciated over their useful lives. Under U.S. GAAP, the amount of interest capitalized excludes the monetary gain

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associated with the borrowings and the foreign exchange gains and losses on foreign currency borrowings. The U.S. GAAP differences between the accumulated capitalized interest on disposals and the accumulated depreciation on disposals relate to the differences between capitalized interest and related accumulated depreciation under BR CL and U.S. GAAP, which is included in the net book value of disposed property, plant and equipment.

The effects of these different criteria for capitalizing and depreciating capitalized interest are presented below:

	2006	2005	2004
Capitalized interest difference			
U.S. GAAP capitalized interest:			
Interest which would have been capitalized and credited to income under U.S. GAAP (interest incurred on loans from the Company's parent and from third parties, except in years where total loans exceeded total Construction in progress, when capitalized interest is reduced proportionately)	35,151	40,005	27,242
Capitalized interest on disposals	(11,426)	(23,832)	(22,229)
	23,725	16,173	5,013
Less BR CL capitalized interest:			
Capitalized interest on disposals	11,577	24,528	23,125
U.S. GAAP difference	35,302	40,701	28,138
Depreciation of capitalized interest difference			
Depreciation under BR CL	134,785	194,866	205,262
Capitalized interest on disposals	(8,966)	(22,373)	(22,577)
	125,819	172,493	182,685
Less: Depreciation under U.S. GAAP	(182,779)	(189,338)	(197,309)
U.S. GAAP difference in accumulated depreciation on disposals	8,849	21,738	21,702
	(173,930)	(167,600)	(175,607)
U.S. GAAP difference	(48,111)	4,893	7,078

c. Pension and other post-retirement benefits

The Company sponsors three single-employer pension plan: PBS, single-employer sponsored pension plan for active employees; Visão, a defined benefit plan which calls for contributions by participating employees and by the Company as a sponsor and CTB, a pension plan which supplements the retirement benefits of certain employees of the former CTB - Companhia Telefônica Brasileira. The Company also participates in two multiemployer benefit plans (PBS-A and PAMA) that are operated and administered by Sistel and provide for the costs of pension and other post-retirement benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. For purposes of U.S. GAAP, these plans are considered multiemployer plans and consequently the

Company is required to disclose its annual contributions and funded status of those plans. The Company also sponsors a single-employer defined pension benefit plan (PBS-Telesp). The provisions of SFAS No. 87, "Employer Accounting for Pensions," for the purposes of calculating the funded status for PBS-Telesp, were applied with effect from January 1, 1992, because it was not feasible to apply them from the effective date specified in the standard (See Note 40d).

On December 13, 2000, CVM issued Instruction No. 371, the provisions of which are very similar to SFAS No. 87 and SFAS No. 106, except for the following major aspects:

- a company that participates in a multiemployer defined benefit pension or post-retirement benefit plan has to recognize any assets or liabilities with respect to its participation in such plans, while U.S. GAAP requires only the disclosure of funded status of those plans;

- the unrecognized net obligation existing at the date of initial application of this standard shall be amortized over five years or remaining service period or remaining life expectancy, whichever is lower. Alternatively, the option was provided to amortize such initial transition obligation as of December 31, 2001, directly to

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shareholders´ equity. This option has been adopted by the Company (See Note 31). According to SFAS No. 87, the unrecognized net obligation existing at the date of its initial application is being amortized over the expected remaining service period of active employees.

- As allowed for BR CL purposes, the Company recorded actuarial gains and losses in income, when incurred up to the amount of pension liability recorded. Under US GAAP, until 2005, certain actuarial gains and losses were deferred and amortized over the remaining service period of the active employees expected to receive benefits under the plan. From January 1, 2006, with SFAS158 adoption, the deferred items as unrecognized gains or losses, unrecognized past service cost and initial transition obligation (ITO) are recorded directly in equity - Accumulated Other Comprehensive Income (AOCI, net of tax), with their amortization in the future being recycled to profit and loss.

The effects of these different criteria for recognition of pension and other post-retirements benefits on accrued pension (post-retirement) benefits as of December 31, 2006 and 2005 are presented below:

		2006			**2005**	
	U.S. GAAP	**BR CL**	**Accumulated Difference**	**U.S. GAAP**	**BR CL**	**Accumulated Difference**
Active employees defined pension - PBS, Visão CTB	(20,207)	23,326	(43,533)	28,409	21,857	6,552
Multiemployer health care plan - PAMA	-	51,604	(51,604)	-	23,106	(23,106)
Accrued pension (post-retirement benefit)	(20,207)	74,930	(95,137)	28,409	44,963	(16,554)

d. Earnings per share

Under BR CL, net income per share is calculated on the number of shares outstanding at the balance sheet date. Under U.S. GAAP, average shares outstanding during the year must be used. As of December 31, 2006 each American Depositary Share ("ADS") is equivalent to one preferred share.

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128 "Earnings Per Share". SFAS 128 became effective December 15, 1997, and provides computation, presentation and disclosure requirements for U.S. GAAP basic and diluted earnings per share.

Since the Company’s preferred and common shareholders receive different dividends and have distinct voting and liquidation rights, basic and diluted earnings per share have been calculated using the "two-class" method. The "two-class" method is an earnings allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by the Company's by-laws and participation rights in undistributed earnings.

Basic earnings per common share are computed by reducing net income by distributable and undistributable net income available to preferred shareholders and dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Net income available to preferred shareholders is the sum of the preferred stock dividends (10% higher than those attributed to common shares, as defined in the Company's by-laws for the years ended December 31, 2006, 2005 and 2004) and the preferred shareholders' portion of undistributed net income. Undistributed net income is computed by deducting total dividends (the sum of preferred and common stock dividends) from net income. Undistributed net income allocated to preferred shares is 10% higher than the amount attributed to common shares on a "pro rata" basis. Total dividends are calculated as described in Note 32e. Diluted earnings per share is computed by reducing net income for an increase to net earnings allocated to minority shareholders and dividing such net income available to common and preferred shareholders by the weighted-average number of common and preferred shares outstanding during the period. The weighted-average shares outstanding for diluted earnings per share is not greater than such shares used in the basic earnings per share calculation since there are no diluted potential shares to be issued.

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Reverse Split of shares

On February 22, 2005, the Company, represented by its Board of Directors, in compliance with CVM Instruction 358/02, published Relevant Fact and on May 11, 2005, proposed to the General Shareholders' Meeting the reverse of split of representative shares of the Company's share capital, according to Law 6,404/76, Article 12.

The shareholders approved the reverse split of 165,320,206,602 common shares and 328,272,072,739 preferred shares, in the proportion of 1,000 (one thousand) shares to 1 (one) share of the same class, without reduction of the capital stock. The capital stock turned to be represented by 493,592,278 shares, of which 165,320,206 are common shares and 328,272,072 are preferred shares.

Shareholders had the period from May 12, 2005 to June 24, 2005, by their free and exclusive criteria, to restate their share position, by types, in a multiple thousand shares lot, pursuant negotiations through stock brokers authorized for operating at Bovespa, as well as to take the necessary steps for Securities and Exchange Commission - SEC. From June 27, 2005 the representative shares of the Company's capital stock started being negotiated on this new format and by unit quotation.

The remaining fraction shares were integrally sold by auction at Bovespa, on July 15, 2005. The net amount obtained after the selling of shares by auction was available to the shareholders, according to the publication on July 21, 2005. Such amount is registered on the Company's balance sheet as "Other Liabilities" (Note 29).

From June 27, 2005, each ADR started being represented by 1 (one) preferred shares.

For the periods presented below, the weighted average number of shares outstanding consider the effect of the reverse split of shares described above, as it had occurred in 2004. The weighted-average number of common and preferred shares used in computing basic and diluted earnings per share for 2006, 2005 and 2004 was as follows:

	2006	**2005**	**2004**
Weighted average common shares - basic and diluted	167,242,724	164,734,052	165,320,207
Weighted average preferred shares basic and diluted	334,342,809	328,130,540	328,272,073

The Company's preferred shares are non-voting except under certain limited circumstances and are entitled to receive dividends 10% higher than those attributed to common shares since 2002. For 2006, the Company paid dividends of R$6.139521 per preferred share (R$5.581383 per common share) (See Note 32e).

The computation of basic and diluted earnings per share is as follows:

	2006		**2005**		**2004**	
	Common	Preferred	Common	Preferred	Common	Preferred
Basic and diluted numerator						

Actual dividends declared	978,193	2,151,411	1,181,194	2,588,806	931,148	2,033,852
Basic and diluted allocated undistributed dividends	(62,318)	(137,041)	(354,813)	(777,420)	(261,559)	(519,370)
Allocated net income available for common and preferred shareholders	915,875	2,014,370	826,381	1,811,386	669,589	1,514,482
Basic and diluted denominator						
Weighted average shares outstanding	167,242,724	334,342,809	164,734,052	328,130,540	165,320,207	328,272,073
Basic and diluted earnings per share	5.48	6.02	5.02	5.52	4.05	4.61

e. Disclosure requirements

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U.S. GAAP disclosure requirements differ from those required by BR CL. However, in these consolidated financial statements, the level of disclosure has been expanded to comply with U.S. GAAP.

f. Income taxes

The Company records deferred income taxes for temporary differences between the tax and reporting basis of assets and liabilities. Under BR CL, the methods of recording of deferred taxes are substantially in accordance with SFAS 109, "Accounting for Income Taxes".

Under BR CL, deferred taxes are presented gross, whereas US GAAP requires deferred tax items to be presented net.

Under BR CL, the effects of the increase in tax rate from 33% to 34% on the merged tax credit are credited to income each year as the benefit is realized. Under U.S. GAAP, this benefit would be credited to shareholders' equity.

g. Financial income (expense)

BR CL requires financial income (expense) to be shown as part of operating income. Under U.S. GAAP, financial income (expense) would be shown after operating income.

h. Permanent assets

BR CL has a category of assets entitled permanent assets. This is the collective name for all assets on which indexation adjustments were calculated until December 31, 1995 in the corporate and tax accounts of Brazilian companies. Under U.S. GAAP the assets in this classification (i.e. those not readily convertible into cash within one year) would be non-current assets.

Gains or losses on the disposal of permanent assets are recorded under BR CL as nonoperating income (expense), net. Under U.S. GAAP such gains or losses would be classified as other operating income (expense).

i. Funds for capitalization

Expansion plan contributions

Expansion plan contributions were the means by which Telesp historically financed the growth of its telecommunications network. The contributions were made by companies or individuals to be connected to the national telephone network. Under BR CL, expansion plan contributions received are included in the consolidated balance sheet below equity until proposed subscribers have paid for their telephone connection in full and a general meeting of shareholders approves the capital increases. Until December 31, 1995 expansion plan contributions were indexed from the month received to the date of the next audited balance sheet and transferred to equity when capital stock was issued to the subscriber, at a value per share equal to the book value per share shown in the latest audited balance sheet. From January 1, 1996 indexation was no longer applied and, for contracts signed as from that date, Telesp was allowed the option of using a value per share equal to the market value, when this is higher than the book value. For U.S. GAAP purposes, a portion of the expansion plan contributions would be allocated to shareholders' equity based on the market value of the shares to be issued to subscribers. The remainder of the expansion plan contributions would be classified as a deferred credit and amortized to reduce depreciation expense from the time the related construction-in-progress was completed.

The Company’s expansion plan contribution program has been terminated, with no contracts being signed after June 30, 1997. Contributions continued to be received through 1999 and the last capital increase occurred in 2000. Since December 31, 2000 there have been no remaining balances of expansion plan contributions to be capitalized.

Donations and subsidies for investments

Under BR CL these amounts, which comprise principally the excess of the value of property, plant and equipment incorporated into the Company’s assets over the corresponding credits to expansion plan

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contributions received, are recorded as a credit to other capital reserves. For U.S. GAAP purposes, the credit to capital reserves would be classified as a deferred credit and amortized to reduce depreciation expense.

j. Loans and Financing

As presented in Note 27, accrued interest is presented together with related loans and financing.

k. Valuation of Long-Lived Assets and Goodwill

For U.S. GAAP, effective January 1, 2002 the Company adopted SFAS 144 ‘’Accounting for Impairment or Disposal of Long-Lived Assets.’’ In accordance with this standard, the Company periodically evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from separately identifiable assets or groups of assets is less than their carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets. The adoption of this standard had no effect on the Company’s results or financial position.

At December 31, 2006 and 2005 no adjustment has been included in the U.S. GAAP reconciliation to take into account differences between the measurement criteria, since no impairment provisions were required.

Under Brazilian GAAP, the amount of goodwill impairment, if any, is measured based on projected undiscounted future operating cash flows. Under U.S. GAAP, pursuant to SFAS 142, "Goodwill and Other Intangible Assets," goodwill is not amortized and is subject to a yearly impairment test. In performing the yearly impairment test, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. The Company then determines the fair value of each reporting unit and compares it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, a second step of the impairment test is performed which involves the determination of the implicit fair value of the reporting unit by performing a hypothetical purchase accounting calculation. If the implicit value of the goodwill exceeds the book value, an impairment is recognized. On December 31, 2006, the Company performed an impairment test for goodwill under U.S. GAAP relating to Atrium and Figueira acquisition and determined that the recognition of an impairment loss was not required, since the present value of future cash flows was higher than the book value of such companies.

l. Recognition of gains from disputed taxes

The Finsocial (tax on sales), currently COFINS, was a tax calculated on operating gross revenue at a rate of 0.5%, that had been increased to 2.0%. The rate increase has been disputed in court and CTBC (merged into the Company) has offset the amounts related to the increase in rates against COFINS (tax on sales). Under U.S. GAAP, this amount was considered a gain contingency in accordance with FASB Statement 5, which would not be recognized until receipt of the benefit were to be considered full and final. In 2006, the Company recognized it as a liability for BR CL purposes, which eliminated the GAAP difference.

m. Research and development costs

Under BR CL companies are allowed to capitalize research and development costs. Since 2005, no more research and development costs have been capitalized and the amortization for the year ended December 31, 2006 was R$8,495 (R$11.579 in 2005). For 2004, the capitalized and development costs was R$9,753 (amortization of R$10,350), comprised mainly of contributions to the Centro de Pesquisa e Desenvolvimento da Telebrás (Research and Development Center of Telebrás). Under U.S. GAAP these costs would be expensed as incurred in accordance with SFAS 2, Accounting for Research and Development Costs.

n. Revenue recognition

Under BR CL, revenues from activation fees are recognized upon activation of a customer's services. Under U.S. GAAP, revenues from activation fees are deferred and amortized over the estimated expected service period of the customer. Incremental direct costs associated with such activations services are deferred and amortized over the same period. As of December 31, 2006 and 2005, the total balance of deferred activation fees revenues, net of sales taxes and associated costs amounts to R$319,780 and R$300,301, respectively and the accumulated amortization amounts to R$257,400 and R$209,522, respectively.

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The interconnection fee paid by the Company to other telecommunication operators related to the use of prepaid telephone cards outside its region is registered as a reduction of the public telephones revenues. According to U.S. GAAP, such payment would be classified as a cost of service. Thus, such difference of accounting principle does not affect net income neither the shareholders' equity under U.S. GAAP.

o. Value-added and other sales taxes

Under BR CL, value-added and other sales taxes are deducted from gross operating revenue to arrive at net operating revenue. Under U.S. GAAP, certain of these taxes could be recorded as cost of services. Accordingly this difference in accounting principle has no impact in net income (loss) or in shareholders' equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of services by R$5,530,866, R$5,371,979 and R$4,901,798 for 2006, 2005 and 2004, respectively.

p. Sale of Ceterp Celular

Under BR CL, when Ceterp was purchased it was recorded at the book value of the net assets of Ceterp, and no distinction was made for Ceterp Celular, the cellular phone business of Ceterp. At the time of the purchase of Ceterp, the Company was obligated to dispose of the cellular business within six months under the regulatory rules in Brazil. Under U.S. GAAP, EITF 87-11, "Allocation of Purchase Price to Assets to be Sold", when a subsidiary acquired in a purchase is intended to be sold within one year of the purchase date, that subsidiary should be recorded at its non-discounted net realizable value. Therefore, under U.S. GAAP, there would be no gain recognized on the sale of Ceterp Celular. The net income under U.S. GAAP has been adjusted to reflect the reversal of the gain of R$84,264, and the effect on the amortization of concession and depreciation of fixed assets.

q. Purchase accounting for the exchange of the Company´s shares for minority interest shares in Telesp and CTBC

Under BR CL, the exchange of all shares issued by the Company for minority interests in Telesp and CTBC was recorded based on the book value of the net assets of Telesp and CTBC, and the purchase price was considered to be the book value of the shares issued. Under U.S. GAAP, the purchase price would be the market value of the shares issued by the Company, and the minority interests acquired would be recorded at the fair value of the net assets. The purchase price of the Telesp and CTBC was R$665,692, lower than the net assets acquired. Under U.S. GAAP this difference reduces the fixed assets. The depreciation expense related to those fixed assets is adjusted in the reconciliation of net income under U.S. GAAP.

r. Derivative instruments

As mentioned in Note 35, the Company contracted foreign currency swap contracts for short and long-term agreements at various exchange rates, in the notional amount of R$789.4 million (US$143.7 million, JPY26,851.2) and R$838.8 million (US$190.2 million, JPY19,841.7-) at December 31, 2006 and 2005, respectively. As of December 31, 2006, the Company had contracted interest rate swaps as a partial hedge for changes to the local interest rates, these operations' notional amounts R$ 908.3 million (R$ 739.8 million maturing in January, 2007 and R$ 168.5 million maturing in January, 2008). In the end of 2005, the Company did not have such category of derivatives. Under BR CL, swaps contracts are recorded at the notional amount multiplied by the terms of the contract as if they had been settled at the balance sheet date.

In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” which was subsequently amended by SFAS Nos. 137 and 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value. Changes in the derivative’s fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative’s fair value that is considered to be ineffective, as defined, must be immediately recorded in earnings. Any portion of a change in

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a derivative's fair value that the Company has elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will also be recorded in earnings.

Beginning in January 2003, the Company began designating a portion of new derivative contracts as fair value hedges of its foreign currency denominated debt. The Company had R$749.6 million (US$125.1 million and JPY 26,851.2 million) as of December 31, 2006 and R$792.0 million (US$170.2 million and JPY 19,841,7 million) as of December 31,2005, of notional value cross currency swap contracts with a fair value of R$772.4 million for 2006 (R$816.4 million for 2005) designated as fair value hedges of a portion of the Company´s foreign currency denominated debt. The Company is hedging the related foreign currency (US dollar and Japanese yen) and interest rate risk associated with such indebtedness. The Company calculates the effectiveness of these hedges both at inception and on an ongoing basis (i.e. at least quarterly). Since these derivative contracts qualify for hedge accounting under U.S. GAAP, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in earnings. At December 31, 2006 and 2005, the value of the Company's debt subject to these accounting hedges is lower by R$0.5 million and higher by R$8.9 million, respectively, representing the related mark-to-market adjustment, which was recorded in the statement of operations as part of financial revenue/expense, net for the year ended December 31, 2006 and 2005. Ineffectiveness, amounting to R$(1,128) for the year ended December 31, 2006, was included in earnings. For the year ended December 31, 2005, ineffectiveness was R$(6,227). The US GAAP adjustment reflects the difference between the recorded value of these hedges under BR CL and their fair values under US GAAP.

The Company's remaining derivative contracts at December 31, 2006 have not been designated as accounting hedges. Such derivatives would also be recorded at fair value in the consolidated balance sheets at December 31, 2006. The U.S. GAAP adjustment also includes income of R$0.82 million (income of R$1.69 million in 2005) related to the difference between the recorded value of these derivative instruments under BR CL and their fair values under US GAAP.

In 2005, the derivative transactions concerning CAPEX hedge have not met the requirements to be designated as hedge accounting under U.S. GAAP to be capitalized, thus were allocated to the result of operations. For the year ended December 31, 2006, due to the complexity of the process and insignificance of the results, the Company decided not to contract hedges to non-financial liabilities denominated in foreign currencies. The Company, however, is still monitoring the results of such non-financial liabilities and may contract new hedges in the future if such non-financial exposure becomes relevant or if the Company so decides for any other reason.

s. Deferred charges

Pre-operating expenses recorded as deferred charges for Brazilian GAAP have been expensed for U.S. GAAP purposes.

t. Consolidation method

Under BR CL, equity investments in joint ventures are consolidated proportionally, according to the Company's interest in each joint venture. Under U.S. GAAP, investments in joint ventures would not be consolidated, but rather recorded under the equity method of accounting. For U.S. GAAP, the Company's investment on the net equity and the equity in net income or loss would be recorded as a single line item. The investments in Companhia ACT de Participações, Aliança Atlântica and Companhia AIX de Participações had the following impact on the consolidated financial statements for BR CL:

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Balance Sheet	ACT		AIX		Aliança Atlântica	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	8	3	7,251	5,195	4,127	1,394
Noncurrent assets	-	-	65,578	71,407	-	-
Permanent Asset	18	25	29,712	33,586	55,296	54,294
Total assets	26	28	102,541	110,188	59,423	55,688
Liabilities						
Current liabilities	1	2	16,084	12,659	27	104
Long-term liabilities	-	-	2,380	2,397	-	-
Deferred income	-	-	-	17,470	-	-
Total liabilities	1	2	18,464	32,526	27	104

Income Statement	ACT		AIX		Aliança Atlântica	
	2006	2005	2006	2005	2006	2005
Net operating revenue	25	(4)	11,471	11,572	-	-
Cost of goods and services	-	-	(15,966)	(15,592)	-	-
Operating expenses	(26)	(20)	(2,140)	(5,274)	(68)	-
Financial expense, net	-	-	(4,726)	(1,653)	25	20
Other revenues (expenses)	-	-	-	845	1,973	20,153
Income Tax and Social Contribution	-	-	(1,837)	(949)	-	-
Net income	(1)	(24)	(13,198)	(11,051)	1,930	20,173

u. Comprehensive income

SFAS 130 “Reporting Comprehensive Income” establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The objective of the statement is to report all changes in shareholders’ equity that result from transactions and other economic events of the period other than transactions with owners (“comprehensive income”). Comprehensive income is the total net income and other non-owner equity transactions that result in changes in net equity.

For the years ended December 31, 2006, 2005 and 2004, the components of comprehensive income include foreign currency translation adjustments related to the investments that have functional currency other than Brazilian Reais, initial adoption of SFAS 158 - adjustment related to unrecognized gain or loss and net transition obligations, additional minimum liability calculated in accordance with SFAS 87, and fair value of available for sale equity securities in Portugal Telecom, which are carried at cost for BR CL purposes (See Note 35), in accordance with SFAS

115. The following represents the statement of comprehensive income prepared under U.S. GAAP:

Statement of Comprehensive Income	**2006**	**2005**	**2004**
Net Income per U.S. GAAP	2,930,245	2,637,767	2,184,071
Other Comprehensive Income:			
Foreign currency translation adjustments - Aliança Atlântica	1,061	(17,829)	(461)
Pension Plan - SFAS158, net of tax	27,373	-	-
Minimum liability - SFAS87, net of tax	8,614	2,112	(10,726)
Fair value of available for sale equity securities - SFAS 115, net of tax	28,011	(54,152)	27,175
Total	**65,059**	**(69,869)**	**15,988**
Comprehensive income	**2,995,304**	**2,567,898**	**2,200,059**

v. Acquisition of the IP network and I-Telefônica

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On December 2002, the Company acquired the assets and customer portfolio for the “IP Comutado” and “Speedy Link” services of Telefônica Empresas S.A (See Note 22). In 2003, the Company’s subsidiary A. Telecom S.A. entered into an agreement with an affiliate, Terra Networks Brasil S.A., for the purchase of certain software used to provide free access service to Internet, called I-Telefônica. Under BR CL these transactions were recorded at fair market value of the net assets acquired. Under U.S. GAAP, transfers and exchange of non-monetary assets between entities under common control should be recorded at historical cost. Thus, for U.S. GAAP purposes the difference between fair market value and historical cost of assets has been recorded directly to shareholders´ equity as capital distributed.

w. Business Combination - Santo Genovese

On December 24, 2004, the Company acquired control of Santo Genovese Participações Ltda., a closely held company, and owner of 99.99% of the representative share capital of Atrium Telecomunicações Ltda. The purchase price paid was R$113,440, with an additional cost acquisition of R$2,435, totaling the amount of R$115,875. The consolidated assets and liabilities of Santo Genovese as of December 31, 2004 amounted, respectively to R$34,137 and R$38,082. Santo Genovese’s net operating revenue and net loss for the year ended December 31, 2004 amounted to R$21,663 and R$(1,259), respectively.

The Company initially recognized goodwill in the amount of R$119,820 and classified the goodwill under other assets in the Balance Sheet for the year ended December 31, 2004. Such goodwill has been amortized under BR CL and has been reversed for U.S. GAAP purposes. This transaction was accounted for using the purchase method in accordance with SFAS 141, with the purchase price being allocated to the assets acquired and liabilities assumed based on the respective fair value. Under U.S. GAAP, the allocated fair value related to intangible assets (Customer Portfolio) has being amortized over 10 years. For U.S. GAAP purposes, the purchase price of such acquisition was allocated as follows:

	2004 Acquisition
Amounts of the historical net assets of Santo Genovese under U.S. GAAP	(3,945)
Fair Value adjustments:	
Intangible assets - customer portfolio	55,500
Debt	(5,275)
Goodwill	86,671
Deferred Income Tax	(17,076)
Purchase Price	115,875

x. Leases

Atrium Telecomunicações Ltda., subsidiary of Santo Genovese Participações Ltda, has leased certain computer hardware and switching equipment under non-cancelable lease. Under BR CL, all leases are considered to be operating leases, with lease expense recorded when paid. For U.S. GAAP purposes, these are considered to be capital leases as defined in SFAS nº 13, Accounting for Leases. Under SFAS nº 13, the Company is required to record the asset at the present value of the minimum lease payments with a corresponding debt obligation. Depreciation is recorded over the estimated useful life of the asset. Interest expense is recognized over the life of the lease and payments under the lease are amortized to principal and interest under the effective interest method.

y. Purchase accounting for the merger of Telefônica Data Brasil Holding S.A. (TDBH)

Under BR CL, the exchange of all shares issued by the Company for merger the holders of TDBH was recorded based on the book value of the net assets of TDBH, and the purchase price was considered to be the book value of the shares issued. Under U.S. GAAP, the purchase price would be the market value of the shares issued by the Company. As Telesp and TDBH were under common control, only the part of noncontrolling equity interests acquired would be recorded at the fair value of the net assets. The difference between the fair value for the minority interest shares and the book value in U.S. GAAP was R$9,264, which R$5,238 (net of tax) was allocated to surplus value on fixed assets and the remaining balance was recognized as goodwill. The

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depreciation of the surplus value on fixed assets is based on the average of depreciation rate for TDBH's assets.

z. Reversal of goodwill amortization under BR CL

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., occurred in 2001.

Under BR CL, this goodwill has been amortized over a period of five years. Under US GAAP, the positive difference between the amount paid and the fair value of the assets acquired and liabilities assumed shall be allocated for items which had not been recognized in the balance sheet of the acquired company, as long as meeting all the requirements for recognition. In case of remaining positive difference, it shall be allocated to goodwill and not amortized. In Figueira acquisition, R$205,754 was allocated to intangible assets - Customer Portfolio, which has been amortized in 10 years, and the difference was recognized as goodwill, which cannot be amortized for US GAAP purposes.

aa. Donations and subsidies for investments - TDBH

Under BR CL these amounts are recorded as a credit to other capital reserves. For U.S. GAAP purposes, the credit to capital reserves would be classified as a deferred credit and amortized to reduce depreciation expense.

ab. Merged goodwill - Katalyx and Adquira (TDBH)

As a result of the corporate restructuring of July 28, 2006, the Company merged goodwill generated from Katalyx Transportation do Brasil Ltda. and Adquira do Brasil Ltda.'s restructuring, which occurred in 2005. Both companies were controlled by the same TDBH's group. According to U.S. GAAP, there is no goodwill generation on business combination which involves companies under common control. In this situation, business combination must be stated at book value of the company acquired or merged.

ac. Payment of dividends and interest on capital

In accordance with the Company's Articles of Incorporation, the Board of Directors can approve the distribution of interim dividends and interest on share capital throughout the course of the year. Under both BR CL and U.S. GAAP, these payments are recognized when they are formally declared by the Board. However, in accordance with BR CL, the Company's financial statements are required to reflect as a liability dividends that exceed mandatory dividends when they are proposed by management. This differs from U.S. GAAP in that under U.S. GAAP, these payments would be recognized only after they are formally approved at the Annual Shareholders' Meeting that occurs the following year.

For the Company, in 2006 and 2005, there were no differences between BR CL and U.S. GAAP regarding the recognition of dividends because the Company's Board did not propose additional dividends beyond interim dividends declared in either of those years. Instead, the Company's Board approved, and the Company recorded in its financial statements upon approval, only interim dividends and interest on share capital, which exceed the mandatory dividends.

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Net income reconciliation of the difference between U.S. GAAP and BR CL

	2006	**2005**	**2004**
Consolidated net income as reported under BR CL	2,816,151	2,541,947	2,181,149
Add (deduct):			
Different criteria for:			
a) Amortization of monetary restatement of 1996 and 1997	(36,722)	(37,757)	(60,769)
b) Capitalized interest	35,302	40,701	28,138
b) Depreciation of capitalized interest	(48,111)	4,893	7,078
Contributions to plant expansion:			
i) Amortization and realization of deferred credit and amortization of donations	30,882	30,646	31,948
c) Pension and other post-retirement benefits - See Note 40.d)	37,109	3,665	(38,663)
q) Decrease in depreciation expense due to reduction of fixed assets to fair value in excess of purchase price on merger of Telesp and CTBC.	45,069	44,529	88,858
w) Santo Genovese acquisition			
Write-Off of the fair market value of liabilities	-	5,275	-
Amortization of customer portfolio	(5,550)	(5,550)	-
Reversal of goodwill amortization under BR CL	11,982	11,982	-
x) Leasing Santo Genovese	(316)	(491)	-
p) Merger of Ceterp			
Depreciation of the fair market value of assets	2,763	2,743	2,723
Amortization of concession	-	7,692	10,437
m) Deferred research expenses	8,495	11,579	597
s) Pre-operating expenses included in deferred assets	13,425	15,641	11,168
r) SFAS 133 adjustments - Derivative instruments	(16,348)	(45,463)	(108,847)
r) Derivative on purchase commitments	4,399	(14,392)	(11,581)
n) Deferred revenues from activation fees, net	28,398	21,720	30,930
v) Amortization of IP Network	7,182	7,331	7,256
v) Amortization of Itelefonica	14,162	14,162	13,903
Other	1,043	(1,043)	-
l) Reversal of Cofins	17,500	-	-
z) Reversal of goodwill amortization recognized under BR CL - TDBH	34,202	-	-
z) Intangible asset amortization	(8,573)	-	-
y) Surplus value depreciation - TDBH’s minority allocation	(2,154)	-	-
aa)Donations and subsidies for investment - TDBH	95	-	-
f) Deferred tax on above adjustments	(59,079)	(39,872)	(4,058)

u) Foreign currency translation adjustment - Aliança Atlântica.	(1,061)	17,829	461
f) Adjustment in the merged tax credit for change in tax rate	-	-	(6,657)
U.S. GAAP net income	2,930,245	2,637,767	2,184,071

Net income per share in accordance with U.S. GAAP

	2006	**2005**	**2004[1]**
Common shares—Basic and diluted			
U.S. GAAP net income (loss)	5.48	5.02	4.05
Weighted average common shares outstanding	167,242,724	164,734,052	165,320,207
Preferred shares—Basic and diluted			
U.S. GAAP net income (loss)	6.02	5.52	4.61
Weighted average preferred shares outstanding	334,342,809	328,130,540	328,272,073

(1) For these periods, the weighted average number of shares outstanding consider the effect of the reverse split of shares, as it had occurred in 2004 (See Note 39d).

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Shareholders' equity reconciliation of the difference between U.S. GAAP and BR CL

	2006	**2005**
Total shareholders' equity as reported under BR CL	10,610,114	10,204,207
Add (deduct):		
Different criteria for:		
a) Monetary restatement of 1996 and 1997	122,592	159,314
b) Capitalized interest	14,529	(33,767)
b) Depreciation of capitalized interest	271,612	327,935
l) Reversal of COFINS tax credit	-	(17,500)
i) Contributions to plant expansion:		
Subscribed capital stock	215	215
Deferred credit		
Expansion plan contributions	(235,385)	(236,438)
Donations and subsidies for investments	(167,975)	(168,252)
Amortization of deferred credit		
Expansion plan contributions	188,807	171,832
Donations and subsidies for investments	119,823	107,718
c) Pension and other post-retirement benefits	53,663	16,554
q) Merger of Telesp and CTBC:		
Fair market value of assets	(665,692)	(665,692)
Accumulated depreciation related to fair market value of assets	554,711	509,642
w) Santo Genovese acquisition		
Write-Off of the fair market value of liabilities	5,275	5,275
Amortization of customer portfolio	(11,100)	(5,550)
Reversal of goodwill amortization under BR CL	23,964	11,982
x) Leasing Santo Genovese	(807)	(491)
p) Merger of Ceterp:		
Fair market value of assets	(25,949)	(25,949)
Depreciation of the fair market value of assets	16,574	13,811
Concession	(58,315)	(58,315)
Amortization of concession	58,315	58,315
y) Merger of TDBH’s minority interest - purchase accounting:		
Fair market value of assets allocation,	7,937	-
Deferred income tax on fair market value of assets allocation	(2,699)	-
Depreciation of the fair market value of assets allocation	(2,154)	-
Goodwill allocation	4,026	-
m) Deferred research expenses	(9,288)	(17,783)
s) Pre-operating expenses included in deferred charges	3,032	(10,393)
r) SFAS 133 adjustments - Derivative instruments	36,608	53,519
r) Derivative on purchase commitments	(33,401)	(36,060)
n) Deferred revenues from activation fees, net	(62,381)	(90,779)
v) Capital distributed - IP Network and Itelefonica		
Cost	(143,627)	(143,627)
Amortization	78,911	57,567

Other	-	(1,043)
z) Reversal of goodwill amortization recognized under BR CL- TDBH	74,981	-
z) Intangible asset amortization	(102,875)	
aa) Donations and subsidies for investment - TDBH	(248)	
f) Deferred tax effects on above adjustments	(35,429)	6,179
u) OCI - minimum liability SFAS87, net of taxes	-	(8,614)
u) OCI - Pension Plan SFAS158, net of taxes	27,373	-
u) OCI - fair value of available for sale equity securities SFAS115, net of taxes	108,994	80,983
ab) Merged goodwill - Katalyx and Adquira (TDBH)	(1,440)	-
U.S. GAAP shareholders' equity	10,823,291	10,264,795

The deferred tax effect of the U.S. GAAP adjustments noted above would be classified mainly as a noncurrent liability for 2006 and 2005 in the balance sheet.

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Consolidated statements of changes in shareholders' equity in accordance with U.S. GAAP

	Shareholders' equity
Balances at December 31, 2003	12,279,964
Unclaimed dividends	45,472
Adjustment in the merged tax credit for change in tax rate	6,657
Net income for the year	2,184,071
Dividends and interest on shareholders' equity	(3,098,290)
OCI - Minimum liability - SFAS87, net of tax	(10,726)
OCI - Foreign currency translation adjustment - Aliança Atlântica	(461)
OCI - Fair value of available for sale equity securities - SFAS115, net of tax	27,175
Balances at December 31, 2004	11,433,862
Unclaimed dividends	91,927
Net income for the year	2,637,767
Dividends and interest on shareholders' equity	(3,770,000)
Purchase of own shares after the reverse split of shares	(58,892)
OCI - Minimum liability - SFAS87, net of tax	2,112
OCI - Foreign currency translation adjustment - Aliança Atlântica	(17,829)
OCI - Fair value of available for sale equity securities - SFAS115, net of tax	(54,152)
Balances at December 31, 2005	10,264,795
Merger of Capital - TDBH	597,124
Merger of Losses - TDBH	(76,917)
Recess right to the shareholders due to merger of TDBH - treasury shares	(17,719)
Unclaimed dividends	180,956
Net income for the year	2,930,245
Dividends and interest on shareholders' equity	(3,129,604)
Merger of TDBH's minority interest	9,264
Reversal of Pension Plan accumulated effect - TDBH	88
OCI - Minimum liability - SFAS87, net of tax	8,614
OCI - Pension Plan - SFAS158, net of tax	27,373
OCI - Foreign currency translation adjustment - Aliança Atlântica	1,061
OCI - Fair value of available for sale equity securities - SFAS115, net of tax	28,011
Balances at December 31, 2006	10,823,291

Disclosure of Accumulated Other Comprehensive Income Balance

	Minimum Pension

	Foreign Currency Items	Unrealized Gain on Securities, net of tax	Liability Adjustment, net of tax	Pension Plan - SFAS 158 adjustment, net of tax	Accumulated Other Comprehensive Income
Balance at December 31, 2004	31,278	135,135	(10,726)	-	155,687
Current period change	(17,829)	(54,152)	2,112	-	(69,869)
Balance at December 31, 2005	13,449	80,983	(8,614)	-	85,818
Current period change	1,061	28,011	8,614	27,373	65,059
Balance at December 31, 2006	14,510	108,994	-	27,373	150,877

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40. Additional disclosures required by U.S. GAAP

a. Reconciliation of operating income under BR CL to operating income under U.S. GAAP

	2006	2005	2004
BR CL operating income	3,900,635	3,375,495	2,865,118
Reversal of financial expense, net	331,055	460,332	404,208
Reversal of federal contingency - PIS and COFINS	(106,633)	-	-
Reversal of OCI - Foreign currency translation adjustment	(1,061)	17,829	461
U.S. GAAP adjustments-			
Amortization of monetary restatement of 1996 and 1997	(36,722)	(37,757)	(60,769)
Depreciation of capitalized interest	(48,111)	4,893	7,078
Contribution to plant expansion - amortization of deferred credit and donations	30,882	30,646	31,948
Pension and other post-retirement benefits	37,109	3,665	(38,663)
Decrease in depreciation expense due to reduction of fixed assets for fair value in excess of purchase price on merger of Telesp and CTBC	45,069	44,529	88,858
Merger of Ceterp			
Depreciation of the fair market value of assets	2,763	2,743	2,723
Amortization of concession	-	7,692	10,437
Reversal of Cofins	17,500		
Deferred research expenses	8,495	11,579	597
Pre-operating expenses included in deferred assets	13,425	15,641	11,168
Deferred revenue on activation fees, net.	28,398	21,720	30,930
Amortization of IP network	7,182	7,331	7,256
Amortization of Itelefonica	14,162	14,162	13,903
Amortization of Santo Genovese’s customer portfolio	(5,550)	(5,550)	-
Reversal of goodwill amortization under BR CL - Santo Genovese	11,982	11,982	-
Amortization of derivatives on purchase commitments	4,399	4,249	-
Leasing Santo Genovese	196	(175)	-
Reversal of goodwill amortization under BR CL - TDBH	34,202	-	-
Customer portfolio amortization - ITAÚ	(8,573)	-	-
Surplus value depreciation - TDBH’s minority interest allocation	(2,154)	-	-
Amortization of donations - TDBH	95	-	-
AIX de Participações adjustments - proportional consolidation	6,635	9,293	60,298
ACT de Participações adjustments - proportional consolidation	1	24	(33)

Aliança Atlântica adjustments - proportional consolidation	68	-	-
Gain (loss) on permanent assets disposals	(5,787)	(6,569)	6,372
Other	1,043	(1,043)	-
U.S. GAAP operating income	4,280,705	3,992,711	3,441,890

b. Reconciliation of net revenues and costs under BR CL to net revenues and costs under U.S. GAAP

1) Net operating revenue

Net operating revenue under BR CL differs from U.S. GAAP on the recognition of revenues from activation fees and value added and other sales taxes, as presented below:

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	2006	2005	2004
Net revenue under BR CL	14,643,021	14,395,101	13,308,630
Reclassification to cost of services			
Value added and other sales taxes	5,530,866	5,371,979	4,901,798
Reclassification of costs of public telephones	101,785	93,173	98,793
U.S. GAAP adjustments-			
Recognition of deferred revenue on activation fees, net	28,398	21,720	30,930
AIX de Participações adjustments - proportional consolidation	(11,471)	(11,572)	(10,187)
ACT de Participações adjustments - proportional consolidation	(26)	4	(49)
Net revenue under U.S. GAAP	20,292,573	19,870,405	18,329,915

2) Cost of services

	2006	2005	2004
BR CL cost of services	(7,780,510)	(7,716,723)	(7,496,010)
Reclassification from net revenues			
Value added and other taxes sales taxes	(5,530,866)	(5,371,979)	(4,901,798)
Reclassification of costs of public telephones	(101,785)	(93,173)	(98,793)
U.S. GAAP adjustments-			
Amortization of monetary restatement of 1996 and 1997	(36,722)	(37,757)	(60,769)
Depreciation of capitalized interest	(48,111)	4,893	7,078
Contribution to plant expansion - amortization of deferred credit	30,882	30,646	31,948
Decrease in depreciation expense due to reduction of fixed assets for fair value in excess of purchase price on merger of Telesp and CTBC	45,069	44,529	88,858
Merger of Ceterp - depreciation of fair market value of assets and concession	2,763	10,435	13,160
Amortization of IP network	7,182	7,331	7,256
Amortization of Itelefonica	14,162	14,162	13,903
Amortization of Santo Genovese’s customer portfolio	(5,550)	(5,550)	
Amortization of derivatives on purchase commitments	4,399	4,249	
Leasing Santo Genovese	196	(175)	-
Customer portfolio amortization - ITAÚ	(8,573)	-	-
Surplus value depreciation - TDBH's minority interest allocation	(2,154)	-	-
Amortization of donations - TDBH	95	-	-
AIX de Participações adjustments - proportional consolidation	15,966	15,592	12,653
Allowance for reduction to market value of inventories	(4,569)	(7,518)	(9,626)
Other	1,043	(1,043)	-
U.S. GAAP cost of services	(13,397,083)	(13,102,081)	(12,392,140)

U.S. GAAP gross profit	6,895,490	6,768,324	5,937,775

c. Total assets and property, plant and equipment under U.S. GAAP

	2006	2005	2004
Total assets	18,523,807	18,140,020	19,159,464
Property, plant and equipment	45,028,189	42,767,290	41,449,374
Accumulated depreciation	(33,009,977)	(30,041,722)	(27,749,753)
Net property, plant and equipment	12,018,212	12,725,568	13,699,621

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d. Intangible Assets

Following is a summary of the Company's intangible assets subject to amortization:

	2006				2005			
	Patents and trademarks	**Software use rights**	**Customer Portfolio**	**Others**	**Patents and trademarks**	**Software use rights**	**Customer Portfolio**	**Others**
Gross	1,517	1,928,952	261,254	166,334	1,476	1,578,412	55,500	105,576
Accumulated amortization	(1,511)	(1,084,052)	(113,975)	(108,327)	(1,470)	(777,758)	(5,550)	(80,128)
Net	6	844,900	147,279	58,007	6	800,654	49,950	25,448
Amortization expense	41	306,294	14,123	28,199	-	244,374	5,550	2,169
Amortization period	10 years	5 years	10 years	5 years	10 years	5 years	10 years	5 years

The estimated aggregate amortization expense for the next five years is as follows:

	Amount
2007	324,648
2008	264,414
2009	209,136
2010	149,683
2011	70,151

e. Pension and post-retirement benefits

A summary of the liability as of December 31, 2006 and 2005 for the Company's active employees defined benefit pension plan (PBS/Visão/CTB/Visão Assist) is as follows:

PBS/Visão Telesp/CTB/Visão Assist/Visão T.Empresas	**2006**	**2005**
Funded status:		
Accumulated benefit obligation:		
Vested	89,778	84,517
Nonvested	21,140	16,150
Total	110,918	100,667
Projected benefit obligation	119,581	108,519
Fair value of plan assets	(139,788)	(110,289)
Excess of projected obligation (assets)	(20,207)	(1,770)
Unrecognized gains	N/A	33,683
Unrecognized net transition obligation	N/A	(3,504)

Accrued pension cost (Asset)	(20,207)	28,409
Additional minimum liability	N/A	13,051
Charge to equity - OCI - minimum liability SFAS87	N/A	13,051

Change in benefit obligation and items not yet recognized as a component of net periodic pension cost

	PBO	Unrec.G/(L)	Unrec.NTO
Benefit obligation at December 31, 2004	114,957	19,998	(4,330)
Service cost	3,264	-	-
Interest cost	12,126	-	-
Amortization	-	529	826
Benefit payments and expenses	(9,314)	(219)	-
Actuarial (gain)/loss	(12,514)	12,515	-
Asset experience	-	860	-
Balance at December 31, 2005	108,519	33,683	(3,504)

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Explanation of Responses:

Service cost	3,127	-	-
Interest cost	11,872	-	-
Amortization	-	(1,152)	815
Benefit payments and expenses	(9,171)	(20)	-
Actuarial (gain)/loss	2,706	(2,772)	-
Asset experience	-	11,704	-
Business combination - inclusion of T.Empresas	2,528	2,583	137
Balance at December 31, 2006	119,581	44,026	(2,552)

Disclosure of net periodic pension cost

	2006	2005	2004
Service cost (net of employee contributions)	2,960	2,857	2,058
Interest cost on PBO	11,872	12,126	13,021
Expected return on assets	(15,705)	(13,164)	(10,028)
Amortization of initial transition obligation	815	826	826
Amortization of losses	(1,152)	530	-
Net periodic pension cost	(1,210)	3,175	5,877

Change in accrued pension cost

	2006	2005
Accrued pension cost at beginning of year	28,409	31,848
Net periodic pension cost	(1,210)	3,175
Employer contributions	(6,065)	(6,614)
Business combination - inclusion of T.Empresas	133	-
Other Comprehensive Income - SFAS158 adjustments	(41,474)	-
Accrued pension cost at end of year	(20,207)	28,409

Change in plan assets

	2006	2005
Plan assets at beginning of year	110,289	98,777
Actual contribution	6,145	6,802
Actual distributions and expenses	(9,171)	(9,314)
Actual return on plan assets	27,410	14,024
Assets acquired in a business combination	5,115	-
Plan assets at end of year	139,788	110,289

Estimated future benefit payments

	PBS/Visão	CTB	PBS-A	PAMA
2007	9,224	3,192	343,826	40,560
2008	9,688	3,124	357,579	44,506
2009	10,182	3,042	371,882	48,800
2010	10,742	2,949	386,757	53,425
2011	11,314	2,846	402,227	58,467
Years 2012-2016	65,496	12,460	2,265,737	382,508

The actuarial assumptions used in 2006 and 2005 are mentioned in Note 31.

Asset allocation

The asset allocation for the Company’s defined benefit pension plan (PBS - Telesp) at the end of 2006 and 2005, and the target allocation for 2007, by asset category, are as follows:

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	Target Allocation for	Percentage of Plan Assets at Year End	
Asset category	**2007**	**2006**	**2005**
Equity securities	19.0%	18.0%	17.5%
Loans	1.0%	1.0%	2.5%
Fixed income	80.0%	81.0%	80.0%
Total	100.0%	100.0%	100.0%

The allocation of pension plan assets in Brazil is regulated by the Brazilian federal government. The primary allocation of a pension plan's portfolio assets is to fixed-income securities. The plan may also allocate up to 50% of its assets variable-rate securities and up to 5% of its assets loans to participants. The company's pension plan managers seek to maximize return on the plan's assets while balancing potential risks in order to guarantee the payment of benefits to the plans' participants and to reduce future costs. Based on the foregoing investment considerations, the company's pension plan managers intend to invest, through 2007, portfolio assets as follows: 80% in fixed-rate securities in order to protect the plans from volatility in the Brazilian equity markets and limit investments in such markets to 19.0% of the plans' total investments.

The asset mix is the same for both plans (PBS and Visão) and composed of fixed-income, equities and loans.

The plan’s asset return is the average after-tax return of each asset category weighted by target allocations. Asset categories returns are based on long term macroeconomic scenarios.

A summary of the Sistel pension plan as of December 31, 2006 and 2005 for the multiemployer portion (inactive employees pension plan) - PBS-A, is as follows:

Pension benefit plan- PBS-A

	2006	**2005**
Funded status:		
Accumulated benefit obligation		
Vested	4,118,077	3,876,556
Projected benefit obligation	4,118,077	3,876,556
Fair value of plan assets	(6,092,174)	(5,021,828)
Plan assets in excess of obligations	(1,974,097)	(1,145,272)

A summary of the post-retirement benefits plan (health care plan - PAMA) is as follows:

Health Care Plan - PAMA

	2006	**2005**
Funded Status:		
Accumulated post-retirement benefit obligation:		
Active participants	27,439	25,865
Fully eligible active plan participants	4,510	-
Inactive participants	1,019,730	740,531
	1,051,679	766,396

Fair value of plan assets	(563,349)	(539,250)
Obligations in excess of plan assets	488,330	227,146

In 2006, the Company made contributions to the PAMA in the amount of R$32 (R$20 in 2005 and R$26 in 2004).

f. Concentrations of risk

The credit risk on accounts receivable is dispersed. The Company constantly monitors the level of accounts receivable and limits the risk of past-due accounts, interrupting access to telephone lines in case the customer does not pay the related bills within 30 days. Exceptions are made for telecommunications services that must be maintained for security or national defense reasons.

For conducting its business, the Company is fully dependent upon the fixed-line telecommunications concession as granted by the Federal Government. The Concession Agreement expired on December 31, 2005, and was renewed, on December 22, 2005, for more 20 years. However, the agreement can be changed on

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December 31, 2010, 2015 and 2020. Such condition allows ANATEL to set up new conditions and new goals for universalization and quality of telecommunication services, according to the conditions in force by that moment. Every two years, during a 20 years period, public regime companies will have to pay a renewal charge which will correspond to 2% of its prior-year SFTC revenue, net of taxes and social contributions.

Approximately 25% of the Company's employees are members of the main telecommunications industry labor union, Sindicato dos Trabalhadores em Empresas de Telecomunicações e Operadores de Mesas Telefônicas no Estado de São Paulo, the Labor Union of Employees of Telecommunications Companies and Telecommunications Desk Operators in the State of São Paulo, or SINTETEL, which is associated with the Federação Nacional dos Trabalhadores em Telecomunicações, the National Federation of Telecommunications Workers or FENATTEL. The collective labor agreement was renewed on September 1, 2006 and will expire on August 31, 2007. The Company's management considers relations with its work force to be satisfactory. The Company has never experienced a work stoppage that had a material effect on its operations.

There is no concentration of available sources of labor, services, concessions or rights, other than those mentioned above, that could, if suddenly eliminated, severely impact the Company's operations.

g. New accounting pronouncements

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The effect of the adoption of this FIN is immaterial.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements", and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by this SFAS) to prior periods' financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. In addition, SFAS No. 154 redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. SFAS No. 154 has been adopted in 2006 and had no impact on the Company's financial statements.

In June 2006, the Emerging Issues Task Force (EITF) ratified the consensus on EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (EITF 06-3). EITF 06-3 provides that taxes imposed by a governmental authority on a revenue producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the seller's accounting policy, which should be disclosed pursuant to Accounting Principles Board Opinion No. 22, "Disclosure of Accounting Policies." Amounts that are allowed to be charged to customers as an offset to taxes owed by a company are not considered taxes collected and remitted. If such taxes are significant and are presented on a gross basis, the amounts of those taxes should be disclosed. EITF 06-3 will be effective for interim and annual reporting periods beginning after December 15, 2006. The Company is currently evaluating the impact EITF 06-3 will have, but it does not expect a material impact on its financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”), an interpretation of Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes”. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Financial Accounting Standards Board Statement No. 5, Accounting for Contingencies. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will be evaluating the impact FIN 48 will have on its financial statements in the course of 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements

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that require or permit fair value measurement. SFAS 157 does not require any new fair value measurements and the Company does not expect the application of this standard to change its current practice. SFAS 157 requires prospective application for fiscal years ending after November 15, 2007.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", an amendment of FASB Statements No. 87, 88, 106 and 132 (R). SFAS No. 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to (i) recognize the funded status of a benefit plan in its statement of financial position; (ii) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers' Accounting for Pensions, or No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions; (iii) measure defined benefit plan assets and obligations as of the date of the employers' fiscal year-end statement of financial position ; and (iv) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition net asset or obligation. The Company adopted SFAS 158 recognition and related disclosure provisions as of December 31,2006, which impact was as a gain of R$ 27,373, net of income taxes, recorded directly in accumulated other comprehensive income (AOCI).

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities", a standard that provides companies with an option to report selected financial assets and liabilities at fair value. The standard requires companies to provide additional information that shows the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company will be evaluating the impact SFAS No. 159 will have on its financial statements in the course of 2007.

41. Subsequent events

On March 29, 2007, the General Shareholders' Meeting approved the distribution of additional dividends in the amount of R$705.6 million, based on retained earnings as of the annual financial statements of December 31, 2006. The amounts per share will be R$1.307780 for common shares and R$ 1.438558 for preferred shares. The payment must be effected before December 21, 2007, at the latest.

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