

TELESP HOLDING CO
Form 6-K
March 18, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

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

For the month of March, 2008

Commission File Number: 001-14475

TELESP HOLDING COMPANY

(Translation of registrant's name into English)

Rua Martiniano de Carvalho, 851 - 21 andar

São Paulo, S.P.

Edgar Filing: TELESP HOLDING CO - Form 6-K

Federative Republic of Brazil

(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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

Yes No

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

TELESP HOLDING COMPANY

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1. Press Release entitled "*Telecomunicações de São Paulo S.A. - Telesp - Financial Statements*" dated on December 31, 2007.

Financial Statements

Telecomunicações de São Paulo S.A. - TELESP

December 31, 2007 and 2006 with Report of Independent Auditors

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

FINANCIAL STATEMENTS
December 31, 2007 and 2006

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A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in accordance with the accounting practices adopted in Brazil

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders

Telecomunicações de São Paulo S.A.

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Telecomunicações de São Paulo S.A. - TELESP and subsidiaries as of December 31, 2007 and 2006 and the related statements of income, shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements.
2. We conducted our audits in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements, and (c) an assessment of the accounting practices used and significant estimates made by management of the Company and subsidiaries, as well as an evaluation of the overall financial statement presentation.
- 3.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Telecomunicações de São Paulo S.A. □ TELESP and subsidiaries at December 31, 2007 and 2006, the related results of their operations, changes in their shareholders' equity and changes in their financial position for the years then ended, in conformity with the accounting practices adopted in Brazil.

4. We conducted our audits with the objective of issuing an opinion on the overall financial statements referred to in paragraph one above. The statements of cash flows and of added value for the years ended December 31, 2007 and 2006, presented to provide additional information on the Company and its subsidiaries, are not required as an integral part of the statutory financial statements, according to the accounting practices adopted in Brazil. The statements of cash flows and of added value were submitted to the same audit procedures described in paragraph two and, in our opinion, are fairly presented, in all material respects, in relation to the overall financial statements.

São Paulo, February 18, 2008
ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Luiz Carlos Marques
Accountant CRC-1SP147693/O-5

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A free translation from Portuguese into English of financial statements prepared in accordance with the accounting practices adopted in Brazil

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

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(In thousands of reais)

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

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, 2007, holds total indirect interest of 87.95% of which 85.57% are common shares and 89.13% are preferred shares.

b) Operations

The Company's basic business purpose is the rendering of fixed wire telephone services in the state of São Paulo under Fixed Switch Telephone Service Concession Agreement - STFC granted by the National Communications Agency (ANATEL), which is in charge of regulating the telecommunications sector in Brazil (Note 1.c). The Company has also authorizations from ANATEL, directly or through its subsidiaries, to provide other telecommunications services, such as data communication to the business market and broadband internet services under the *Speedy* brand and, more recently, cable TV

services via satellite in all the country. The Company's main area of operation is São Paulo State, including the municipality of São Paulo, the biggest in Brazil.

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

c) The STFC Concession Agreement

The Company is a concessionaire of the fixed switch telephone service (STFC) to render local and domestic long-distance calls originated in Region 3, which comprises the State of São Paulo, in Sectors 31, 32 and 34, established in the General Concession Plan (PGO).

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

1. Operations and Background (Continued)

c) The STFC Concession Agreement (Continued)

The Concession Agreement's renewal, dated December 22, 2005, in force since January 2006, set up new requirements and goals for universalization and quality of telecommunication services.

The Concession Agreement establishes that all assets owned by the Company and which are used for the provision of telecommunication services, including but not limited to, transmission equipment and public use terminals, external network equipment, energy and other resources, shall be automatically returned to ANATEL upon expiration of the concession agreement, according to the terms of the agreement.

Every two years, during the agreement's new 20-year period, public regime companies shall be required to pay a concession fee to ANATEL on April 30, 2007 by value of R\$224,760, based on the 2006 STFC net revenues. The next concession fee payment shall be due on April 30, 2009.

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, wholly-owned by the Company.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

1. Operations and Background (Continued)

d) Controlled Telecommunications service providers and subsidiaries (Continued)

A. Telecom S.A. (Continued)

- (i) Digital Condominium: integrated solution equipment and services for voice transmission, data and images on commercial buildings;
- (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;
- (vi) integrated IT solution named □Posto Informático□ allowing access to Internet, connection of private networks and rent of IT equipment.

On March 14, 2007, Anatel granted authorization for A. Telecom to render subscription satellite TV services (Direct to Home □ DTH services) in all the country. The DTH is a special type of subscription TV service, which uses satellites for direct distribution of TV and audio signals to subscribers. The commercial operation began in August 2007.

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, 2007, the Company holds a 50% interest in Aliança Atlântica and Telefônica S.A. holds the remaining 50%.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

1. Operations and Background (Continued)

- d) Controlled Telecommunications service providers and subsidiaries (Continued)

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 of this company is the rendering and exploration of telecommunications services, in addition to preparation, implementation and installation of projects related to integrated corporate solutions and consulting services regarding telecommunications and activities related to rendering of technical assistance, equipment maintenance and telecommunications network services. Telefônica Empresas became a wholly-owned subsidiary of the Company after the corporate reorganization which was carried out in July 2006 (Note 2.c).

Navytree Participações S.A.:

Navytree Participações S.A. (□Navytree□) is a company that owns interests in companies providing subscription TV services (Note 2.a).

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

2. Corporate Events Occurred in 2007 and 2006

a) Acquisition of Navytree Participações S.A.

As per the Significant Information published on October 31, 2006, the Company and Abril Group entered into several commercial and operating agreements. These agreements provided for acquisition by the Company of: (i) all the MMDS (Multichannel Multipoint Distribution Service) and broad band operations, and (ii) shareholdings, observing the limit provided for by ruling legislation, in cable TV operators controlled by Abril Group.

These agreements established certain conditions, the main ones being: (i) segregation among MMDS, broadband and cable TV operations by the Abril Group, and (ii) approval of operation by Anatel.

On September 30, 2007, Abril Group concluded the process of segregating the aforementioned operations, transferring to Navytree Participações S.A. the following ownership interests:

- (i) 100% in Lightree Sistemas de Televisão S.A., an MMDS and broadband service provider;
- (ii) 19.90% of voting shares and 100% of preferred shares of Comercial Cabo TV São Paulo S.A., a subscription cable TV service provider in the State of São Paulo;
- (iii) 100% of preferred shares of Lemontree Participações S.A., controlling company of Comercial Cabo TV São Paulo S.A.;
- (iv) 49.90% of voting shares and 100% of preferred shares of TVA Sul Paraná S.A., a subscription cable TV service provider in the cities of Curitiba, Foz de Iguaçu and Florianópolis; and
- (v) 100% of preferred shares of GTR-T Participações e Empreendimentos S.A., controlling company of TVA Sul Paraná S.A.

On October 31, 2007, Anatel concluded the regulatory analysis of the association between

Abril Group and the Company, which approved the operation. The process is currently being analyzed by CADE (Brazilian Antitrust Agency) focusing on competition aspects.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

2. Corporate Events Occurred in 2007 and 2006

a) Acquisition of Navytree Participações S.A. (Continued)

The final amount for which 100% ownership interest in Navytree was acquired, totaled R\$909,065 (R\$200,000 was paid in advance in 2006 under the contractual terms), as such the remaining balance payable to Abril Group at December 31, 2007 was R\$293,790, of which R\$270,000 is kept in a financial investment in the name of the Company (Note 21).

b) 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.

c) Acquisition 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 the Telefônica Group control, announced a proposal to restructure the Multimedia Communications Service (□SCM□) activities of Telefônica Empresas S.A. and Telesp. The operation included the following stages:

- (i) merger of TDBH by Telesp, whereby TDBH members receive Telesp shares in accordance with the exchange ratio announced. With this operation, Telefônica Empresas S.A. would become a wholly-owned subsidiary of Telesp. Telesp would

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 is already provided by Telesp.

The Extraordinary General Shareholders' Meeting of the Companies held on April 28, 2006 approved the proposed corporate reorganization. However, due to a preliminary injunction granted in connection with judicial proceeding filed by TDBH minority shareholders, revoked on July 25, 2006, the effects of the corporate reorganization were generated as from publication of the judicial proceeding on July 28, 2006.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

3. Base of Presentation of the Financial Statements

The accompanying individual and consolidated financial statements as of December 31, 2007 and 2006 were prepared in accordance with accounting practices adopted in Brazil, with 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 Committee Meeting on February 12, 2008.

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 non-current 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:

Due to the acquisition of Navytree and the corporate reorganization mentioned in Notes 2.a and 2.c., respectively, the Company's result of operations include the results of wholly-owned subsidiary Navytree as from October 1, 2007 and of wholly-owned subsidiary Telefonica Empresas S.A. as from August 2006.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

3. Base of Presentation of the Financial Statements (Continued)

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions and equity holdings among the consolidated companies have been eliminated for consolidation purposes between the Company and your subsidiaries.

In order to provide additional information, the Company is also presenting the statements of cash flows and of added value. Such statements were prepared based on Accounting Standard and Procedure (NPC) No. 20., issued by the Brazilian Institute of Independent Public Accountants (IBRACON), and on Resolution No. 1010, of the Federal Accounting Board (CFC), respectively.

For the financial statements as of December 31, 2006 and 2005, certain accounts were reclassified to allow adequacy and consistency thereof with the current period. However, the amounts of these reclassifications are not material in relation to the financial statements, and consider the Deliberation nº 488/05's requests for 2007, 2006 and 2005.

4. Summary of 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.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

4. Summary of Principal Accounting Practices (Continued)

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.

e) Investments

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 Notes 12 and 13.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

4. Summary of Principal Accounting Practices (Continued)

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 14).

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 carry-forwards are recognized as deferred tax assets and liabilities on the assumption of future realization within the parameters established by CVM Deliberation 273/1998 and CVM Instruction No. 371/2002.

i) 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

(Note 20).

j) Revenue recognition

Revenues related to services rendered are recorded 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.

k) 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 (Note 21).

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

4. Summary of Principal Accounting Practices (Continued)

l) Financial expense, net

These represent interest, monetary and exchange variations arising from financial investments, debentures, loans and financing obtained and granted, as well as the results of derivative operations (hedge).

Declared 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.

m) Pension and other post-retirement benefit

The Company sponsors individual and multiemployer post-retirement and health assistance plans to its employees. Actuarial liabilities were calculated using the projected unit credit method, as provided for by CVM Deliberation No. 371/2000. Other considerations related

to such plans are described in Note 32.

n) Derivatives

Gains or losses on derivatives transactions are recorded monthly in income based on contractual terms. Balances of derivative operations (foreign currency swaps) are described in Notes 27 and 34.

o) Earnings per share

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

5. Cash and Cash Equivalents

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

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

7. Deferred and Recoverable Taxes (Continued)

(*) 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.

7.1. Deferred income and social contribution taxes

Considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable profit discounted to present value based on a technical feasibility study, approved by the Board of Directors on December 10, 2007, as provided for in CVM Instruction No. 371/2002, the Company estimates the realization of the deferred taxes as of December 31, 2007 as follows:

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

Wholly-owned subsidiary Telefonica Empresas S.A. posted tax losses in 2007 in the amount of R\$124,753 (R\$68,838 in 2006), on which deferred tax assets of R\$42,416 in 2007 (R\$23,405 in 2006) were not recorded.

7.2. Merged tax credit

As commented in Note 2.c., as a result of the capital reorganization process of July 28, 2006, the goodwill generated as a result of acquisition in 2001 of investment at Figueira Administração e Participações S.A., owner of operating assets of Banco Itaú S.A.'s telecommunications network, was merged by the Company, as were the investments in Galáxia Administrações e Participações S.A., a company having Multimedia Communication Service (SCM) authorization.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

7. Deferred and Recoverable Taxes (Continued)

7.2. Merged tax credit (Continued)

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

For calculation of the tax credits resulting from acquisition, income and social contribution tax rates are 25% and 9%, respectively.

As shown above, goodwill amortization, net of provision reversal and of the corresponding tax credit, had no impact on P&L for the period ended December 31, 2007.

For presentation purposes, the net amount of R\$100,504 (R\$72,456 under non-current assets and R\$28,048 under current assets), basically representing merged tax credit, was classified in the balance sheet as deferred and recoverable taxes, according to CVM Instruction No. 349, dated March 6, 2001. Goodwill amortization and provision reversal are recognized in the accounting records as operating income and expenses, and the related tax credit is recognized as provision for income and social contribution taxes.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

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

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

11. Investments (Continued)

Breakdown of goodwill (negative goodwill) on investment acquisition is as follows:

- (a) Negative goodwill on the acquisition of shares of Companhia AIX de Participações, recorded by the Company, was allocated to Deferred Income in the consolidated, as prescribed by Article 26 of CVM Ruling No. 247/96. Amortization will be made until 2009, based on projected future results.
- (b) TS Tecnologia da Informação Ltda, formerly Katalyx Cataloguing do Brasil Ltda.
- (c) 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.

Goodwill of Navytree Participações S.A.

Breakdown of goodwill on the acquisition of Navytree Participações S.A. (see Note 2.a) based on a future profitability study, is as follows:

- (a) Part of the business acquisition value was recorded in 2006 as Advance for Future Acquisition Share in the amount of R\$200,000.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

11. Investments (Continued)

The main accounting information of subsidiaries and jointly-controlled subsidiaries at December 31, 2007 and 2006 was as follows:

On July 13, 2007, the Company's Board of Directors Meeting approved capital contribution to wholly-owned subsidiary A. Telecom S.A. in the amount of R\$144,000 being approved by the Extraordinary General Meeting of December 11, 2007.

Investments in affiliated companies posted by the equity methods result from consolidation of Navytree. The main information of these affiliates is as follows:

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

11. Investments (Continued)

The Company's equity in subsidiaries is as follows:

- (a) Refers to equity pick-up on shareholders' equity's monetary exchange variation.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2007 and 2006
(In thousands of reais)

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2007 and 2006
(In thousands of reais)

- (a) The goodwill on acquisition of the IP network in December 2002 refers to the acquisition of the assets for the Switched IP and Speedy Link services of Telefônica Empresas S.A. The portion regarded as goodwill and recorded in deferred charges corresponds to the customer portfolio of the business. According to an appraisal report, the economic basis of the goodwill is the expected future profitability, and its amortized over a period of 120 months.
- (b) The goodwill resulting from acquisition of Telefonica 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 60 (sixty) months from the takeover date in July 2006.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2007 and 2006
(In thousands of reais)

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

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

15. Loans and Financing (Continued)

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

Consolidated long-term debt maturities

Debenture conditions were renegotiated on September 1, 2007, date of end of the first Remuneration period and beginning of the second Remuneration period. This period ends on the debentures maturity date; namely September 1, 2010.

Debentures are entitled to interest yield, payable on a quarterly basis, by reference to the variation in average Inter-bank Deposit rates (DI rates), plus annual spread of 0.35% (point thirty-five percent), calculated and published by the Brazilian Clearing House for the Custody and Financial Settlement of Securities (CETIP) as from renegotiation date.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

- (a) Income and social contribution taxes payable are presented net of payments on an estimate basis (Note 7).
- (b) Legal obligations account records tax liabilities, net of judicial deposits, which are being questioned in court, as prescribed by CVM Resolution No. 489/2005.

- (c) The item "Others" includes R\$113,275 of FUST payable as of December 31, 2007 (R\$66,203 as of December 31, 2006), net of judicial deposits of R\$97,567 (R\$53,099 as of December 31, 2006).
- (a) Refers to the Company's organizational restructuring program, which is being analyzed by the Telecommunication Workers Labor Union in the State of São Paulo - Sintetel, which is scheduled to be implemented in the first 2008 quarter.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

(a) The balance refers to remaining net income for 2007, after allocation of net income provided for by Law No 6,404/76.

Most of the interest on shareholders' equity and total dividends payable to minority shareholders refer to available amounts declared, but not claimed yet.

20. Reserve for contingencies, net

The Company, as an entity and also as the successor to the merged companies, and its subsidiaries are involved in labor, tax and civil lawsuits filed with different courts. The Company's management, based on the opinion of its legal counsel, recognized reserves for those cases in which an unfavorable outcome is considered probable. The table below shows the breakdown of reserves by nature and activities during 2007:

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

20. Reserve for contingencies, net (Continued)

20.1. Labor contingencies and reserves

The Company has various reserves related to labor claims, amounting to R\$456,188, consolidated, to cover probable losses. The amounts involved and respective risk levels are as follows:

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.

The Company made escrow deposits in the amount of R\$114,579 for the reserves mentioned above.

The Company based on the assessment of the Company's legal counsel and management, a reserve for tax contingencies amounting to R\$232,152 was recorded on December 31, 2007. The principal tax contingencies, assessed as remote, possible and probable risk, are as follows:

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

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

20. Reserve for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

- 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 and joint liability for social security contributions alleged not to have been paid by its subcontractors of approximately R\$319,305. Due to Higher Court rulings and favorable ruling handed down on a significant case recognizing statute barring period of five years instead of ten years. Company management decided to reverse the amount provisioned of R\$9,314 and maintain provision of R\$95,120, which is the portion considered to involve probable loss, having made an escrow deposit in the amount of R\$593. The proceeding is in the 2nd lower court.

- 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\$141,141. Management decided to reverse the amount initially provisioned of R\$96,567 and maintain the provision of R\$2,739 referring to the portion considered to involve probable loss. The proceeding is in the 1st lower court.

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 approximately of R\$60,215. 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 approximately R\$196,564, 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.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

20. Reserve for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

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

- f) Assessments on October 31 and December 13, 2001, related to ICMS (State VAT) allegedly due on international long-distance calls amounting to approximately R\$28,979 for the period from November to December 1996, R\$214,259 from January 1997 to March 1998 and to R\$195,180 for the period from April 1998 to December 1999. The proceedings have been closed at the administrative level and started been discussed at the lower court. Considering the risk level possible, no provision was made.
- g) Assessment on July 2, 2001 demanding the difference in ICMS paid without late-payment penalty, amounting to R\$6,502, considered as a possible risk. The claim is in the 2nd lower court level. Considering the risk level, no provision was made.
- h) Infraction notice related to the use of credits in the period from January to April 2002, in the amount of R\$32,715, for which the risk is considered possible. The claim is at the 2nd administrative level. Considering the risk level, no provision was made.
- i) 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\$119,888. 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.
- j) Infraction notices related to nonpayment of ICMS, in the period from January 2001 to December 2005, on amounts received for equipment lease (modem), totaling R\$145,589. Related risk is assessed as possible by legal counsel. The claim is at the 2nd administrative level. Considering the risk level, no provision was made.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

20. Reserve for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

k)

Infraction notices related to nonpayment of ICMS in the period from August 2004 to December 2005, for non-inclusion of revenues from rendering of several supplemental services and value added, in the amount of R\$261,691, upon determination of the tax basis. Related risk is assessed as possible by legal counsel. The claim is at the 2nd administrative level. Considering the risk level, no provision was made.

- l) Infraction notice drawn up by the São Paulo State Finance Office on June 14, 2007, referring to co-billing operations from May to December 2004, due to: (i) non presentation of the totality of the files provided for in Administrative Ruling CAT No. 49/03; (ii) untimely compliance with notices referring to filing of electronic files; (iii) lack of or irregular recording on the Shipment records; and (iv) unpaid of tax concerning to a portion of the communication services rendered. The amount involved in is R\$7,446, already considering payment of the notice item one in the terms of Law No. 6374/89 and of Decree No. 51960/07 (PPI), related to non-payment of taxes. The likelihood of loss is assessed as possible. Part of the infractions results from the not filed information by other operating companies. The claim is at the 1st level. Considering the risk involved, the Company did not record a provision.

Litigation at the Federal and Municipal Levels:

- m) 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\$19,222, 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

20. Reserve for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

- n) 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\$25,398. 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 2nd court level.

- o) On December 15, 2005, ANATEL edited Abridgment n^o 01 (subsequently changed to Abridgment n^o 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\$131,047 and no provision was made.

There are other contingencies that have also been accrued, for which the involved amount is R\$115,071; the risk is considered probable by management, of which the Company has made escrow amounting of R\$50,891.

20.3 Civil contingencies and reserves

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

20. Reserve for contingencies, net (Continued)

20.3

Civil contingencies and reserves (Continued)

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\$368,519. 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\$302,942. 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, 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\$232,825. 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\$68,295. 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. The claim is in the 2nd court level.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

- (a) The amount due referring to the concession renewal was paid in April 2007.
- (b) Amounts resulting from the auction of share fractions after the reverse spin-off process in 2005, and TDBH acquisition process in 2006.
- (c) The amount to be paid on December 31, 2007 to the Grupo Abril for the Navytree acquisition correspond to R\$293,790, of which R\$270,000 is retained in financial application in the name of the Society. The presentation is by net value.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

22. Shareholders □ Equity

a) Capital

Paid-up capital is of R\$6,575,198 at December 31, 2007 and 2006. Subscribed and paid-up capital is represented by shares without par value, as follows:

The Company is authorized to increase its capital up to the limit of 700,000,000 (seven hundred million) shares, common or preferred. The capital increase and consequent issue of

new shares are to be approved by the Board of Directors, with observance of the authorized capital limit.

Capital increases do not necessarily have to observe the proportion between the numbers of shares of each type. However, the number of preferred shares, nonvoting or with restricted voting, must not exceed 2/3 of the total shares issued.

Preferred shares are nonvoting, but have priority in the reimbursement of capital and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's bylaws and clause II, paragraph 1, article 17, of Law No. 6,404/76.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

22. Shareholders' Equity (Continued)

b) Capital reserves

Share premium

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

Donations and subsidies for investment

These represent amounts received as donations of property resulting from expansion of the telecommunications services plant.

Tax incentives

These are represented by tax incentive investments.

Treasury shares

These correspond to the Company's treasury stock which resulted from merger with TDBH occurred in 2006, part of which refer to exercise of withdrawing rights and the remaining to the share auctions carried out by the Company. The average cost of acquisition was R\$44.77. At December 31, 2007, the market value of treasury stock was R\$18,164 (R\$20,151 at December 31, 2006).

c) Income reserves

Legal reserve

According to article 193 of Law No. 6,404/76, the Company chose not to set up the legal reserve, as such balance added to the capital reserve balance exceeded capital by 30%.

d) Retained earnings

At December 31, 2007, the amount of R\$350,938 (comprising remaining net income balance of R\$141,169, as well as dividends and interest on shareholders' equity barred by statute of limitation for 2007 of R\$209,769), which under paragraph 6, article 202 of Law No. 6,404/76 was presented as dividends payable as proposed by management and to be approved by the General Shareholders' Meeting, will be paid until the end of 2008.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

22. Shareholders' Equity (Continued)

e) Dividends

According to its by-laws, the Company is required to pay dividends at each year ending December 31, of a minimum of 25% of adjusted net income, provided earnings are available for distribution.

Dividends are calculated in accordance with the Company's by-laws and with the Brazilian Corporation Law. As follows, the Company presents the calculation of dividends and interest on shareholders' equity deliberated for 2007 and 2006:

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

22. Shareholders' Equity (Continued)

e) Dividends (Continued)

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

22. Shareholders' Equity (Continued)

f) Interest on shareholders' equity (Continued)

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

g) Payment of dividends and interest on shareholders' equity

On March 29, 2007, the General Shareholders' Meeting approved the distribution of interim dividends in the amount of R\$705,631 based on retained earnings as of December 31, 2006 to shareholders included in the Company records at the end of March 29, 2007. Dividends and interest on shareholders' equity were paid as from May 28, 2007.

On April 18, 2007, as agreed to by the General Shareholders' Meeting, the Company's Board of Directors approved interest on equity in the amount of R\$221,000, subject to withholding tax at the rate of 15%, resulting in the net amount of R\$187,850. The interest on shareholders' equity was paid to holders of common and preferred shares included in our records at the end of the April, 30th 2007, date of the book record. Payment of the interest took place on May 28, 2007.

On November 7, 2007, the Board of Directors approved the payment of interim dividends based on the

September 30, 2007 financial statements, in the amount of R\$1,580,000, and interest on shareholders' equity referring to the financial year 2007 of R\$210,000 (R\$178,500 net of withholding income tax) to shareholders included in the Company records on November 7, 2007, which started being paid on December 3, 2007.

On December 10, 2007, the Board of Directors, following the General Shareholders' Meeting, approved the credit of interest on shareholders' equity referring to the financial year 2007, in the amount of R\$211,000 (R\$179,350 net of withholding income tax). The payment will be made on a date to be decided in the General Shareholders' Meeting.

h) Unclaimed dividends

Dividends and interest on shareholders' equity are barred by statute of limitation after 03 (three) years, as from the date of beginning of payment thereof if not claimed by shareholders, according to article 287, clause II, item a. of Law No. 6,404, dated December 15, 1976.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

22. Shareholders' Equity(Continued)

i) Net income reconciliation of the difference between Parent Company and Consolidated

The difference between net income for the year of Company and consolidated at December 31, 2007, in the amount of R\$209, refers to donations directly recorded in capital reserve of subsidiary A. Telecom S.A., which corresponds to result of equity pickup in the company (Note 11).

(i) For the better presentation of Operating Revenue to the market and regulatory agency, ANATEL, the Company made reclassifications to the amounts as of December 2006. The main reclassifications were made between the items □Interconnections services□, □Public telephones□, □Network access□ and □Other□.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

23. Net Operating Revenue (Continued)

Tariff adjustments affecting recorded revenue

On July 17, 2007, by means of Acts No. 66,028 and No. 66,031., the National Telecommunications Agency (Anatel) approved the tariff adjustment for the Fixed Switched Telephone Service (STFC), according to the criteria establi