TELESP HOLDING CO
Form 6-K
April 06, 2009

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 April, 2009

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.

Federative Republic of Brazil

(Address of principal executive office)

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

Form 20-F x Form 40-F

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

Yes No x

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

Yes No x

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 x

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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Financial statements

December 31, 2008 and 2007

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Report of independent auditors

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

Shareholders, Management and Board Members

Telecomunicações de São Paulo S.A. TELESP

São Paulo - SP

1. We have audited the accompanying balance sheets (company and consolidated) of Telecomunicações de São Paulo S.A. TELESP as of December 31, 2008, and the related statements of income, shareholders equity, cash flows and value added for the year then ended. These financial statements are the responsibility of the Companys management. Our responsibility is to express an opinion on these financial statements.

2. We conducted our audit 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 Telecomunicações de São Paulo S.A. TELESP, (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 Telecomunicações de São Paulo S.A. TELESP, 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 financial position of Telecomunicações de São Paulo S.A. TELESP at December 31, 2008, and the results of its operations, its shareholders equity, its cash flows and value added for the year then ended, in accordance with the accounting practices adopted in Brazil.

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4. We have formerly audited the financial statements (company and consolidated) for the year ended December 31, 2007, comprising the balance sheet as of that date, and the related statements of operations, of shareholders equity and of changes in financial position for the year then ended, in addition to supplementary information including the statements of cash flows and of value added, on which we issued an unqualified report dated February 18, 2008. As mentioned in Note 3, the accounting practices adopted in Brazil were subjected to changes effective from January 1, 2008. The financial statements for the year ended December 31, 2007, presented in conjunction with 2008 financial statements, were prepared in accordance with the accounting practices effectively adopted in Brazil through December 31, 2007 and, as allowed by CPC Technical Pronouncement No. 13 First Time Adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08, do not include any adjustments for

purposes of comparison between the years.

São Paulo, February 16, 2009.
ERNST & YOUNG
Auditores Independentes
CRC-2SP015199/O-6

Luiz Carlos Marques
Accountant CRC-1SP147693/O-5
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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Balance sheets

December 31, 2008 and 2007

(In thousands of reais)

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

		Company		Consolidated	
	Note	**2008**	**2007**	**2008**	**2007**
Assets					
Current assets		**5,870,998**	5,023,155	**6,459,830**	5,227,685
Cash and cash equivalents	**5 and 34**	**1,597,606**	845,805	**1,741,006**	933,275
Trade accounts receivable, net	**6**	**2,853,548**	2,700,775	**3,152,831**	2,832,050
Deferred and recoverable taxes	**7**	**925,877**	1,023,430	**1,032,516**	1,117,982
Inventories	**8**	**114,735**	99,690	**164,410**	125,004
Derivatives	**34**	**80,214**	25,423	**95,747**	25,423
Other	**9**	**299,018**	328,032	**273,320**	193,951
Noncurrent assets		**13,639,320**	13,609,201	**13,532,179**	13,722,960
Trade accounts receivable, net	**6**	**-**	-	**61,563**	-
Deferred and recoverable taxes	**7**	**570,017**	525,383	**579,807**	539,371
Escrow deposits	**10**	**678,583**	532,558	**711,300**	534,914
Other	**9**	**109,363**	214,489	**156,312**	152,212
Investments	**11**	**1,353,640**	731,640	**301,830**	177,557
Property, plant and equipment, net	**12**	**9,115,239**	9,611,982	**9,868,933**	10,260,126

Intangible assets, net	**13**	**1,812,478**	1,993,149	**1,852,434**	2,050,320
Deferred charges	**14**	**-**	-	**-**	8,460
Total assets		**19,510,318**	18,632,356	**19,992,009**	18,950,645

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		Company		**Consolidated**	
	Note	**2008**	**2007**	**2008**	**2007**
Liabilities and shareholders equity					
Current liabilities		**5,399,517**	5,399,923	**5,846,874**	5,697,223
Loans and financing	**15 and 34**	**454,188**	751,586	**502,503**	793,783
Debentures	**16 and 34**	**16,339**	12,357	**16,339**	12,357
Trade accounts payable		**2,030,787**	1,680,058	**2,314,698**	1,846,232
Taxes payable	**17**	**847,363**	837,405	**926,437**	908,260
Dividends and interest payable to shareholders	**18**	**1,153,670**	996,997	**1,153,670**	996,997
Payroll and related accruals	**19**	**163,372**	247,916	**174,672**	264,841
Reserve for contingencies	**20**	**128,451**	114,952	**128,488**	115,884
Derivatives obligations	**34**	**15,200**	279,312	**15,200**	279,312
Other	**21**	**590,147**	479,340	**614,867**	479,557
Non-current liabilities		**4,065,109**	3,327,191	**4,099,443**	3,348,180
Loans and financing	**15 and 34**	**1,717,352**	1,001,029	**1,717,352**	1,003,029
Debentures	**16 and 34**	**1,500,000**	1,500,000	**1,500,000**	1,500,000
Taxes payable	**17**	**40,151**	38,483	**47,401**	38,601
Reserve for contingencies	**20**	**567,220**	523,240	**570,778**	525,393
Reserve for post-retirement benefit plans	**32**	**148,770**	95,426	**148,770**	95,426
Derivatives obligations	**34**	**22,148**	103,885	**22,148**	103,885
Other	**21**	**69,468**	65,128	**92,994**	81,846
Shareholders equity	**22**	**10,045,692**	9,905,242	**10,045,692**	9,905,242
Capital		**6,575,480**	6,575,198	**6,575,480**	6,575,198
Special goodwill reserve		**63,074**	-	**63,074**	-
Capital reserves		**2,670,488**	2,670,488	**2,670,488**	2,670,488
Legal reserve		**659,556**	659,556	**659,556**	659,556
Adjustments for equity valuation		**76,232**	-	**76,232**	-
Cumulative translation adjustments		**862**	-	**862**	-

Total liabilities and shareholders equity	**19,510,318**	18,632,356	**19,992,009**	18,950,645

See accompanying notes.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Statements of income

Years ended December 31, 2008 and 2007

(In thousands of reais, except earnings per share)

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

		Company		Consolidated	
	Note	**2008**	**2007**	**2008**	**2007**
Gross operating revenue	**23**	**21,736,101**	20,427,630	**23,020,780**	21,183,809
Deductions from gross revenue	**23**	**(6,918,739)**	(6,399,884)	**(7,041,795)**	(6,456,247)
Net operating revenue	**23**	**14,817,362**	14,027,746	**15,978,985**	14,727,562
Cost of goods and services	**24**	**(7,919,086)**	(7,580,110)	**(8,726,408)**	(8,029,203)
Gross profit		**6,898,276**	6,447,636	**7,252,577**	6,698,359
Operating expenses		**(3,251,744)**	(2,844,785)	**(3,523,027)**	(3,050,981)
Selling	**25**	**(2,440,773)**	(2,384,151)	**(2,600,556)**	(2,462,457)
General and administrative	**26**	**(602,625)**	(765,074)	**(755,522)**	(838,613)
Equity pick-up in subsidiaries	**11**	**(118,056)**	3,633	**8,262**	(2,145)
Permanent asset disposal, net	**27**	**(26,213)**	82,666	**(50,555)**	81,653
Other operating income expenses, net	**28**	**(64,077)**	218,141	**(124,656)**	170,581

Operating income before financial

expenses,net		**3,646,532**	3,602,851	**3,729,550**	3,647,378
Financial income	**29**	**880,512**	494,006	**932,554**	503,453
Financial expense	**29**	**(1,718,379)**	(1,437,775)	**(1,776,440)**	(1,452,385)
Income before income tax and social contribution		**2,808,665**	2,659,082	**2,885,664**	2,698,446
Income tax and social contribution	**30**	**(1,004,694)**	(937,913)	**(1,081,693)**	(977,486)
Reversal of interest on shareholders equity		**616,000**	642,000	**616,000**	642,000
Net income for the year		**2,419,971**	2,363,169	**2,419,971**	2,362,960
Number of shares outstanding at the balance sheet date in thousands		**505,841**	505,841		
Earnings per share - R$		**4.7840**	4.6718		

See accompanying notes.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Statements of shareholders equity

Years ended December 31, 2008 and 2007

(In thousands of reais)

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

			Capital reserves				Income reserves	
	Capital	**Special goodwill reserve**	**Share premium**	**Treasury shares**	**Donations and subsidies for investments**	**Tax incentives**	**Legal reserve**	**A…**

Balances at December 31, 2006	**6,575,198**		**2,678,195**	**(17,719)**	**9,065**	**188**	**659,556**
Donations and subsidies for investments	**-**	**-**	**-**	**-**	**759**	**-**	**-**
Unclaimed dividends and interest on shareholders’ equity , net of taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Appropriations:	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest on shareholders’ equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Witholding tax on interest on shareholders’ equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balances at December 31, 2007	**6,575.198**	**-**	**2,678,195**	**(17,719)**	**9,824**	**188**	**659,556**
Merged DABR – 11/30/2008	**282**	**63,074**	**-**	**-**	**-**	**-**	**-**
Unclaimed dividends and interest on shareholders’ equity , net of taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Opening Balance of settings as law No. 11638	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Adjustments for equity valuation	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cumulative translation adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Appropriations:	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest on shareholders’ equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Witholding tax on interest on shareholders’ equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balances at December 31, 2008	**6.575.480**	**63.074**	**2.678.195**	**(17.719)**	**9.824**	**188**	**659.556**

See accompanying notes.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

Supplementary statements of cash flows

Years ended December 31, 2008 and 2007

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

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Cash flows from operations				
Net income for the year	**2,419,971**	2,363,169	**2,419,971**	2,362,960
Expenses (revenues) not affecting cash	**3,440,009**	3,068,052	**3,630,372**	3,210,254
Depreciation and amortization	**2,474,609**	2,543,494	**2.657.903**	2,634,384
Monetary and exchange variations	**193,794**	(85,432)	**209.574**	(85,432)
(Gain) loss from equity pick-up in subsidiaries	**118,056**	(3,633)	**(8.262)**	2,145
Gain /(Loss) on permanent asset disposals	**26,213**	(82,641)	**50.555**	(83,956)
Amortization of goodwill	**117,724**	64,738	**117.724**	64,738
Provision for doubtful accounts	**461,760**	611,030	**538.625**	652,692
Pension and other post-retirement benefits plans, net of funding	**53,344**	20,496	**53.344**	20,403
Others	**(5,491)**	-	**10.909**	5,280
(Increase) decrease in operating assets:	**(1,162,515)**	(541,054)	**(1,117,253)**	(614,033)
Trade accounts receivable	**(614,533)**	(91,600)	**(830,435)**	(206,524)
Other current assets	**95,918**	(263,607)	**(60,544)**	(268,263)
Other noncurrent assets	**(643,900)**	(185,847)	**(226,274)**	(139,246)
Increase (decrease) in operating liabilities:	**57,693**	(223,998)	**196,790)**	(181,396)
Payroll and related accruals	**(98,603)**	61,296	**(104,228)**	62,608
Accounts payable and accrued expenses	**179,391**	138,869	**263,970**	247,862
Taxes other than income taxes	**19,407**	(62,931)	**30,907**	(38,206)
Other current liabilities	**105,685**	(339,510)	**126,453**	(442,202)
Accrued interest	**(9,721)**	20,386	**(9,490)**	20,386
Income and social contribution taxes	**(47,497)**	(21,533)	**(56,061)**	(17,301)
Reserve for contingencies	**57,479**	(39,010)	**57,989**	(36,102)
Other noncurrent liabilities	**(148,448)**	18,435	**(112,750)**	21,559
Cash provided by operations	**4,755,158**	4,666,169	**5,129,880**	4,777,785
Cash flows generated from (used in) investing activities				
Acquisition of subsidiary, net of cash acquired	**-**	(599,660)	**-**	(426,353)
Advance for future share acquisition	**(30,000)**	(110,339)	**-**	-
Acquisition of fixed and intangible assets, net of donations	**(1,753,785)**	(1,620,353)	**(2,102,438)**	(2,038,979)

Cash from sales of fixed assets and investment	**15,548**	146,747	**27,364**	147,693
Cash received on merger	**435**	-	**435**	-
Cash used in investing activities	**(1,767,802)**	(2,183,605)	**(2,074,639)**	(2,317,639)
Cash flows generated from (used in) financing activities				
Loans repaid	**(997,260)**	(1,631,467)	**(1,041,391)**	(1,634,845)
New loans obtained	**1,241,864**	2,623,327	**1,274,364**	2,635,813
Net payment on derivatives contracts	**(262,345)**	(112,149)	**(262,669)**	(112,149)
Dividends and interest on shareholders equity paid	**(2,217,814)**	(2,628,726)	**(2,217,814)**	(2,628,726)
Cash used in financing activities	**(2,235,555)**	(1,749,015)	**(2,247,510)**	(1,739,907)
(Increase) decrease in cash and cash equivalents	**751,801**	733,549	**807,731**	720,239
Cash and cash equivalents at beginning of year	**845,805**	112,256	**933,275**	213,036
Cash and cash equivalents at end of year	**1,597,606**	845,805	**1,741,006**	933,275
Changes in cash during the year	**751,801**	733,549	**807,731**	720,239

See accompanying notes.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

Statements of added value

Years ended December 31, 2008 and 2007

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

	Company		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Revenues	**20,471,026**	19,595,263	**22,016,525**	20,539,986
Sale of goods products and services	**20,371,173**	19,326,806	**21,957,551**	20,303,064
Other income	**561,613**	879,487	**597,599**	889,614

Allowance for doubtful accounts	**(461,760)**	(611,030)	**(538,625)**	(652,692)
Input products acquired from third parties	**(7,285,645)**	(6,530,573)	**(8,204,473)**	(6,838,670)
Cost of goods and services	**(5,097,180)**	(4,686,673)	**(5,550,391)**	(4,910,840)
Materials, energy, services of third parties and others	**(2,070,610)**	(1,671,249)	**(2,462,078)**	(1,727,707)
Loss/Recovery of assets	**(41,760)**	(64,081)	**(77,925)**	(66,040)
Others	**(76,095)**	(108,570)	**(114,079)**	(134,083)
Gross added value	**13,185,381**	13,064,690	**13,812,052**	13,701,316
Retentions	**(2,592,333)**	(2,608,232)	**(2,775,627)**	(2,699,122)
Depreciation and amortization, including goodwill	**(2,592,333)**	(2,608,232)	**(2,775,627)**	(2,699,122)
Net added value produced	**10,593,048**	10,456,458	**11,036,425**	11,002,194
Added value received upon transfer	**762,456**	497,639	**940,816**	501,308
(Gain) loss from equity pick-up in subsidiaries	**(118,056)**	3,633	**8,262**	(2,145)
Financial income	**880,512**	494,006	**932,554**	503,453
Total added value to be distributed	**11,355,504**	10,954,097	**11,977,241**	11,503,502
Distribution of added value	**(11,355,504)**	(10,954,097)	**(11,977,241)**	(11,503,502)
Payroll and related charges	**(574,355)**	(699,627)	**(629,360)**	(767,999)
Salary	**(411,952)**	(397,343)	**(456,348)**	(451,923)
Benefits	**(89,293)**	(102,319)	**(95,194)**	(110,578)
Payroll tax (FGTS)	**(38,652)**	(36,634)	**(40,896)**	(39,940)
Others	**(34,458)**	(163,331)	**(36,922)**	(165,558)
Taxes, fees and contributions	**(6,794,755)**	(6,823,869)	**(7,128,655)**	(7,185,213)
Federal tax	**(2,251,571)**	(2,243,748)	**(2,454,034)**	(2,373,556)
State tax	**(4,498,031)**	(4,530,949)	**(4,576,328)**	(4,724,120)
Municipal tax	**(45,153)**	(49,172)	**(98,293)**	(87,537)
Interest on third parties capital	**(1,405,834)**	(987,200)	**(1,636,959)**	(1,104,058)
Interest	**(409,762)**	(329,359)	**(418,664)**	(335,382)
Rent and leasing operations	**(308,205)**	(278,278)	**(481,238)**	(384,568)
Others	**(687,867)**	(379,563)	**(737,057)**	(384,108)
Dividends and interest on shareholders equity	**(2,419,971)**	(2,363,169)	**(2,419,971)**	(2,362,960)

Interest on shareholders equity	**(616,000)**	(642,000)	**(616,000)**	(642,000)
Dividends	**(1,803,971)**	(1,721,169)	**(1,803,971)**	(1,720,960)
Other	**(160,589)**	(80,232)	**(162,296)**	(83,272)
Reserve for contingencies	**(160,589)**	(80,232)	**(162,296)**	(83,272)

See accompanying notes.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements

December 31, 2008 and 2007

(In thousands of reais)

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

1. Operations and background

a) Controling shareholders

Telecomunicações de São Paulo S.A. - Telesp (hereinafter Telesp or Company), is headquarted at Rua Martiniano de Carvalho, 851, in the capital of the State of São Paulo. Telesp belongs to the Telefónica Group, telecommunications industry leader in Spain and present in several European and Latin American countries. The Company is controlled by Telefónica S.A., which as of December 31, 2008, 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 and Ajato* brand and since the second half 2007, pay TV services (i) by satellite all over the country (Telefônica TV Digital) and (ii) using MMDS technology in the cities of São Paulo, Rio de Janeiro, Curitiba and Porto Alegre.

The Company is registered with the Brazilian Securities Commission (CVM) as a public 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).

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

December 31, 2008 and 2007

(In thousands of reais)

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

1. Operations and background (Continued)

c) The STFC concession agreement

The current Concession Agreements 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 univerzaliation 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, 2008, the net book value of reversible assets is estimated at R$6,929,532 (R$7,187,898 in 2007), 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 agreements 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. Exceptionally, the first payment of this biannual fee happened on April 30, 2007 by value of R$224,760, based on the 2006 STFC net revenues. The next payment is scheduled for April 30 of 2009 based on the 2008 net revenues (note 21).

d) The telecommunications services subsidiaries and associated companies

A. Telecom S.A.

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

December 31, 2008 and 2007

(In thousands of reais)

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

1. Operations and Background (Continued)

d) The telecommunications services subsidiaries and associated companies (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.

(vii) Satellite TV services (Direct to Home DTH) 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.

Telefônica Sistema de Televisão S.A. (formerly Lightree Sistema de Televisão S.A.):

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

Telefônica Data S.A. (formerly Telefônica Empresas S.A.):

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

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

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1. Operations and Background (Continued)

d) The telecommunications services subsidiaries and associated companies (Continued)

Aliança Atlântica Holding B.V.:

A company formed under the laws of the Netherlands in Amsterdam, whose main asset is the participation of 0.61% in Portugal Telecom. As of December 31, 2008, the Company holds a 50% interest in Aliança Atlântica and

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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.

2. Corporate events

a) Acquisition of Telefônica Televisão Participações S.A. (formerly Navytree Participações S.A)

On October 31, 2007, ANATEL concluded the regulatory analysis of the association between Abril Group and the Company signed on October 29, 2006, and approved such operation.

Accordingly, the Company acquired 100% of the capital of Telefonica Televisão Participações S.A.(TTP), a company that owns interests in companies providing subscription TV services. Telefonica Televisão holds the following ownership interests:

2. Corporate events (Continued)

a) Acquisition of Telefônica Televisão Participações S.A. (formerly Navytree Participações S.A) (Continued)

	Ownership Interests	
	ON	**PN**
Telefônica Sistemas de Televisão S.A.	100.00%	100.00%
Comercial Cabo TV São Paulo S.A.	19.90%	100.00%
Lemontree Participações S.A.	-	100.00%
TVA Sul Paraná S.A.	49.00%	100.00%
GTR-T Participações e Empr.S.A.	-	100.00%

On February 29, 2008, the Company paid up a capital increase in Telefônica Televisão with shares held in A.Telecom. With this operation, A.Telecom became a wholly-owned subsidiary of TTP.

On July 25, 2008 the Company paid up a capital increase in Telefonica Televisão with shares held in Telefonica Data S.A. With this operation, T.Data became a wholly-owned subsidiary of TTP.

On October 31, 2007, Anatel concluded the process of regulation assessment of the association between Abril Group and the Company and approved the transaction. The process is being analyzed by CADE, in competition point of view.

b) Merger of Telefônica Data Brasil Participações Ltda. and Telefônica Televisão Participações S.A.

Pursuant to the Relevant Fact published on October 21, 2008, the Companys Board of Directors approved, on that date, the proposed corporate reorganization involving the Company, Telefônica Data do Brasil Participações Ltda. (DABR) and Telefônica Televisão Participações S.A. (TTP), as approved at the General Shareholders Meeting held by Telesp on November 11, 2008.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

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2. Corporate events (Continued)

The transaction included the following steps:

1st Step: DABR was merged into Telesp and, as a result, the company and its shares ceased to exist. Telesp shares then owned by DABR were directly assigned to controlling shareholder SP Telecomunicações Participações Ltda. upon merger, with the rights applicable to outstanding shares issued by TELESP remaining unchanged. DABRs net equity included goodwill from Telesp shares, in the amount of R$185,511, which was recorded at the acquisition date based on future profits. In accordance with Law No. 9532/1997, amortization of goodwill will provide Telesp with a tax benefit of R$63,074 to be capitalized by the controlling shareholder upon realization, pursuant to CVM Instruction No. 319/1999. Other shareholders have preemptive rights in the subscription of capital increases.

b) Merger of Telefônica Data Brasil Participações Ltda. and Telefônica Televisão Participações S.A. (Continued)

The following table shows DABRs merged equity:

	DABR
Assets	
Current assets	1,021
Permanent assets	
Investments	63,074
Goodwill	185,511
Provision for safeguarding shareholders rights	(122,437)

Fixed assets	44
Liabilities	
Current liabilities	(742)
Net equity	63,397
Capital increase	282
Capital reserve	63,074
Retained earnings (*)	41
Net equity	63,397

(*) change in equity from the date of the appraisal report to the date of the merger.

2nd Step: TTP was merged into Telesp, and, as a result, the company and its shares ceased to exist. Goodwill generated by the acquisition of this company in 2007 was recorded based on expected future profits, in the amount of R$848,307, and will provide Telesp with a tax benefit of R$288,424.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

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2. **Corporate events** (Continued)

The following table shows TTPs merged equity:

	TTP
Assets	
Current assets	1,744
Permanent assets	
Investments	1,108,872
Liabilities	
Current liabilities	(3)

Net equity (*)	1,110,613

(*) Net equity in the amount of R$1,110,613 represented the Company's investment in TTP on the merger date.

b) Merger of Telefônica Data Brasil Participações Ltda. and Telefônica Televisão Participações S.A. (Continued)

For merger purposes, the net equities of TTP and DABR were measured at book value on September 30, 2008 and October 17, 2008, respectively, by an independent appraiser whose appointment was ratified at the General Shareholders' Meeting held by Telesp on November 11, 2008. The merged companies had no unrecorded contingent liabilities that would have been assumed by Telesp as a result of this transaction. The transaction is not subject to approval by Brazilian or foreign regulatory entities or anti-trust agencies. No withdrawal rights were exercised since the subsidiaries had no minority interests.

Telesp's management believes that this corporate reorganization meets the Company's and its shareholders' interests, and will allow increased synergies, optimized managerial risks and simpler administrative and corporate structures, reducing costs as well as generating tax benefits opportunities and cash flow improvement for the Company and its shareholders.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

Notes to the financial statements (Continued)

December 31, 2008 and 2007

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3. Basis of presentation of the financial statements

The accompanying individual and consolidated financial statements as of December 31, 2008 and 2007 were prepared in accordance which accounting practices adopted in Brazil, with are based on accounting practices issued from Brazilian corporate law and accounting standards and procedures established by the Brazilian Securities Commission (CVM).

On January 1, 2008, Law No. 11638, of December 28, 2007 became effective, which substantially amends Chapter XV of Law No. 6404 (Corporation Law), which addresses the financial statements. On December 3, 2008, Provisional Exective Act (MP) No. 449 was published and produced some adjustments in Law No. 6404 and of Law No. 11638.

As permitted by CVM Resolution No. 565, which approved Technical Pronouncement No. 13, issued by the Brazilian Accounting Pronouncements Committee (CPC), the Company opted for the first-time adoption of Law No. 11638 and of MP No. 449/08 in its financial statements for the year ended December 31, 2008. Accordingly, there were changes in the accounting practices as compared to the year ended December 31, 2007.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

Notes to the financial statements (Continued)

December 31, 2008 and 2007

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3. Base of presentation of the financial statements (Continued)

Changes in accounting practices taken into consideration when preparing or presenting the financial statements for the year ended December 31, 2008 and the initial balance sheet for December 31, 2008 were measured and recorded by the Company based on the following accounting pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities Commission (CVM):

- Conceptual Framework for Preparation and Presentation of the Financial Statements, as approved by CVM Resolution No. 539;
- CPC 01 Impairment of Assets;
- CPC 02 Effects on Changes in Exchange Rates and Financial Statement Conversions;
- CPC 03 Cash Flows Statements;
- CPC 04 Intangible Assets;
- CPC 05 Related Party Disclosures;
- CPC 06 Capital Lease;
- CPC 09 Statement of Value Added;
- CPC 12 Present Value Adjustment;
- CPC 13 First-time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08;
- CPC 14 Financial Instruments: Recognition, Measurement and Disclosure.

The initial balance sheet as of December 31, 2007 (*transition date*) was prepared considering the required exceptions and some of the elective exemptions permitted by CPC Technical Pronouncement No. 13, with only the exempted classification of financial instruments being relevant. Although CPC Technical Pronouncement No.14 requires the financial instruments to be classified upon initial recognition, for the purpose of first-time adoption, CPC Technical Pronouncement No. 13 allows classification on the *transition date*, which was the option elected by the Company.

Pursuant to the requirements for the first-time adoption of the new accounting practices, the Company presents below, for fiscal year 2008, a brief description and the amounts impacting shareholders equity and net income, from the company and consolidated, as these relate to the changes introduced by Law No. 11638/08 and by Provisional Executive Act No. 449/08.

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Notes to the financial statements (Continued)

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3. Base of presentation of the financial statements (Continued)

a) Capital lease: CPC Technical Pronouncement No.06

Assets under lease agreements are classified either as finance leases or operating leases. Under a finance lease, a lessor transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

In the capacity of lessor, the Company executed lease agreements for IT equipment (Posto Informático) that meet the criteria of finance leases. On the date the equipment is installed, income is recognized for the present value of lease payments and matched with accounts receivable. Investments made in the acquisition of equipment are recorded as Inventories and recognized as lease costs upon installation. The difference between gross and net investment value is recognized as unrealized financial income and the related financial expenses are posted to each period over the lease term reflecting a periodic interest rate on the outstanding liability balance.

b) Financial instruments: CPC Technical Pronouncement No. 14 and CVM Instruction No. 475

Financial assets and liabilities should be initially classified and measured based on the following categories:

Financial assets	**Valuation method**
Financial assets at fair value through profit or loss	Fair value
Investments held to maturity	Amortized cost
Loans and receivables	Amortized cost
Available for sale	Fair value

Financial liabilities

Financial liabilities at fair value through profit or loss	Fair value
Financial liabilities not at fair value	Amortized cost

Financial assets and liabilities recognized on the balance sheet for December 31, 2008 are shown by category in Note 34.

3. Base of presentation of the financial statements (Continued)

b) Financial instruments: CPC Technical Pronouncement No. 14 and CVM Instruction No. 475 (Continued)

Financial assets and liabilities should be initially measured at fair value. The fair value of financial assets and liabilities is determined based on (i) the price quoted in an active market or, if an active market does not exist, (ii) valuation techniques that allow estimating fair value on the transaction date, considering arms length transactions between knowledgeable and willing parties.

(In thousands of reais)

Financial assets and liabilities are subsequently measured at fair value or amortized cost. Amortized cost corresponds to (i) the initial carrying amount of financial assets or liabilities (ii) less amortizations of principal and (iii) more or less interest accrued under the effective interest method.

The effects of subsequent measurement of financial assets and liabilities are directly posted to the net income for the year as financial income or expenses, except for financial assets available for sale, whose subsequent measurement is reflected under shareholders’ equity as adjustments for equity valuation (Note 11).

Derivative financial instruments are classified as financial assets or liabilities at fair value through profit and loss, except where they meet the criteria for hedge instruments.

Derivatives aimed at protecting specific market risks (foreign currency and interest rate risks) and considered to be effective are classified as fair value hedges. In this category both the derivative and the hedged item are adjusted to fair value at each balance sheet date.

c) Present value adjustment: CPC Technical Pronouncement No. 12

Some long-term assets and liabilities must be initially measured at the discounted present value. The Company adopted this concept for ICMS assets generated by the acquisition of fixed assets, to be realized over 48 months.

3. Base of presentation of the financial statements (Continued)

d) Cumulative translation adjustments: CPC Technical Pronouncement No. 02

Foreign exchange gains and losses arising from the translation into reais of foreign investments accounted for under the equity method of accounting using a different functional currency must be recorded under the parent company’s shareholders’ equity as Cumulative Translation Adjustments. The Company has investments in Aliança Atlântica (jointly-owned subsidiary) head quartered in the Netherlands.

The effects of the first-time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08 on net income and shareholders’ equity for 2008 are shown below:

	Net income		**Company / Consolidated**
Effects of first-time adoption	**Company**	**Consolidated**	**Shareholders’ equity**
Balances per 12/31/2008 financial statements	2,419,971	2,419,971	10,045,692

Effects of Law No. 11638/07	**(43,639)**	**(43,639)**	**79,511**
Lease (lessor and lessee) (Note 3.a)	-	(33,981)	11,233
Adjustments for equity valuation (Note 3.b)	-	-	115,504
Financial instruments (Note 3.b)	(11,357)	(11,236)	19,092
Discount to present value of long-term assets (Note 3.c)	(1,056)	(2,946)	(31,997)
Cumulative translation adjustments (Note 3.d)	-	-	1,306
Additions to property, plant and equipment	289	304	(289)
Equity pick-up(*)	(35,735)	-	-
Other	-	-	(10)
Deferred taxes	4,220	4,220	(35,328)
Balances before adoption of Law No. 11638/07	**2,463,610**	**2,463,610**	**9,966,181**

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3. Base of presentation of the financial statements (Continued)

d) Cumulative translation adjustments: CPC Technical Pronouncement No. 02 (Continued)

(*) Breakdown of equity pick-up	Amount
Discount to present value of long-term assets	(1,890)
Additions to property, plant and equipment	15
Lease (lessor and lessee)	(33,981)
Financial instruments	121

(In thousands of reais)

Total	(35,735)

Additionally, due to the elimination of the non-operating income/expenses account by Provisional Executive No. 449/08, the Company reclassified R$8,376 and R$131,596 reported in the financial statements for the years ended December 31, 2008 and 2007, respectively, to other operating income/expenses accounts and net proceeds from the sale of fixed assets and investment, as well its disclosure in note.

The approval of the financial statements conclusion occurred in an Executive Committee Meeting on February 12, 2009.

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 managements 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 estimation and assumptions periodically.

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

3. Base of presentation of the financial statements (Continued)

d) Cumulative translation adjustments: CPC Technical Pronouncement No. 02 (Continued)

Subsidiaries	2008	2007
A.Telecom S.A.	**100%**	100%
Telefonica Data S.A.	**100%**	100%
Aliança Atlântica Holding B.V.	**50%**	50%
Companhia AIX de Participações	**50%**	50%
Companhia ACT de Participações	**50%**	50%

(In thousands of reais)

Telefônica Televisão Participações S.A.	**-**	100%
Telefônica Sistemas de Televisão S.A.	**100%**	100%

Due to the acquisition of Telefônica Televisão Participações (note 2.a), the Companys consolidate results for the year ended as of December 31, 2007 include the consolidate results of TTP from October to December 2007.

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions and equity holdings among the consolidated companies have been eliminated.

For the financial statements as of December 31, 2007, certain accounts were reclassified to allow adequacy and consistency thereof with the current period. However, the amounts of these reclassifications are immaterial in relation to the financial statements taken as whole.

4. Summary of principal accounting practices

a) Cash and cash equivalents: include cash, positive current account balances, and investments redeemable 90 days from the balance sheet dates basically comprising CDB (Bank Deposit Certificate) indexed to CDI (Interbank Deposit Certificate) with quick liquidity and unlikely change in market value.

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4. Summary of principal accounting practices (Continued)

b) Trade accounts receivable, net: are stated at the rendered service value according to the contracted conditions adjusted by the estimated amount of eventual losses. This caption also includes accounts receivable from services rendered but not billed at the balance sheet date. Allowance for doubtful account is recorded in order to cover eventual losses and and mainly considers the average default rate. This item, in the consolidated financial statements, includes finance lease receivables (lessor) as mentioned in Note 3.a.

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 remeasured using the exchange rate at the balance sheet date. Exchange differences resulting from foreign currency transactions were recognized in financial income and financial expenses.

d) Inventories: are stated at average acquisition cost, net of allowance for reduction to realizable value. This corresponds to items for use, maintenance or resale, and the latter includes equipment for finance lease operations (Note 3.a)

e) Investments: wholly, jointly-owned subsidiaries and affiliated are accounted for under the equity method. Other corporate investments are considered to be available-for-sale financial assets valued at market value based on the latest stock exchange rate for the year (Note 3.b). On the consolidated financial statements, all the investments accounted for an equity method are consolidated. The subsidiaries are consolidated as of December 31, of each period.

f) Property, plant and equipment: this item is measured at acquisition and/or construction cost, less accumulated depreciation and any impairment losses, if applicable. Asset costs are capitalized until the asset becomes operational.

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

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 12.

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4. Summary of principal accounting practices (Continued)

g) Intangible assets: these are stated at acquisition and/or construction cost, less accumulated depreciation and any impairment losses, if applicable.

Intangible assets with finite lives are amortized on the straight-line basis over their estimated useful life. Intangible assets with indefinite useful lives are not amortized but tested for impairment annually or when there is an indication that their carrying amount may not be recovered.

Goodwill arising from the acquisition of investments and recorded based on future profits will be treated as intangible assets with indefinite useful lives. Until December 31, 2008, amortization of goodwill was based on results estimated for 10-year periods; goodwill will no longer be amortized starting January 1, 2009, being thus subjected to annual impairment testing (Note h).

h) Asset recoverability test: Management conducts annual reviews of the net book value of its assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate asset impairment or loss in its carrying amount. In cases where the net book value exceeds the realizable value an impairment provision is recognized to adjust the asset's net book value to its realizable value.

i) 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 assets and liabilities attributable to temporary differences and tax loss carry-forwards are recognized as deferred tax assets and liabilities, if applicable, on the assumption of future realization within the parameters established by CVM Deliberation 273/1998 and CVM Instruction No. 371/2002.

j) Reserves for contingencies, net: it is made based on management's judgment and it is composed by several administrative and legal proceedings. It is 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).

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4. Summary of principal accounting practices (Continued)

k) Revenue recognition: revenues related to Telecommunications 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 based on comsumption estimates.

Income from equipment under lease agreements classified as finance leases is recognized upon equipment installation, when the risk is actually transferred. Income is recognized for the present value of lease payments (Note 3.a).

l) Concession agreements 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 net revenue, according to the contract. Expenses are proportionally recognized during corresponding 24 months (Note 21).

m) Financial income (expense), net: 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 retained earnings in equity.

n) Pension and other post-retirement benefit: the Company sponsors individual and multiemployer post-retirement and health assistance plans for its employees. Actuarial liabilities, with characteristics of defined benefit, 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.

o) Financial instruments: are measured at fair value or amortized cost in the December 31, 2008 financial statements, as described in Note 3.b. For the year ended December 31, 2007, loans, financing and derivative instruments are shown at contractually agreed rates.

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4. Summary of principal accounting practices (Continued)

p) 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. The difference between the Company's and the consolidated net income for the year ended December 31, 2007, in the amount of R$209, refers to donations directly recorded as capital reserves at subsidiary A. Telecom S.A., accounted for under the equity method by the Company (Note 11).

5. Cash and cash equivalents

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Bank accounts	**12,885**	534,887	**31,993**	584,627
Short-term investments	**1,584,721**	310,918	**1,709,013**	348,648
Total	**1,597,606**	845,805	**1,741,006**	933,275

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

6. Trade accounts receivable, net

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Billed amounts	**2,269,588**	2,169,386	**2,608,012**	2,212,396
Accrued unbilled amounts	**1,233,242**	1,214,858	**1,374,080**	1,353,244
Gross accounts receivable	**3,502,830**	3,384,244	**3,982,092**	3,565,640
Allowance for doubtful accounts	**(649,282)**	(683,469)	**(767,698)**	(733,590)
Total	**2,853,548**	2,700,775	**3,214,394**	2,832,050
Current	**1,888,812**	1,827,535	**2,248,736**	2,115,867
Past-due 1 to 30 days	**508,523**	498,767	**530,238**	500,048
Past-due 31 to 60 days	**197,231**	158,354	**195,213**	146,483
Past-due 61 to 90 days	**111,791**	110,894	**113,101**	70,224
Past-due 91 to 120 days	**110,594**	67,582	**110,720**	67,199
Past-due more than 120 days	**685,879**	721,112	**784,084**	665,819

Total	**3,502,830**	3,384,244	**3,982,092**	3,565,640
Current	**2,853,548**	2,700,775	**3,152,831**	2,832,050
Non-current	**-**	-	**61,563**	-

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

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6. Trade accounts receivable, net (Continued)

Subsidiary A.Telecom offers Posto Informático, a product that consists in the lease of IT equipment to small- and medium-sized companies for fixed installments received over the agreed term. Considering the related contractual conditions, the Company classified this product as Finance Lease in its December 31, 2008 financial statements (Note 3.a).

The Consolidated accounts receivable as of December 31, 2008. reflects the following effects:

	2008
Present value of minimum payments receivable	139,214
Unrealized financial income	20,154
Gross investment in finance lease receivables at year-end	159,368
Allowance for doubtful accounts	(26,159)
Financial Leases receivable, net	133,209
Current amount	77,651
Noncurrent amount	61,563

Aging list of financial leases receivable:

Year	Gross investment	Present value

Falling due within one year	77,651	77,651
Falling due within five years	81,717	61,563
Total	159,368	139,214

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

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7. Deferred and recoverable taxes

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Withholding taxes	**63,171**	38,328	**77,371**	47,657
Recoverable income tax and social contribution	**10,538**	147,648	**36,754**	150,991
Deferred taxes	**1,022,787**	956,874	**1,027,879**	996,348
Tax loss carry-forwards Income tax	**-**	-	**3,305**	5,996
Tax loss carry-forwards Social contribution tax	**-**	-	**1,787**	1,949
Reserve for contingencies	**340,850**	302,103	**340,850**	302,377
Post-retirement benefit plans	**50,581**	32,445	**50,581**	32,445
Allowance for doubtful accounts	**94,691**	86,137	**94,691**	95,783
Allowance for reduction of inventory to recoverable value	**28,909**	29,943	**28,909**	29,943
Merger tax credit (7.2)	**132,515**	100,504	**132,515**	100,504
Income tax and Social contribution on other temporary differences	**375,241**	405,742	**375,241**	427,351
ICMS (state VAT) (*)	**396,706**	399,509	**456,192**	449,759
Other	**2,692**	6,454	**14,127**	12,598

(In thousands of reais)

Total	**1,495,894**	1,548,813	**1,612,323**	1,657,353
Current	**925,877**	1,023,430	**1,032,516**	1,117,982
Non-current	**570,017**	525,383	**579,807**	539,371

(*) Refers to credits on the acquisition of property, plant and equipment items, available for offset against VAT obligations in 48 months.

7.1. Deferred income and social contribution taxes

The Company recognized deferred income and social contribution tax assets considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable profit discounted to present value based on a technical feasibility study, approved by the Board of Directors on December 19, 2008, as provided for in CVM Instruction No. 371/2002.

Company estimates the realization of the deferred taxes as of December 31, 2008 as follows:

7. Deferred and recoverable taxes (Continued)

7.1. Deferred income and social contribution taxes (Continued)

Year	Company	Consolidated
2009	499,985	502,119
2010	212,139	215,097
2011	135,675	135,675
2012	101,904	101,904
Thereafter	73,084	73,084
Total	1,022,787	1,027,879

(In thousands of reais)

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

Tax losses and temporary differences in the respective amounts of R$62,512 and R$35,379 were not recognized by the subsidiaries at December 31, 2008 in view of the unlikely generation of future taxable profits.

7.2. Merger tax credits

In October 2008, the merger of DABR into the Company through a corporate reorganization process mentioned in Note 2.b resulted in the recognition of merged tax credits arising from goodwill recorded by DABR in connection with the investment made in Telesp in 2006.

Additionally, the Company has tax credits arising from corporate reorganization processes following corporate investments acquired in prior years, as shown in the table below.

The Companys accounting records for corporate and fiscal purposes include specific (merged) goodwill and reserve accounts, and the related amortization, reversal of provision and tax credit realization are as follows:

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7. Deferred and recoverable taxes (Continued)

7.2. Merged tax credits (Continued)

	2008		2007
Company/Consolidated	**DABR**	**Spanish/ Figueira**	**Spanish/ Figueira**
Balance sheet			
Goodwill, net of accumulated amortization	**176,236**	**213,514**	295,600
Provision for safeguarding shareholders rights, net of reversals	**(116,316)**	**(140,919)**	(195,096)
Net amount tax credit	**59,920**	**72,595**	100,504
Statement of income			
Goodwill amortization for the year	**(9,276)**	**(82,086)**	(82,086)
Reversal of provision for safeguarding shareholders	**6,122**	**54,177**	54,177

rights for the year			
Tax credit for the year	**3,154**	**27,909**	27,909
Effect on net income for the year	**-**	**-**	-

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 presentation purposes, the net amount of R$132,515 (R$92,863 under non-current assets and R$39,652 under current assets), basically representing merger tax credit, was classified in the balance sheet as deferred and recoverable taxes. 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.

The tax benefit generated by the amortization of DABR goodwill will be reversed to the Company's controlling shareholder, SP Telecomunicações Holding Ltda., through a capital increase with the issuance of the Company's shares. Other shareholders will be entitled to preemptive rights in the subscription of capital increases that may occur.

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Notes to the financial statements (Continued)

December 31, 2008 and 2007

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8. Inventories

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Consumption materials	**128,948**	115,011	**129,600**	115,217
Resale items (*)	**57,192**	59,078	**106,734**	87,786
Public telephone cards	**13,461**	13,447	**13,461**	13,447
Scraps	**161**	222	**161**	222
Allowance for reduction to net recoverable value and obsolescence	**(85,027)**	(88,068)	**(85,546)**	(91,668)
Total current	**114,735**	99,690	**164,410**	125,004

(*) Includes the inventory of IT equipaments (note 4.d)

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

9. Other assets

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Advances to employees	**7,685**	6,187	**8,207**	7,313
Advances to suppliers	**16,814**	20,688	**33,567**	20,852
Prepaid expenses	**66,157**	80,596	**66,699**	81,710
Receivables from Barramar S.A. (a)	**-**	-	**62,526**	60,116
Related Parties receivables (Note 31) (b)	**228,372**	368,284	**153,285**	100,731
Amounts linked to National Treasury securities	**11,289**	10,495	**11,289**	10,495
Other assets	**78,064**	56,271	**94,059**	64,946
Total	**408,381**	542,521	**429,632**	346,163
Current	**299,018**	328,032	**273,320**	193,951
Non current	**109,363**	214,489	**156,312**	152,212

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

(b) Refer to current and non current amounts.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

December 31, 2008 and 2007

(In thousands of reais)

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10. Escrow deposits

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Civil litigation	**246,456**	161,250	**246,500**	161,287
Tax litigation	**223,465**	244,627	**254,571**	246,863
Labor claims	**165,221**	75,985	**165,306**	76,068
Freeze of assets by court order	**43,441**	50,696	**44,923**	50,696
Total non-current	**678,583**	532,558	**711,300**	534,914

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

Those deposits related to provisions are presented in Note 20.

11. Investments

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Investments carried under the equity method	**1,109,513**	635,336	**-**	-
Aliança Atlântica Holding B.V.	**64,143**	57,234	**-**	-
A. Telecom S.A.	**610,769**	432,016	**-**	-
Companhia AIX de Participações	**58,895**	56,057	**-**	-
Companhia ACT de Participações	**16**	23	**-**	-
Telefônica Empresas S.A.	**206,445**	12,951	**-**	-
Telefônica Televisão Participações S.A.	**-**	77,055	**-**	-
Telefônica Sistemas de Televisão S.A.	**169,245**	-	**-**	-
Investments in associates	**36,313**	-	**36,313**	28,051
GTR Participações e Empreendimentos S.A.	**1,476**	-	**1,476**	2,047
Lemontree Participações S.A.	**9,608**	-	**9,608**	6,130
Comercial Cabo TV São Paulo S.A.	**21,215**	-	**21,215**	13,345
TVA Sul Paraná S.A.	**4,014**	-	**4,014**	6,529
Other Investments (*)	**207,814**	96,304	**265,517**	149,506
Portugal Telecom	**157,823**	75,362	**210,431**	126,509
Portugal Multimédia	**14,436**	6,704	**19,531**	8,759

Other investments	**35,555**	14,238	**35,555**	14,238
Total	**1,353,640**	731,640	**301,830**	177,557

(*) In 2008, other investments are measured at market value, as mentioned in Note 4.e, and in 2007 these are stated at cost.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

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December 31, 2008 and 2007

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11. Investments (Continued)

The main accounting information of subsidiaries and jointly-controlled subsidiaries at December 31, 2008 and 2007 was as follows:

	2008				2007			
	Paid-in capital	**Capital reserves/ Adjustments for equity valuation**	**Retained earnings (accumulated losses)**	**Net equity**	**Paid-in capital**	**Capital reserves**	**Retained earnings (accumulated losses)**	**Net equity**
Aliança Atlântica	**130,095**	**(17,259)**	**15,450**	**128,286**	104,343	-	10,125	114,468
A. Telecom	**589,969**	**1,197**	**19,603**	**610,769**	414,969	209	16,838	432,016
Companhia AIX	**460,929**	**-**	**(343,138)**	**117,791**	460,929	-	(348,815)	112,114
Companhia ACT	**1**	**-**	**31**	**32**	1	-	45	46
Telefônica Data	**460,025**	**1,139**	**(254,719)**	**206,445**	210,025	1,137	(198,211)	12,951
TTP	**-**	**-**	**-**	**-**	82,544	-	(5,489)	77,055
TST	**255,847**	**-**	**(86,602)**	**169,245**	-	-	-	-

Shares thousand	2008			2007		
Quantity of shares	**Subscribed and paid-in shares**	**Company shares**	**% ownership interest**	**Subscribed and paid-in shares**	**Company shares**	**% ownership interest**

(In thousands of reais)

Aliança Atlântica	**88**	**44**	**50%**	88	44	50%
A. Telecom	**947,258**	**947,258**	**100%**	673,820	673,820	100%
Companhia AIX	**298,562**	**149,281**	**50%**	298,562	149,281	50%
Companhia ACT	**1**	**0,5**	**50%**	1	0,5	50%
Telefonica Data	**473,372**	**473,372**	**100%**	215,640	215,640	100%
TTP	**-**	**-**	**-**	84,544	84,544	100%
TST	**107,923**	**107,923**	**100%**	-	-	-

Investments in affiliates accounted for under the equity method derive from TTP, which was merged by the Company, as mentioned in Note 2.b. Significant information on these affiliate companies, are as follows:

		Quantity of shares (thousand)						
		Total shares			**Company shares**			**% own inte**
Affiliates	**Net equity**	**Ordinary**	**Preferred**	**Total**	**Ordinary**	**Preferred**	**Total**	**Total**
GTR Participações e Empreendimentos S.A	2,214	878	1,757	2,635	-	1,757	1,757	66.7%
Lemontree Participações S.A.	14,412	124,839	249,682	374,521	-	249,682	249,682	66.7%
Comercial Cabo TV São Paulo S.A.	35,387	12,282	12,282	24,564	2,444	12,282	14,726	59.9%
TVA Sul Paraná S.A.	5,388	13,656	13,656	27,312	6,691	13,656	20,347	74.5%

11. Investments (Continued)

The Company and Consolidated equity method in subsidiaries and affiliates is as follows:

	Company	**Consolidated**

	2008	2007	2008	2007
Aliança Atlântica (a)	**5,184**	963	**-**	(4,161)
A. Telecom	**1,459**	68,559	**-**	-
Companhia AIX de Participações	**2,838**	(7,639)	**-**	-
Companhia ACT de Participações	**3**	(3)	**-**	-
Telefonica Data S.A.	**(56,447)**	(52,758)	**-**	-
Telefônica Televisão Participações S.A.	**155**	(5,489)	**-**	-
Telefônica Sistemas de Televisão S.A.	**(79,510)**	-	**-**	-
GTR Participações e Empreendimentos S.A	**(571)**	-	**(571)**	78
Lemontree Participações S.A.	**3,479**	-	**3,479**	495
Comercial Cabo TV São Paulo S.A.	**7,869**	-	**7,869**	1,152
TVA Sul Paraná S.A.	**(2,515)**	-	**(2,515)**	291
	(118,056)	3,633	**8,262**	(2,145)

(a) The net income posted by Aliança Atlântica in 2007 refers to equity method on foreign exchange fluctuation of net equity for that year. In 2008 the foreign exchange fluctuation is recorded as Cumulative Translation Adjustment under Net Equity (Note 3.d).

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12. Property, plant and equipment - net

		Company				
		2008			2007	
	Annual depreciation rate %	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation
Property, plant and equipment						

in service		**41,606,822**	**(33,037,815)**	**8,569,007**	40,423,161	(31,099,432)
Switching and transmission equipment	12.50	**17,491,901**	**(15,257,495)**	**2,234,406**	16,947,453	(14,393,743)
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	**12,457,496**	**(10,078,157)**	**2,379,339**	12,195,350	(9,574,331)
Transmission equipment - modems	66.67	**1,320,881**	**(952,581)**	**368,300**	1,112,425	(819,292)
Underground and undersea cables, poles and towers	5.00 to 6.67	**621,140**	**(407,765)**	**213,375**	616,363	(377,256)
Subscriber, public and booth equipment	12.50	**2,182,992**	**(1,742,651)**	**440,341**	2,104,393	(1,571,930)
IT equipment	20.00	**589,324**	**(505,389)**	**83,935**	571,623	(486,853)
Buildings and underground cables	4.00	**6,594,697**	**(4,013,956)**	**2,580,741**	6,533,607	(3,800,216)
Vehicles	20.00	**52,149**	**(37,455)**	**14,694**	59,471	(39,136)
Land	-	**228,117**	**-**	**228,117**	228,455	-
Other	4.00 to 20.00	**68,125**	**(42,366)**	**25,759**	54,021	(36,675)
Property, plant and equipment in progress	-	**546,232**	**-**	**546,232**	288,253	-
Total		**42,153,054**	**(33,037,815)**	**9,115,239**	40,711,414	(31,099,432)
Average annual depreciation rates - %		**10.27**			10.08	
Assets fully depreciated		**20,865,539**			18,357,081	

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12. Property, plant and equipment - net (Continued)

	Consolidated					
		2008			2007	
	Annual depreciation rate%	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation
Property, plant and equipment in service		**42,876,998**	**(33,604,274)**	**9,272,724**	41,417,128	(31,516,613)
Switching and transmission equipment	12.50	**17,529,850**	**(15,268,465)**	**2,261,385**	16,968,629	(14,402,569)
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	**12,690,391**	**(10,121,251)**	**2,569,140**	12,340,271	(9,598,798)
Transmission equipment - modems	66.67	**1,381,539**	**(973,066)**	**408,473**	1,264,062	(844,834)
Underground and undersea cables, poles and towers	5.00 to 6.67	**634,323**	**(411,669)**	**222,654**	630,139	(380,619)
Subscriber, public and booth equipment	12.50	**2,245,185**	**(1,780,556)**	**464,629**	2,166,427	(1,601,088)
IT equipment	20.00	**651,826**	**(547,170)**	**104,656**	677,165	(526,313)
Buildings and underground cables	4.00	**6,596,896**	**(4,015,696)**	**2,581,200**	6,535,806	(3,801,899)
TV equipment	8.00 to 33.33	**712,437**	**(354,922)**	**357,515**	412,402	(242,198)
Vehicles	20.00	**53,568**	**(38,572)**	**14,996**	60,801	(40,209)
Land	-	**228,117**	**-**	**228,117**	228,455	-
Other	4.00 to 20.00	**152,866**	**(92,907)**	**59,959**	132,971	(78,086)
Provision for losses	-	**(11,807)**	**-**	**(11,807)**	(5,706)	-
Property, plant and equipment in progress	-	**608,016**	**-**	**608,016**	365,317	-
Total		**43,473,207**	**(33,604,274)**	**9,868,933**	41,776,739	(31,516,613)
Average annual depreciation rates - %		**10.64**			10.23	

Assets fully depreciated	**21,204,279**	18,413,172

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13. Intangible assets, net

	Company					
		2008			2007	
	Annual depreciation rate %	Cost	Accumulated depreciation	Net book value	Cost	Accumulat depreciati
Software	20.00	**2,349,867**	**(1,594,563)**	**755,304**	2,119,150	(1,324,0
Customer Portifolio (a)	10.00	**72,561**	**(43,537)**	**29,024**	72,561	(36,2
Other	10.00 to 20.00	**184,563**	**(149,900)**	**34,663**	158,508	(119,8
Companhia Aix de Participações (b)		**(17,470)**	**17,470**	**-**	(17,470)	8,
TS Tecnologia da Informação Ltda.		**945**	**-**	**945**	945	
Spanish and Figueira goodwill (merged from TDBH) (c)		**301,276**	**(161,319)**	**139,957**	301,276	(107,1
Santo Genovese Participações Ltda. (d)		**119,820**	**(47,928)**	**71,892**	119,820	(35,9
Telefonica Televisão Participações S.A. (e)		**848,308**	**(67,615)**	**780,693**	860,203	(7,3
Total		**3,859,870**	**(2,047,392)**	**1,812,478**	3,614,993	(1,621,8
Average annual depreciation rates %		**19.93**			19.80	
Assets fully depreciated		**995,877**			663,741	

(In thousands of reais)

		Consolidated				
		2008			2007	
	Annual depreciation rate %	Cost	Accumulated depreciation	Net book value	Cost	Accumulat depreciati
Software	20.00	**2,520,983**	**(1,732,047)**	**788,936**	2,280,556	(1,443,8
Customer Portifolio (a)	10.00	**72,561**	**(43,537)**	**29,024**	72,561	(36,2
Other	10.00 to 20.00	**195,443**	**(154,605)**	**40,838**	169,475	(123,9
Ajato Telecomunicações Ltda.		**149**	**-**	**149**	-	
TS Tecnologia da Informação Ltda.		**945**	**-**	**945**	945	
Spanish and Figueira goodwill (merged from TDBH) (c)		**301,276**	**(161,319)**	**139,957**	301,276	(107,1
Santo Genovese Participações Ltda. (d)		**119,820**	**(47,928)**	**71,892**	119,820	(35,9
Telefonica Televisão Participações S.A. (e)		**848,308**	**(67,615)**	**780,693**	860,203	(7,3
Total		**4,059,485**	**(2,207,051)**	**1,852,434**	3,804,836	(1,754,5
Average annual depreciation rates %		**19.97**			19.81	
Assets fully depreciated		**1,114,804**			676,059	

13. Intangible assets, net (Continued)

(a) Acquisition of IP network customer portfolio from Telefônica Data in December 2002. This was stated as Deferred Assets until 2007.

(In thousands of reais)

(b) The negative goodwill on the acquisition of shares of Companhia AIX de Participações, recorded at the parent company, was allocated to Deferred Income in the consolidated financial statements, as defined in article 26 of CVM Instruction No. 247/96. Amortization was completed in 2008 based on estimated future profits.

(c) Goodwill on the spin-off of Figueira, which was merged into the Company following the merger of Telefônica Data Brasil Holding S.A. (TDBH) in 2006.

(d) Goodwill on the acquisition of control over Santo Genovese Participações Ltda. (controlling shareholder of Atrium Telecomunicações Ltda.), on December 24, 2004, has been amortized on the straight-line basis over 10 years, based on expected future profits.

(e) Goodwill on the acquisition of TTP (see Note 2.b) is based on expected future profits and is made up of total acquisition cost, R$913,747, less the book value of the investment at the time, R$53,544. In 2008, a price adjustment of R$11,895 brought goodwill down to R$848,308.

Changes in intangible assets - Consolidated	**2008**
Balance in 2007	**2,050,320**
Software acquisitions	**266,395**
Goodwill acquisitions – Ajato	**149**
Price adjustment of TTP	**(11,895)**
Amortization	**(452,535)**
Balance in 2008	**1,852,434**

14. Deferred assets

In accordance with Provisional Executive Act No. 449/08, deferred assets cease to exist with all the items being valued and reclassified as Intangible Assets. Deferred expenses of subsidiaries AIX Participações and ACT Participações were written off to retained earnings on the opening balance for the year ended December 31, 2008, and the 2007 comparative amounts were R$8,460.

15. Loans and financing

Company/Consolidated		Balance in 2008 (*)

	Currency	Annual interest rate	Maturity	Current	Long-term	Total
Loans and financing - BNDES	URTJLP	TJLP+3.73%	Until 2015	19,283	1,689,521	1,708,804
Mediocrédito	US$	1.75%	2014	7,594	27,831	35,425
Untied Loan JBIC	JPY	Libor + 1.25%	2009	129,173	-	129,173
Resolution 2770	JPY	0.50% to 5.78%	2009	213,339	-	213,339
Resolution 2770	EUR	5.74%	2009	84,799	-	84,799
Total parent Company				454,188	1,717,352	2,171,540
Resolution 2770	JPY	1.00%	2009	48,315	-	48,315
Total consolidated				502,503	1,717,352	2,219,855

(*) Amounts presented at fair value, when applicable, as mentioned in Note 4.o.

Company/Consolidated				Balance in 2007		
	Currency	Annual interest rate	Maturity	Current	Long-term	Total
Loans and financing - BNDES	URTJLP	TJLP+3.73%	Until 2015	9,031	800,314	809,345
Mediocrédito	US$	1.75%	2014	5,576	29,302	34,878
Resolution 2770	US$	1.00% to 4.8%	2008	260,275	-	260,275
Resolution 2770	JPY	0.80% to 8.00%	2008	386,091	-	386,091
Resolution 2770	JPY	0.50% to 5.78%	2008	-	92,845	92,845
Resolution 2770	EUR	5.15%	2008	10,569	-	10,569
Untied Loan JBIC	JPY	Libor + 1.25%	Until 2009	80,044	78,568	158,612
Total parent Company				751,586	1,001,029	1,752,615

(In thousands of reais)

Finame	URTJLP	TJLP+8%	2008	2,400	-	2,400
Compror	R$	CDI + 1%	2008	23,244	-	23,244
		CDI + 2% to				
Working capital loan	R$	CDI + 2% to 2.5%	Until 2009	16,553	2,000	18,553
Total consolidated				793,783	1,003,029	1,796,812

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

15. Loans and financing (Continued)

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

The loan obtained from BNDES is secured by SP Telecomunicações Participações Ltda.

Consolidated long-term debt maturities

Year	**Amounts**
2010	204,204
2011	344,510
2012	343,972
2013	343,420
Thereafter	481,246
Total	1,717,352

16. Debentures

(In thousands of reais)

	Company and Consolidated			Balance in 2008		
	Currency	**Annual interest rate**	**Maturity**	**Current**	**Long-term**	**Total**
Debentures	R$	CDI rate + 0.35%	Until 2010	**16,339**	1,500,000	**1,516,339**
Total				**16,339**	1,500,000	**1,516,339**

	Company and Consolidated			Balance in 2007		
	Currency	**Annual interest rate**	**Maturity**	**Current**	**Long-term**	**Total**
Debentures	R$	CDI rate + 0.35%	Until 2010	**12,357**	1,500,000	**1,512,357**
Total				**12,357**	1,500,000	**1,512,357**

16. Debentures (Continued)

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.

17. Taxes payable

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Taxes on income (a)				
Income tax	**-**	-	**-**	2,587
Social contribution tax	**-**	-	**-**	694
Deferred taxes				
Income tax	**118,132**	114,636	**118,132**	114,636
Social contribution tax	**12,431**	27,074	**12,431**	27,074
Indirect taxes				
ICMS (state VAT)	**635,353**	617,632	**683,447**	667,961
PIS and COFINS (taxes on revenue)	**75,286**	68,892	**102,023**	76,838
Legal liabilities (b)	**26,674**	23,310	**26,674**	23,310
Other (c)	**19,638**	24,344	**31,131**	33,761
Total	**887,514**	875,888	**973,838**	946,861
Current	**847,363**	837,405	**926,437**	908,260
Non-current	**40,151**	38,483	**47,401**	38,601

(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.

(c) The item Others includes R$139,511 of FUST payable as of December 31, 2008 (R$113,275 as of December 31, 2007), net of judicial deposits of R$126,832 (R$97,567 as of December 31, 2007).

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18. Dividends and interest payable to shareholders

	Company/Consolidated	
	2008	**2007**
Interest on shareholders equity	**437,720**	274,976
Telefónica Internacional S.A.	**234,441**	118,912
SP Telecomunicações Holding Ltda.	**77,036**	36,371
Telefônica Data do Brasil Ltda.	**-**	2,702
Minority shareholders	**126,243**	116,991
Dividends - Minority shareholders	**320,841**	371,083
Dividends subject to shareholders approval (note22.e)	**395,109**	350,938
Total	**1,153,670**	996,997

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

19. Payroll and related charges

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Salaries and fees	**18,250**	20,165	**19,723**	22,929
Payroll charges	**73,589**	81,122	**79,641**	89,127
Accrued benefits	**4,878**	7,413	**5,087**	7,704
Employee profit sharing	**65,269**	64,725	**68,835**	70,590
Organizational restructuring program (a)	**1,386**	74,491	**1,386**	74,491
Total	**163,372**	247,916	**174,672**	264,841

(a) Refers to the Companys organizational restructuring program realized in 2008.

20. Reserves for contingencies, net

(In thousands of reais)

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 2008:

20. Reserves for contingencies, net (Continued)

	Nature			
Consolidated	**Labor**	**Tax**	**Civil**	**Total**
Balances as of 12/31/2007	456,188	232,152	123,894	812,234
Additions	39,800	7,738	151,075	198,613
Transfers	-	(50,313)	50,313	-
Write-offs	(84,353)	(25,571)	(89,701)	(199,625)
Monetary restatement	85,497	3,950	19,852	109,299
Balances as of 12/31/2008	497,132	167,956	255,433	920,521
Escrow deposits	(133,554)	(59,431)	(28,270)	(221,255)
Net balances as of 12/31/2008	363,578	108,525	227,163	699,266
Current	50,577	-	77,911	128,488
Non-current	313,001	108,525	149,252	570,778

20.1. Labor contingencies and reserves

	Amount involved	
Risk - Consolidated	**2008**	**2007**

Probable	**497,132**	456,188
Possible	**66,608**	-
Total	**563,740**	456,188

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$133,554 for the reserves mentioned above.

20. Reserves for contingencies, net (Continued)

20.2. Tax contingencies and reserves

	Amount involved	
Risk - Consolidated	**2008**	**2007**
Probable	**167,956**	232,152
Possible	**2,864,127**	2,706,417
Total	**3,032,083**	2,938,569

The principal tax contingencies according to the risk, are as follows:

- 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) and joint liability for social security contributions alleged not to have been paid by its subcontractors of approximately R$330,850. In view of a decision handed down by the Federal Supreme Court recognizing the statute barring period of five years, the Companys management decided to reverse in 2008 the provision recognized for the amounts covered by the barring period. However due the likelihood of a possible loss, a provision of R$ 98,285 for part of the total amount was maintained.

b) Discussion relating to certain amounts paid under the Companys collective labor agreements, as a result of inflationary adjustments arising out of Planos Bresser and Verão , in the amount of approximately R$145,751 In view of a decision handed down by the Federal Supreme Court recognizing the statute barring period of five years, the Companys management decided to reverse the provision recognized for the amounts covered by the barring period. However due the likelihood of a possible loss, a provision of R$ 2,915 for part of the total amount was maintained.

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$62,137. 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.

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20. Reserves for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

d) Notification demanding social security contributions for joint liability in 1993, in the amount of approximately R$202,836, considered as a possible risk until December 2008, when the Company obtained a favorable decision on this suit, which was then closed.

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.

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

f) Assessments on 2001, related to ICMS (State VAT) allegedly due on international long-distance calls for the period from November, 1996 to December, 1999 amounting to R$452,139. One suit is at the last administrative stage and two suits are the first judicial stage. Considering the risk of a possible loss, no provisions were recognized.

g) Infraction notice related to the use of credits in the period from January to April 2002, in the amount of R$34,001, for which the risk is considered possible. The claim is at the 2nd administrative level. Considering the risk level, no provision was made.

h) 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$127,900. 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.

i) Infraction notice issued by the São Paulo State Tax Department related to nonpayment of ICMS, from January 2001 to December 2005, on amounts received for equipment lease (modem), totaling R$158,587. The suit is at the second administrative level. Considering the risk of a possible loss, no provisions were recognized.

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20. Reserves for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

j) 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$286,673, 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.

k) 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 is R$8,324, 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. Part of the infractions results from the not filed information by other operating companies. The likelihood of loss is assessed as possible. The claim is at the 1st administrative level. Considering the risk involved, the Company did not record a provision.

- 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$19,837. In October 2008, the Company obtained a final favorable decision on one of the suits, totaling R$14,799. The other suits, in the amount of R$5,038, are still on trial and await a decision by the second and last administrative stage. Despite the likelihood of a possible loss, a provision of R$ 5,038 for the total amount was maintained.

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20. Reserves for contingencies, net (Continued)

20.2. Tax contingencies and reserves (Continued)

m) 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$29,567. The claim is at the 2nd court level. The risk is considered possible. Considering the risk level, no provision was made.

n) 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 and/or not to be subject to the retrospective payment of differences identified as a result of adopting the noncumulative system by operation of Anatel Abridgement No. 7/2005. The total amount involved is R$332,344. Out of this amount, R$184,050 refers to differences identified as a result of adopting the noncumulative system during the retrospective period (2001 to 2005) and R$148,294 refers to differences identified for the period 2006 to date, which is being deposited with the court on a monthly basis. Despite the likelihood of a possible loss, a provision has been recognized only for the court deposits. The suit is at the second judicial stage.

There are other contingencies that have also been accrued, for which the involved amount is R$61,718; which the risk is considered probable by management.

20.3 Civil contingencies and reserves

	Amount involved	
Risk - Consolidated	**2008**	**2007**
Probable	**255,433**	123,894
Possible	**452,616**	904,286
Total	**708,049**	1,028,180

20. Reserves for contingencies, net (Continued)

20.3 Civil contingencies and reserves (Continued)

The principal civil contingencies according to the risk, are as follows:

- Community Telephone Plan - PCT. These contingencies are related to civil contingencies in that the Company is 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 Diadema, São Caetano do Sul, São Bernardo do Campo and Ribeirão Pires involving a total amount of approximately R$343,974. Since June, 2008 the risks involved are considered remote by the lawyers responsible for this case. The claim is in the 2nd court.
- There is a collective claim by ASTEL Sistel Participants Association in São Paulo State, against the Company Suit brought by members of the Sistel Association in the State of São Paulo questioning the changes in the health care plan for the Companys retirees (PAMA). The suit is at the initial stage and there has been no judgment of dismissal. The Companys management, based on its legal counsel opinion, considers this proceeding as possible risk, with an estimated amount of R$322,325. According to the risk, no provision was recorded.
- Enforcement proceedings brought by WCR against Telesp. 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$76,234. 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. The process is in a higher court. Since the risk level was considered as probable, provision was made.

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20. Reserves for contingencies, net (Continued)

20.3 Civil contingencies and reserves (Continued)

- Suits for additional shares. These refer to suits involving the Company and addressing the right to receive additional shares calculated pursuant to the regulation issued by the Telecommunications Ministry with regard to network expansion plans after 1996. These suits are at various stages: first stage, Supreme Court and Federal Superior Court of Appeals. Considering the risk of a probable loss, a provision of R$18,039 was made.
- As of December 31, 2008, the Company has a provision of R$64,835 for fines relating to Several Administrative Proceedings filed by ANATEL against Telesp, considered by the legal advisors as a probable risk of loss.
- Contingencies, especially assessed as possible risks, involve matters relating to several legal suits, mainly: unacknowledged title to telephone lines, indemnity for material and personal damages, among others, for approximately R$130,291.

21. Other liabilities

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Consignments on behalf of third parties	**216,512**	172,668	**198,050**	162,041
Amounts charged to users	**93,247**	86,378	**70,884**	70,615
Withholdings	**122,191**	84,587	**126,092**	89,723
Other	**1,074**	1,703	**1,074**	1,703
Liabilities to related parties (Note 31)	**69,517**	62,520	**81,072**	44,920
Advances from customers	**59,903**	65,080	**69,906**	71,675
Amounts to be refunded to subscribers	**53,669**	48,814	**48,593**	49,817
Concession renewal fee (Note 1.c)	**102,863**	-	**102,863**	-
Accounts payable sale of share fractions (a)	**113,377**	114,315	**113,377**	114,315
Accounts payable for the acquisition of Telefônica Televisão Participações S.A. (b)	**-**	23,790	**-**	23,790
Negative goodwill AIX	**-**	-	**-**	8,735
Other	**43,774**	57,281	**94,000**	86,110
Total	**659,615**	544,468	**707,861**	561,403
Current	**590,147**	479,340	**614,867**	479,557
Noncurrent	**69,468**	65,128	**92,994**	81,846

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21. Other liabilities (Continued)

(a) Amounts resulting from the auction of share fractions after the reverse spin-off process in 2005, and TDBH acquisition process in 2006.

(b) The amount to be paid on December 31, 2007 to the Grupo Abril for the TTP acquisition correspond to R$293,790, of which R$270,000 is retained in financial application in the name of the Company. The presentation is by net value.

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22. Shareholders equity

a) Capital

Paid-in capital is of R$6,575,480 at December 31, 2008 (R$6,575,198 as of December 31, 2007). Subscribed and paid-in capital is represented by shares without par value, as follows:

	2008	**2007**
Total Capital in shares		
Common shares	**168,819,870**	168,819,870
Preferred shares	**337,417,402**	337,417,402
Total	**506,237,272**	506,237,272
Treasury shares		
Common shares	**(210,579)**	(210,578)
Preferred shares	**(185,213)**	(185,213)
Total	**(395,792)**	(395,791)
Outstanding shares		
Common shares	**168,609,291**	168,609,292
Preferred shares	**337,232,189**	337,232,189
Total	**505,841,480**	505,841,481
Book value per outstanding share in R$	**19.86**	19.58

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.

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22. Shareholders equity (Continued)

a) Capital (Continued)

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 Companys bylaws and clause II, paragraph 1, article 17, of Law No. 6,404/76.

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 in assets donated by subscribers for the expansion of the telecommunications services plant until 2007. After 2008, these donations will be classified as deferred revenues under liabilities.

Treasury shares

These correspond to the Companys 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, 2008, the market value of treasury stock was R$16,258 (R$18,164 at December 31, 2007).

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%.

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22. Shareholders’ equity (Continued)

d) Special goodwill reserve

This represents the tax benefit generated by the merger of DABR (Note 2.b) which will be capitalized on an annual basis on behalf of the controlling shareholder as the tax credit becomes realized, according to CVM Instruction No. 319/99.

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. The Company presents the calculation of dividends and interest on shareholders’ equity for 2008 and 2007 as follows:

Minimum mandatory dividends calculated based on adjusted net income	2008	2007
Net income for the year	**2,419,971**	2,363,169
Allocation to legal reserve	**-**	-
Adjusted net income for the year	**2,419,971**	2,363,169
Minimum mandatory dividends – 25% of adjusted net income	**604,993**	590,792
Retained earnings		
Retained earnings from prior years	**-**	705,631
Adjusted net income for the year	**2,419,971**	2,363,169
Interest on shareholders’ equity / Prescribed dividends	**163,392**	209,770
Merger of DABR	**41**	-
Adjustments of Law No. 11638/07	**2,705**	-
Profit available for distribution	**2,586,109**	3,278,570
Interest on shareholders’ equity (gross)	**616,000**	642,000
Interim dividends	**1,575,000**	2,285,632
Balance of profit available for distribution	**395,109**	350,938

	2008	2007
Proposed dividends	**395,109**	350,938
Retained earnings at year-end	**-**	-

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22. Shareholders equity (Continued)

e) Dividends (Continued)

	2008		2007	
Amounts in R$ per share (a)	Gross	Net	Gross	Net
Interest on shareholders equity - common	**1.141661**	**0.970411**	1.189848	1.011370
Interest on shareholders equity preferred	**1.255827**	**1.067453**	1.308832	1.112507

	2008	
Amounts in R$ per share (a)	Common	Preferred
Interest on shareholders equity net of income tax	**0.315068**	**0.346575**
Interim dividends declared in March 2008	**0.650409**	**0.715450**
Interim dividends declared in May 2008	**0.898872**	**0.988760**
Interim dividends declared in November 2008	**2.020146**	**2.222161**
Interest on shareholders equity net of income tax	**0.655343**	**0.720877**
	4.539838	**4.993823**

Amounts in R$ per share (a)	2007	
	Common	Preferred
Interest on shareholders equity net of income tax	1.011370	1.112507
Interim dividends declared in March 2007	1.307779	1.438557
Interim dividends declared in November 2007	2.928286	3.221115
	5.247435	5.772179

(a) Do not include the amount of dividends to be declared.

The balance of retained earnings as of December 31, 2008, in the amount of R$395,109 (R$350,938 at December 31, 2007), was classified as dividends payable in accordance with managements proposal for allocation of net income for the year, subject to approval by the Ordinary Shareholders Meeting, and to payment by the end of fiscal year 2009.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

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22. Shareholders equity (Continued)

f) Interest on shareholders equity

As proposed by Management, in 2008 and 2007, interest on shareholders equity was credited to shareholders in accordance with article 9 of Law No. 9,249/95, net of withholding tax, as follows:

	2008	2007
Gross interest on shareholders equity	**616,000**	642,000
Common shares	**192,495**	200,619
Preferred shares	**423,505**	441,381

(In thousands of reais)

Withholding income tax	**(92,400)**	(96,300)
Interest on shareholders equity, net of income tax included in dividends	**523,600**	545,700

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 26, 2008, the Ordinary Shareholders Meeting approved dividend distribution in the amount of R$350,938 as defined in the allocation of net income for 2007 proposed by management. These dividends were credited to holders of common and preferred shares included in the Companys records by the end of March 26, 2008, and have been paid as of June 23, 2008.

On May 20, 2008, the Board of Directors approved the payment of interim dividends in the amount of R$485,000 based on the financial statements for March 31, 2008, and interest on shareholders equity for fiscal year 2008 in the amount of R$200,000, or R$ 170,000 net of withholding taxes, to holders of common and preferred shares included in the Companys records by the end of May 20, 2008. These dividends have been paid as of June 23, 2008.

On November 24, 2008, the Board of Directors approved the distribution of interim dividends in the amount of R$1,090,000, based on retained earnings shown on the balance sheet as of September 30, 2008, to holders of common and preferred shares included in the Companys records by the end of November 24, 2008. These dividends have been paid as of December 10, 2008.

22. Shareholders equity (Continued)

g) Payment of dividends and interest on shareholders equity (Continued)

On December 9, 2008, the Board of Directors approved the credit of interest on shareholders equity for fiscal year 2008 in the amount of R$416,000, or R$353,600 net of withholding taxes, to holders of common and preferred shares included in the Companys records by the end of December 30, 2008. The payment will be made in 2009 on a date to be decided at the Ordinary 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.

i) Adjustment for equity valuation and cumulative translation adjustment

Adjustment for equity valuation

This represents net gains and losses from changes in the fair value of financial assets classified as available-for-sale (Notes 4 and 11).

Cumulative translation adjustment

This represents foreign exchange fluctuations derived from the translation of net equity of foreign investments.

Adjustment for equity valuation	
Portugal Telecom	55,389
Zon Multimédia	6,775
Other investments	14,068
Total	76,232

Cumulative translation adjustment	
Aliança Atlântica	862
Total	862

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23. Net operating revenue

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Monthly subscription charges	**5,599,514**	5,760,511	**5,486,797**	5,646,362
Activation fees	**114,315**	119,743	**114,283**	119,629

Local service	**2,504,587**	2,732,412	**2,562,869**	2,808,251
LDN Domestic long-distance	**3,719,509**	3,133,264	**3,808,790**	3,220,787
LDI International long-distance	**124,305**	113,423	**140,389**	133,870
Interconnection services	**4,286,927**	3,949,426	**4,372,033**	4,063,688
Network usage services	**465,788**	405,278	**465,788**	405,278
Public telephones	**444,910**	551,059	**444,910**	551,059
Data transmission	**3,402,321**	2,725,895	**3,759,457**	2,995,718
Network access	**416,770**	349,494	**384,344**	318,609
TV Service	**-**	-	**379,019**	54,564
Other (i)	**657,155**	587,125	**1,102,101**	865,994
Gross operating revenue	**21,736,101**	20,427,630	**23,020,780**	21,183,809
Taxes on gross revenue	**(5,553,811)**	(5,299,061)	**(5,978,565)**	(5,575,502)
ICMS (State VAT)	**(4,746,024)**	(4,528,022)	**(5,017,815)**	(4,721,551)
PIS and COFINS (taxes on revenue)	**(779,605)**	(741,091)	**(917,546)**	(811,549)
ISS (Municipal service tax)	**(28,182)**	(29,948)	**(43,204)**	(42,402)
Discounts	**(1,364,928)**	(1,100,823)	**(1,063,230)**	(880,745)
Net operating revenue	**14,817,362**	14,027,746	**15,978,985**	14,727,562

The group of accounts Other, under Gross operating revenues, includes revenue from finance lease payments of customers premises equipments, as described in Note 4.k

Tariff adjustments affecting recorded revenue

Tariff adjustment for wireline to wireline services effective as of July 24, 2008. Tariffs increased by 3.01% for Local and National Long Distance (LDN) services. Local network tariffs (TU-RL) also increased by 3.01% as of July 24, 2008.

Tariff adjustment of 3.01% for wireline to mobile services (VC1, VC2 and VC3), also is effective as of July 24, 2008.

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23. Net operating revenue

Tariff adjustments affecting recorded revenue (Continued)

Tariff adjustment of 2.21% for Basic Plans (Local and LDN) was effective as of July 20, 2007. Local network tariffs (TU-RL) also increased by 2.21% as of July 20, 2008.

Tariff adjustment of 3.29% for wireline to mobile services (VC1, VC2 and VC3) was effective as of July 20, 2007.

24. Cost of services provided

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Depreciation and amortization	**(2,229,050)**	(2,276,004)	**(2,390,633)**	(2,347,943)
Personnel	**(161,947)**	(176,384)	**(198,990)**	(224,578)
Organizational Restructuring Program	**(21,403)**	(63,238)	**(21,403)**	(63,238)
Materials	**(30,507)**	(30,571)	**(132,023)**	(31,651)
Network interconnection	**(3,810,851)**	(3,570,560)	**(3,855,345)**	(3,617,118)
Outside services	**(1,255,595)**	(1,093,281)	**(1,525,450)**	(1,240,328)
Other	**(409,733)**	(370,072)	**(602,564)**	(504,347)
Total	**(7,919,086)**	(7,580,110)	**(8,726,408)**	(8,029,203)

25. Selling expenses

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Depreciation and amortization	**(168,604)**	(174,447)	**(168,875)**	(174,560)
Personnel	**(349,480)**	(322,954)	**(368,611)**	(341,006)
Organizational Restructuring Program	**(7,526)**	(9,123)	**(7,526)**	(9,123)
Materials	**(61,718)**	(89,161)	**(61,944)**	(89,362)
Outside services	**(1,347,438)**	(1,141,125)	**(1,374,596)**	(1,154,183)
Allowance for doubtful accounts	**(461,760)**	(611,030)	**(538,625)**	(652,692)
Other	**(44,247)**	(36,311)	**(80,379)**	(41,531)
Total	**(2,440,773)**	(2,384,151)	**(2,600,556)**	(2,462,457)

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26. General and administrative expenses

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Depreciation and amortization	**(76,955)**	(93,043)	**(98,395)**	(111,881)
Personnel	**(138,860)**	(153,700)	**(143,774)**	(167,731)
Organizational Restructuring Program	**(6,591)**	(81,577)	**(8,537)**	(81,577)
Materials	**(8,508)**	(13,410)	**(8,776)**	(15,112)
Outside services	**(326,431)**	(375,206)	**(430,826)**	(402,791)
Other	**(45,280)**	(48,138)	**(65,214)**	(59,521)
Total	**(602,625)**	(765,074)	**(755,522)**	(838,613)

27. Permanent asset disposal, net

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Proceeds from sale of property, plant and equipment and investments	**15,548**	146,747	**27,370**	147,693
Cost of sale of property, plant and equipment and investments	**(41,761)**	(64,081)	**(77,925)**	(66,040)
Total	**(26,213)**	82,666	**(50,555)**	81,653

Gains on permanent assets disposals in 2007 mainly refers to sale of real property located in Barra Funda district for R$134,555, with residual value of R$46,044.

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28. Other operating income (expenses), net

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Income	**554,801**	741,474	**578,966**	750,656
Technical and administrative services	**49,420**	50,835	**44,118**	47,057
Income from supplies	**17,791**	72,838	**20,880**	72,838
Dividends	**25,439**	16,799	**30,473**	21,826
Fines on telecommunication services	**162,804**	130,669	**174,774**	133,625
Recovered expenses	**50,703**	113,191	**52,238**	117,645
Reversal of provision for contingencies (*)	**103,824**	208,322	**106,894**	209,227
Rent of infrastructure	**45,894**	37,857	**45,894**	37,857
Amortization of negative goodwill AIX	**8,735**	8,735	**8,735**	8,735
Unidentified billing	**49,441**	39,424	**49,519**	39,424
Other income	**40,750**	62,804	**45,441**	62,422
Expenses	**(618,878)**	(523,333)	**(703,622)**	(580,075)
Allowance for reduction to recoverable value of inventories	**(2,941)**	(5,135)	**(3,743)**	(5,700)
Amortization of goodwill	**(126,459)**	(73,473)	**(126,459)**	(73,473)
Donations and sponsorships	**(36,520)**	(39,215)	**(36,520)**	(39,504)
Taxes other than income taxes	**(259,135)**	(245,447)	**(310,985)**	(274,090)
Provision for contingencies	**(161,106)**	(91,617)	**(162,814)**	(94,657)
Pension and other post-retirement benefits	**(20,064)**	(23,033)	**(20,064)**	(23,033)
Other	**(12,653)**	(45,413)	**(43,037)**	(69,618)
Total	**(64,077)**	218,141	**(124,656)**	170,581

(In thousands of reais)

(*) In 2007, the Company partially reversed the provision of INSS, which refers to Plano Bresser, Verão and SAT (see note 20.2a and 20.2. b) due the statute barring period of five years instead in an amount of R$ 105,682, of which R$4,648 was reversed in the financial results of 2007.

29. Financial income (expenses)

	Company		Consolidated	
	2008	**2007**	**2008**	**2007**
Financial income	**880,512**	494,006	**932,554**	503,453
Income from short-term investments	**151,358**	72,596	**161,927**	80,988
Gains on derivative transactions	**566,827**	218,733	**588,919**	218,733
Interest receivable	**39,660**	50,008	**53,341**	50,508
Monetary/exchange variations receivable	**120,312**	148,319	**122,856**	148,447
Other financial income	**2,355**	4,350	**5,511**	4,777
Financial expenses	**(1,718,379)**	(1,437,775)	**(1,776,440)**	(1,452,385)
Interest on shareholders equity	**(616,000)**	(642,000)	**(616,000)**	(642,000)
Interest payable	**(410,288)**	(330,974)	**(419,190)**	(336,997)
Losses on derivative transactions	**(428,588)**	(371,697)	**(435,472)**	(371,750)
Expenses on financial transactions	**(54,632)**	(91,927)	**(69,090)**	(99,731)
Monetary/exchange variations payable	**(208,871)**	(1,177)	**(236,688)**	(1,907)
Total	**(837,867)**	(943,769)	**(843,886)**	(948,932)

In 2008 includes the financial results of long-term assets brought at present value and adjustments of financial instrument at market value.

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30. Income and social contribution taxes

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.

Reconciliation of reported income tax expense and combined statutory tax rates

Reconciliation of the reported tax charges and the amounts calculated by applying 34% (income tax of 25% and social contribution tax of 9%) in 2008 and 2007 is shown in the table below:

	Company		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Income before taxes	**2,808,665**	2,659,082	**2,885,664**	2,698,446
Income tax and social contribution taxes				
Income tax and Social contribution tax expense	**(954,946)**	(904,088)	**(981,126)**	(917,471)
Permanent differences				
Equity pick-up	**(40,139)**	1,235	**2,809**	(729)
Unclaimed interest on shareholders equity	**(8,919)**	(31,310)	**(8,919)**	(31,310)
Reversal of subsidiaries tax credits	**-**	-	**(39,020)**	-
Subsidiaries temporary differences	**-**	-	**(35,379)**	-
Nondeductible expenses, gifts, incentives and dividends received	**(24,578)**	(35,171)	**(43,961)**	(59,397)
Other				
Incentives (cultural, food and transportation)	**23,888**	31,421	**23,903**	31,421
Total (income tax + social contribution tax)	**(1,004,694)**	(937,913)	**(1,081,693)**	(977,486)

(In thousands of reais)

The components of deferred income and social contribution tax assets and liabilities on temporary differences are shown in Notes 7 and 17 respectively.

Total current income and social contribution taxes consolidated payable at December 31, 2008 amounts to R$1,071,609 (R$924,196 as of December 31, 2007).

31. Transactions with related parties

The principal balances with related parties are as follows:

Consolidated	Atento Brasil S.A.	VIVO	Tiws Brasil Ltda.	Telefônica S.A.	Telecomun. de Chile Transm. Regionales S.A.	Telefónica de Argentina S.A.
Assets						
Current assets	**24,803**	**255,656**	**2,564**	**1,987**	**16,544**	**3,477**
Trade accounts receivable	23,346	252,524	2,364	-	498	3,477
Other assets	1,457	3,132	200	1,987	16,046	-
Noncurrent assets	**-**	**1,109**	**1,507**	**16**	**887**	**-**
Other assets	-	1,109	1,507	16	887	-
Total assets	**24,803**	**256,765**	**4,071**	**2,003**	**17,431**	**3,477**
Liabilities						
Current liabilities	**52,820**	**239,529**	**64,025**	**2,317**	**152**	**379**
Trade accounts payable	47,144	239,528	63,979	-	152	379
Interest on shareholders equity	-	-	-	-	-	-
Other liabilities	5,676	1	46	2,317	-	-

Noncurrent liabilities	**-**	**55**	**23,917**	**-**	**-**	**-**	
Other liabilities	-	55	23,917	-	-	-	
Total liabilities	**52,820**	**239,584**	**87,942**	**2,317**	**152**	**379**	
Statement of income							
Revenue	**38,871**	**257,398**	**4,187**	**-**	**1,279**	**5,641**	
Telecommunications services	36,834	257,398	3,661	-	1,279	5,641	
Financial income	-	-	-	-	-	-	
Other operating revenue	2,037	-	526	-	-	-	
Costs and expenses	**(514,045)**	**(1,957,421)**	**(57,737)**	**(2,122)**	**(541)**	**(1,256)**	
Cost of services provided	(85,399)	(1,954,648)	(56,725)	(2,122)	(541)	(1,256)	
Selling	(418,021)	(2,080)	-	-	-	-	
General and administrative	(10,034)	(693)	-	-	-	-	
Other operating expense	(591)	-	(1,012)	-	**-**	-	

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31. Transactions with related parties (Continued)

Consolidated	Telefônica Serviços Empresariais do Brasil Ltda.	Telefónica Internacional S.A.	SP Telecom	Colômbia Telecomunicações (Telecon)	Telefônica Pesquisa e Desenv. Ltda.	Other	To
ASSETS							
Current assets	**11,971**	**62,853**		**19,058**	**100**	**21,386**	

Trade accounts receivable	1,315	-	-	-	-	6,745	
Other assets	10,656	62,853	-	19,058	100	14,641	
Noncurrent assets	**1,135**	**14,767**	**-**	**466**	**87**	**1,063**	
Other assets	1,135	14,767	-	466	87	1,063	
Total Assets	**13,106**	**77,620**	**-**	**19,524**	**187**	**22,449**	
LIABILITIES							
Current liabilities	**14,949**	**268,627**	**77,036**	**776**	**20,282**	**19,205**	
Trade accounts payable	14,665	-	-	776	20,205	12,614	
Interest on shareholders' equity	-	234,441	77,036	-	-	-	
Other Liabilities	284	34,186	-	-	77	6,591	
Noncurrent liabilities	**2,164**	**-**	**-**	**1,382**	**3**	**4,353**	
Intercompany payables	2,164	-	-	1,382	3	4,353	
Total Liabilities	**17,113**	**268,627**	**77,036**	**2,158**	**20,285**	**23,558**	
STATEMENT OF INCOME							
Revenue	**3,915**	**2,799**	**-**	**91**	**87**	**3,539**	
Telecommunications services	2,264	-	-	-	-	1,400	
Financial income	-	2,799	-	91	-	2,139	
Other operating revenues	1,651	-	-	-	87	-	
Costs and expenses	**(75,985)**	**(11,493)**	**(5,895)**	**-**	**(11,629)**	**(40,167)**	**(2**
Cost of services provided	(75,985)	-	-	-	(3,132)	(40,167)	(
Selling	-	-	-	-	(7,732)	-	
General and administrative	-	(11,493)	-	-	(765)	-	
Other operating expense	-	-	(5,895)	-	-	-	

Transactions with related parties were carried out at arm's length.

Trade accounts receivable include receivables for telecommunications services. principally Vivo S.A., Atento Brasil S.A., Terra Networks Brasil S.A. and Telefónica de España S.A., particularly for long-distance services and Tiws Brasil Ltda, due the contract of rendering services of rights of use of undersea fiber optic.

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31. Transactions with related parties (Continued)

Other intercompany receivables in current and non-current assets comprise credits from Telefónica Internacional S.A., Telefônica Serviços Empresariais do Brasil Ltda., Telefônica Del Peru and other group companies, corresponding to services rendered, advisory fees, expenses with salaries and other expenses paid by the Company to be refunded by the related companies.

Trade accounts payable include services provided primarily by Atento Brasil S.A., Vivo S.A., TIWS Brasil, Terra Networks Brasil S.A., Telefônica Pesquisa e Desenvolvimento do Brasil Ltda., and for international long-distance services provided principally by Telefónica de España S.A. We also highlight the rendering of administrative services in the accounting, financial, human resources, property, logistics and IT areas payable to Telefônica Serviços Empresariais do Brasil Ltda.

Other intercompany payables in current and non-current liabilities are comprised mainly of management and technical services payable to Telefónica Internacional S.A., software development and maintenance services payable to Telefônica Pesquisa e Desenvolvimento do Brasil Ltda., and reimbursements payable to Telefônica Serviços Empresariais do Brasil Ltda.

Revenue from telecommunications services comprises mainly billings to Vivo S.A., Terra Networks Brasil S.A. and Atento Brasil S.A.

Other operating revenues are basically from network infrastructure leased to Vivo S.A. and Atento Brasil S.A.

Cost of services provided refers mainly to interconnection and traffic services (mobile terminal) expenses, provided by Vivo S.A. and subsidiaries, call center management services provided by Atento Brasil S.A.

Selling expenses refer mainly to marketing services by Atento Brasil S.A. and commissions paid to cellular telephone operators with Vivo S.A.

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

Management fees

Compensation paid by the Company to its Management and Statutory Officers was approximately R$11,248 (R$20,900 in 2007). Of this amount, R$8,737 (R$14,200 in 2007) refers to salaries and fringe benefits, and R$2,511 (R$6,700 in 2007) to bonuses.

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32. Post-retirement benefit plans

Telesp individually sponsors a defined benefit retirement plan (PBS Telesp Plan), administered by Visão Prev, which covers approximately 0.54% of the Company's employees. In addition to the supplemental pension benefit, a multiemployer plan (PBS-A) and health care plan (PAMA) are provided to retired employees and their dependents (administered by Fundação Sistel), at shared costs. Contributions to the PBS Telesp Plan are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The funding procedure is the capitalization method and the sponsor's contribution is 10.52% of payroll of employees covered by the plan, of which 9.02% is allocated to fund the PBS Telesp Plan and 1.5% to the PAMA Plan.

For other Telesp employees, there is an individual defined contribution plan - Visão Telesp Benefit Plan. The Visão Telesp Plan is funded by contributions made by the participants (employees) and by the sponsor which are credited to participants' individual accounts. Telesp is responsible for bearing all plans administrative and maintenance expenses, including participant's death and disability risks. The Company's contributions to the Visão Telesp Plan are equal to those of the employees, varying from 2% to 9% of the contribution salary, based on the percentage chosen by the participant.

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

During 2008, the Company made contributions to the PBS Telesp Plan in the amount of R$28 (R$47 in 2007) and to Plano Visão Telesp in the amount of R$20,297 (R$26,457 in 2007).

A. Telecom sponsors two private pension plans for defined contribution; namely, one similar to that of Telesp, denominated Visão Assist Benefits Plan, which is granted to approximately 30% of its employees and another, denominated Visão A. Telecom Benefits Plan, whose basic and additional contributions by sponsor correspond to 30% of basic and additional contribution by participants. The contributions of A. Telecom to these plans totaled R$313 (R$637 in 2007).

Telefonica Data S.A. individually sponsors a defined contribution plan similar to that of the Company, the Visão Telefônica Empresas Benefit Plan. Total contributions to this plan amounted to R$646 (R$881 in 2007).

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32. Post-retirement benefit plans (Continued)

The actuarial valuation of the plans was made in December 2008 and 2007 based on the record of plan members as of August 2008 and 2007, respectively, and the financial information as of October 31, 2008 was updated to December 31, 2008 and August 2007, respectively, and the projected unit credit method was adopted. Actuarial gains or losses for each year were immediately recognized in each of the periods. The plans assets relate to October 31, 2008 and December, 31 2007. For multiemployer plans (PAMA and PSB-A), apportionment of the plan assets was made based on the sponsoring entitys actuarial liabilities in relation to the plans total actuarial liabilities.

Actuarial liabilities recorded by the Company as of December 31, 2008 and 2007 is as follows:

Plan	2008	2007
CTB	**26,482**	20,790
PAMA	**122,288**	74,636
Total Consolidated	**148,770**	95,426

a) Reconciliation of assets and liabilities

	2008				
	CTB	**PAMA (i)**	**PBS-A (i)**	**PBS**	**Visão Telesp / Assist/ TEmpresas**
Total actuarial liabilities	**26,482**	**190,541**	**1,068,380**	**91,583**	**28,875**
Fair value of assets	**-**	**68,253**	**1,463,441**	**92,168**	**93,273**
Liabilities (assets), net	**26,482**	**122,288**	**(395,061)**	**(585)**	**(64,398)**
Unrecorded surpluses (ii)	**-**	**-**	**395,061**	**585**	**64,398**
Recorded balance	**26,482**	**122,288**	**-**	**-**	**-**

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32. Post-retirement benefit plans (Continued)

a) Reconciliation of assets and liabilities (Continued)

	2007				
	CTB	PAMA (i)	PBS-A (i)	PBS	Visão Telesp / Assist/ TEmpresas
Total actuarial liabilities	20,790	137,634	905,636	76,802	22,561
Fair value of assets	-	62,998	1,468,827	99,133	70,247
Liabilities (assets), net	20,790	74,636	(563,191)	(22,331)	(47,686)
Unrecorded surpluses (ii)	-	-	563,191	22,331	47,686
Recorded balance	20,790	74,636	-	-	-

(i) Refers to the proportional share of Telesp in the assets and liabilities of the PAMA and PBS-A multiemployer plans.

(ii) Surplus was not recorded by the sponsors as assets in view of limitations imposed by accounting standards (CVM Resolution No. 371) and by Resolution No. 26 of the Private Pension Management Council.

b) Total expenses recognized in income

	2008				
	CTB	**PAMA (i)**	**PBS-A (i) (ii)**	**PBS**	**Visão Telesp/Assist/TEmpresas**
Current service cost	**-**	**187**	**-**	**124**	**2,846**
Interest cost	**2,073**	**14,532**	**93,587**	**7,926**	**2,258**
Expected return on plan assets	**-**	**(5,794)**	**(156,392)**	**(10,701)**	**(7,688)**
Employee contributions	**-**	**-**	**-**	**(34)**	**(161)**
	2,073	**8,925**	**(62,805)**	**(2,685)**	**(2,745)**

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32. Post-retirement benefit plans (Continued)

b) Total expenses recognized in income (Continued)

	2007				
	CTB	**PAMA (i)**	**PBS-A (i) (ii)**	**PBS**	**Visão Telesp/Assist/ TEmpresas**
Current service cost	-	-	-	93	3,590
Interest cost	2,229	11,159	86,729	6,818	2,568
Expected return on plan assets	-	(6,087)	(167,404)	(9,374)	(6,598)
Employee contributions	-	-	-	(63)	(149)
	2,229	5,072	(80,675)	(2,526)	(589)

c) Change in net actuarial liabilities (assets)

	CTB	**PAMA**	**PBS-A**	**PBS**	**Visão Telesp/ Assist/ TEmpresas**
Liabilities recorded in the balance sheet on December 31,2006	23,326	51,604	-	-	-
Expenses in 2007	2,229	5,072	(80,675)	(2,526)	(589)
Contribution of the Companies in 2007	(3,378)	(5)	-	(37)	(2,195)
(Gain)/Loss generated in the period	(1,387)	17,965	(59,580)	(6,008)	(15,131)
Overfunding not recorded in the balance sheet	-	-	140,255	8,571	17,915
Liabilities recorded in the balance sheet on December 31,2007	20,790	74,636	-	-	-
Expenses in 2008	2,073	8,925	(62,805)	(2,685)	(2,745)

Contribution of the Companies in 2008	(3,323)	(5)	-	(328)	(2,200)
(Gain)/Loss generated in the period	6,942	38,732	230,936	24,759	(11,767)
Overfunding not recorded in the balance sheet	-	-	(168,131)	(21,746)	16,712
Liabilities recorded in the balance sheet in 31/12/2008	26,482	122,288	-	-	-

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Notes to the financial statements (Continued)

December 31, 2008 and 2007

(In thousands of reais)

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

32. Post-retirement benefit plans