

TELEFONICA DATA BRASIL HOLDING SA /FI

Form CB

March 14, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form CB**

**TENDER OFFER/RIGHTS OFFERING NOTIFICATION FORM**

(AMENDMENT NO. \_\_\_\_\_)

Please place an X in the box(es) to designate the appropriate rule provision(s) relied upon to file this Form:

Securities Act Rule 801 (Rights Offering)	..
Securities Act Rule 802 (Exchange Offer)	x
Exchange Act Rule 13e-4(h)(8) (Issuer Tender Offer)	..
Exchange Act Rule 14d-1(c) (Third Party Tender Offer)	..
Exchange Act Rule 14e-2(d) (Subject Company Response)	..
Filed or submitted in paper if permitted by Regulation S-T Rule 101(b)(8)	..

**Note:** Regulation S-T Rule 101(b)(8) only permits the filing or submission of a Form CB in paper by a party that is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act.

**Telefônica Data Brasil Holding S.A.**

(Name of Subject Company)

**Telefonica Data Brasil Holding Inc.**

(Translation of Subject Company's Name into English (if applicable))

**Federative Republic of Brazil**

(Jurisdiction of Subject Company's Incorporation or Organization)

**Telecomunicações de São Paulo S.A. - Telesp**

(Name of Person(s) Furnishing Form)

**American Depositary Shares CUSIP 879370104**

**Preferred Shares ISIN BRTDBHACNPR9**

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(Title of Class of Subject Securities)

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(CUSIP Number of Class of Securities (if applicable))

**Daniel de Andrade Gomes Investor Relations Officer**

**Rua Martiniano de Carvalho 851 17 Floor**

**CEP 01321-001 São Paulo SP - Brazil**

(Name, Address (including zip code) and Telephone Number (including area code) of

Person(s) Authorized to Receive Notices and Communications on Behalf of Subject Company)

**Not applicable**

(Date Tender Offer/Rights Offering Commenced)

\* An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number. Any member of the public may direct to the Commission any comments concerning the accuracy of this burden estimate and any suggestions for reducing this burden. This collection of information has been reviewed by OMB in accordance with the clearance requirements of 44 U.S.C. 3507.

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**PART I - INFORMATION SENT TO SECURITY HOLDERS**

**Item 1. Home Jurisdiction Documents**

The following exhibit is attached to this Form CB as Exhibit A:

Press Release: Announces the Minutes of the 131<sup>st</sup> Board of Directors Meeting of Telesp  
The following exhibit is attached to this Form CB as Exhibits B:

Minutes of the Contract and Justification of the Merger of Telefônica Data Brasil Holding S.A. into Telecomunicações de São Paulo S.A. Telesp and Partial Spin-Off of Telefônica Empresas S.A.

Annexes I, II, III, IV and V of the Contract  
The following exhibit is attached to this Form CB as Exhibit C:

Press Release: Relevant Fact  
The following exhibit is attached to this Form CB as Exhibits D:

2 Letters to the National Telecommunications Agency (ANATEL)

**Item 2. Informational Legends**

Not applicable

**PART II - INFORMATION NOT REQUIRED TO BE SENT TO SECURITY HOLDERS**

Not applicable

**PART III - CONSENT TO SERVICE OF PROCESS**

Concurrently with the filing of this Form CB, Telecomunicações de São Paulo is also filing with the Commission a written irrevocable consent and power of attorney on Form F-X.

**PART IV - SIGNATURES**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

/s/ Daniel de Andrade Gomes

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(Signature)

Daniel de Andrade Gomes Investor Relations Director  
(Name and Title)

São Paulo, March 10, 2006  
(Date)

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**Exhibit A**

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**TELECOMUNICAÇÕES DE SÃO PAULO S. A. TELESP**

**Announces the Minutes of the 131<sup>st</sup> Board of Directors Meeting**

March 09, 2006 (03 pages)

For more information, please contact:

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(São Paulo Brazil; March 09, 2006) Telecomunicações de São Paulo S. A. Telesp ( the Company or Telesp ) (NYSE: TSP; BOVESPA: TLPP) hereby informs the Minutes of the 131<sup>st</sup> Board of Directors meeting held on March 09, 2006:

**1. DATE, TIME AND PLACE OF THE MEETING:** March 09, 2006, at 4:00PM São Paulo time, at the Company s headquarters located at Rua Martiniano de Carvalho #851 - 21<sup>st</sup> Floor, in the Capital of the State of São Paulo.

**2. INSTALLATION:** The meeting began with the presence of the undersigned Board Members according to the Company s bylaws, and the Audit Committee of the Company. There were also present: (i) Mr. Gilmar Roberto Pereira Camurra, Vice-President of Financial Planning; (ii) Mr. Taiki Hirashima, representing Hirashima & Associados Ltda; (iii) Mr. Luiz Otávio Coutinho Muniz, representing NM Rothschild & Sons (Brasil) Ltda; and (iv) Mr. Luiz Renato Guimarães Pereira, representing KPMG Corporate Finance Ltda.

**3. MEETING BOARD COMPOSITION:** Fernando Xavier Ferreira Chairman of the Board of Directors.

**4. AGENDA AND RESOLUTIONS:**

(1) To deliberate regarding the proposal for the Merger ( **Merger** ) by the Company of TELEFÔNICA DATA BRASIL HOLDING S.A. ( **TDBH** ), a listed company, with headquarters located at Avenida Brigadeiro Faria Lima nº 1188, São Paulo, state of São Paulo, registered under CNPJ/MF #04.295.166/0001-33;

(2) To deliberate regarding the proposal of the partial spin-off of TELEFÔNICA EMPRESAS S.A. ( **T EMPRESAS** ), with headquarters located at Avenida Tamboré nº s 341 and 371, Barueri, State of São Paulo, registered under CNPJ/MF #04.027.547/0001-31, and subsequent Merger, by the Company, of the spun-off part of the net equity ( **Spin-Off** );

(3) To discuss and deliberate regarding the signing of the Contract and Justification of the Merger of Telefônica Data Brasil Holding S.A. by Telecomunicações de São Paulo S.A. TELESP and Partial Spin-Off of Telefônica Empresas S.A. ( **Contract** ) by the Executive Board of the Company for its future submittal to the Extraordinary General Shareholders Meeting;

(4) To approve the appointment of the specialized companies responsible for the appraisals of TDBH, the Company and the spun-off part of the net equity of T. EMPRESAS ( **Appraisals** ) using different criteria, to be used for the proposed Merger and Spin-Off;

(5) To issue an opinion about the Appraisals, that will become annexes of the Contract, for its future submittal to the Extraordinary General Shareholders Meeting;

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(6) To deliberate regarding the proposal to modify the heading of article 5 of the Company's bylaws, which shall be submitted for analysis in the General Shareholders Meeting of the Company, in order to reflect the capital increase resulting from the Merger, if approved; and

(7) To deliberate regarding the calling for a General Shareholders Meeting of the Company that, considering the resolution taken by the Board of Directors and the Audit Committee, will deliberate regarding the proposed Merger and Spin-Off.

**5. Resolutions:** After due analysis and discussion by the Board of Directors about the items of the agenda, it was unanimously approved the following resolutions:

(1) To approve the proposal, submitted by the Board of the Company, for the Merger of TDBH by the Company;

(2) To approve the proposal, also submitted to the Executive Board of the Company, of the Spin-Off of T EMPRESAS and the subsequent Merger of the spun-off part of the net equity by the Company;

(3) To approve the terms and conditions of the Contract (Annex 1), to be signed by the Company, T EMPRESAS and TDBH and the subsequent submittal of the said document for the analysis of the General Shareholders Meeting.

(4) To approve the appointment of the following specialized companies: (a) Hirashima & Associados Ltda., limited society, with headquarters located at: Rua Flórida 1758, conjunto 11, São Paulo, state of São Paulo, registered under CNPJ/MF #005.215.691/0001-64 and under CRC #2SP022465/O-4, appointed to execute (i) the accounting appraisal of the net equity of TDBH as of December 31, 2005 base date for the Merger and issuance of the respective opinion, which will support the capital increase of the Company that will result from the Merger; and (ii) the accounting appraisal of net equity of the spun-off part of T EMPRESAS as of December 31, 2005 base date for the Spin-Off and the elaboration of said opinion, which will fundamente the capital reduction of T EMPRESAS resulting from the Spin-Off; (b) NM Rothschild & Sons (Brasil) Ltda., with headquarters located at Av. Brigadeiro Faria Lima 2055, 18° floor, São Paulo, state of São Paulo, registered under CNPJ/MF #32.210.791/0001-70, appointed to execute the economical and financial analysis of TDBH and the Company, in order to determine the exchange ratio of the shares of TDBH which will be extinguished as a result of the Merger - by new shares of the Company; and (c) KPMG Corporate Finance Ltda., a limited Company, with headquarters located at Rua Dr. Renato Paes de Barros 33, 2° floor, São Paulo, state of São Paulo, registered under CNPJ/MF #48.883.938/0001-23, appointed to execute the appraisals at market prices of the net equity of TDBH and the Company, following the same criteria and base date (December 31, 2005), basing itself on the audited financial statements of TDBH and the Company, in order to make a comparison of the calculation of the exchange ratio of shares of TDBH by shares of the Company, in compliance with the established by article 264 of the Law 6404/76, issuing the corresponding opinions.

(5) To approve the submittal of Extraordinary General Shareholders Meeting of the Company, of the Appraisals prepared by specialized companies that will become Annexes I, II, III, IV and V of the Contract;

(6) To approve the proposal to modify the heading of article 5 of the Company's bylaws, which shall be submitted for the analysis of the Extraordinary General Shareholders Meeting of the Company, in order to reflect the capital increase resulting from the Merger, if approved, according the clause 6.3 and 6.5 of the Contract; and

(7) To approve the calling for an Extraordinary General Shareholders Meeting of the Company to be held on April 28, 2006, in order to deliberate on the proposed Merger and Spin-Off.

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**6. Opinion of the Audit Committee:** The members of Audit Committee, present in the meeting in accordance with the article 163, § 3º of the Law 6404/76, after due analysis and discussion about the items of the agenda and other related documents, unanimously approved the following resolutions:

(1) To issue a favorable opinion regarding the Contract, in accordance with the established by articles 224, 225, 227, 229 e 264 of the Law 6404/76 and CVM Instruction # 319/99;

(2) To issue a favorable opinion for the approval of the Appraisals, that will become Annexes I, II, III, IV and V of the Contract, prepared by specialized companies. Such Appraisals: (i) will support the accounting charges resulting from the Merger and Spin-Off; (ii) appraise the net equity of TDBH and the Company at market prices; and (iii) include elements to determine the exchange ratio of shares of TDBH by shares of the Company; and

(3) To issue a favorable opinion for the submittal for the evaluation and approval of the terms and conditions of the Contract by the General Shareholders Meeting of the Company.

**7. Documents Filled:** all the documents mentioned in the present minutes, duly signed by the members of the Board of Directors, will remain filled at the Company's headquarters.

**8. Closing:** The members of the Board of Directors authorizes the signing of the Protocol by the Managements of the Company, T EMPRESAS and TDBH, as well as the execution of all necessary acts for its implementation. As there were no more topics to be discussed, the meeting was adjourned and these minutes were prepared. After being approved and signed by the present members, they will become part of the meeting log.

São Paulo, March 09, 2006.

**Board of Directors:** Fernando Xavier Ferreira, José Maria Alvarez-Pallete López, Enrique Used Aznar, Eduardo Navarro de Carvalho, Javier Nadal Ariño, José Fernando de Almansa Moreno-Barreda, Juan Carlos Ros Brugueras, Luciano Carvalho Ventura, Luis Bastida Ibarguen, Manoel Luiz Ferrão de Amorim and Narcis Serra Serra.

**Audit Committee:** Wolney Querino Schuler Carvalho, Cleuton Augusto Alves, Oswaldo Vieira da Luz, Eduardo de Almeida Santos and the Secretary of the Board, João Carlos de Almeida.



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**Exhibits B**

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**CONTRACT AND JUSTIFICATION OF THE MERGER**  
**OF TELEFÔNICA DATA BRASIL HOLDING S.A.**  
**INTO TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**  
**AND PARTIAL SPIN-OFF OF TELEFÔNICA EMPRESAS S.A.**

By the present private document, the management of the following companies,

**TELEFÔNICA DATA BRASIL HOLDING S.A.**, a company with headquarters located at Avenida Brigadeiro Faria Lima nº 1188, São Paulo, state of São Paulo, registered under CNPJ/MF #04.295.166/0001-33, with its bylaws registered at Junta Comercial do Estado de São Paulo - JUCESP under NIRE 35.300.183.991, represented for this act under the terms established by its bylaws ( **TDBH** );

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**, a company with headquarters located at Rua Martiniano de Carvalho nº 851, São Paulo, state of São Paulo, registered under CNPJ/MF #02.558.157/0001-62, with its bylaws registered at Junta Comercial do Estado de São Paulo - JUCESP under NIRE 35.300.158.814, represented for this act under the terms established by its bylaws ( **TELESP** ); and

**TELEFÔNICA EMPRESAS S.A.**, a company with headquarters located at Av. Tamboré #341 and 371, Barueri, state of São Paulo, registered under CNPJ/MF #04.027.547/0001-31, with its bylaws registered at Junta Comercial do Estado de São Paulo - JUCESP under NIRE 35.300.179.838 ( **TEMPRESAS** and, along with TELESP and TDBH, the **Companies** ),

**CONSIDERING THAT:**

(A) TDBH and TELESP are listed companies with a common controller;

(B) The shares of TDBH are traded at Bolsa de Valores de São Paulo ( **BOVESPA** ) and TDBH has an American Depositary Receipts ( **ADRs** ) Program Level 1 in the United States of America;

(C) The shares of TELESP are also traded at BOVESPA and TELESP has an ADRs Program Level 2 in the United States of America;

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(D) T EMPRESAS, fully owned subsidiary of TDBH, renders nationwide Multimedia Communication Services ( **SCM** ), and TELESP, directly or through its fully owned subsidiary A. TELECOM S.A., also renders nationwide SCM services;

(E) The proposed merger and partial spin-off are part of a corporate restructuring project which, once completed, will result in a higher operating, fiscal, administrative and financial efficiency and, consequently, in a reduction of the operating costs of the Companies; and

(F) The managements of TDBH, TELESP and T EMPRESAS, once the studies deemed necessary were conducted, understand that the implementation of the proposed merger and partial spin-off is on the best interest of the Companies and, consequently, of their respective shareholders;

Based on articles 224, 225, 227, 229 and 264 of the Law #6404, dated as of December 15, 1976 ( **Corporate Law** ) and CVM Instruction #319/99, the Companies **DECIDE** to sign the present Contract and Justification of the Merger and Partial Spin-Off ( **Contract** ), which establishes the terms and conditions of the merger and partial spin-off proposals that shall be submitted for the consideration of their respective shareholders, as established below:

**1. SUMMARY OF THE OPERATION**

- 1.1. The objective of the current Contract is the proposal for the restructuring of the SCM activities of TELESP and T EMPRESAS ( **Restructuring** ), comprising: (i) the merger of TDBH into TELESP, companies with a common controller, in the terms of articles 227 and 264 of the Corporate Law ( **Merger** ); and (ii) the partial spin-off of T EMPRESAS, transferring to TELESP the assets and activities related to the SCM in the regions where such services are already rendered by TELESP, in the terms of article 229 of the Corporate Law ( **Spin-off** ).
  
- 1.2. Once the Restructuring is approved: (i) TDBH will be extinguished; (ii) its shareholders will receive common or preferred shares, or American Depositary Shares ( **ADS** ), as appropriate, issued by TELESP and following the exchange ratio established in Section 5, below; (iii) TELESP will succeed TDBH in all its rights and obligations; and (iv) T EMPRESAS will become a fully owned subsidiary of TELESP, with the assets and activities related to the SCM in the regions where such service is not rendered by TELESP, as well as the IT and data center assets and activities that are of its property.

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**2. JUSTIFICATION OF THE OPERATION**

- 2.1. TDBH is a holding company whose main asset is the stake of 100% in the capital stock of TELEFÔNICA EMPRESAS S.A., a nationwide SCM operator.
- 2.2. TELESP, besides rendering the Switched Fixed Telephony Service (STFC), is also a SCM operator in sectors 31, 32 and 34 of Region III of the Annex II of the General Concession Plan (Decree #2534, dated as of April 02, 1998).
- 2.3. TELESP has another fully owned subsidiary, A. TELECOM S.A., a company with headquarters located at Rua do Rocío #291, 2<sup>nd</sup> Floor, São Paulo, state of São Paulo, registered under CNPJ/MF #03.498.897/0001-13, with its bylaws registered at Junta Comercial do Estado de São Paulo JUCESP under NIRE 35.3.0017438.1 ( **A. TELECOM** ), that renders nationwide SCM services, except in sectors 31, 32 and 34 of Region III of Annex II of the General Concession Plan do Plano (where the exploitation of the SCM is carried out directly by TELESP).
- 2.4. TDBH was created in January 2001 as the result of the partial spin-off of TELESP. At that time and based on the opinion of the external consultants, the management of TELESP understood that it would be in the best interest of the company to segregate the assets related to the rendering of the Switched Packaged Network services, transferring all the shares of T EMPRESAS to the then newly-created TDBH.
- 2.5. After five years, the managements of TELESP and TDBH understand that the segregation of T EMPRESAS reached the expected objectives, which were: (i) consolidation of the SCM services in the corporate segment, both in terms of the technical specialty as well as the client portfolio; and (ii) execution of specific investments that allowed a significant growth of TEMPRESAS. Nevertheless, the managements of TELESP and TDBH understand that the considerable increase in competition within this market, currently dominated by companies directly tied to communication companies linked to large national and foreign groups, and the transactional costs and the opportunities for merging expertise to address the technological convergence and the development of new products dictate new conditions and projections for the segment in which the companies operate, which justify and validate the decision to merge its operations.

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- 2.6. With the Merger of TDBH into TELESP, T EMPRESAS will become a fully owned subsidiary of TELESP, similar to A TELECOM. Following suit and through the Spin-Off, the assets and activities related to the SCM service of T EMPRESAS in sectors 31, 32 and 34 of Region III of Annex II of the General Concession Plan will be transferred to TELESP, thus concentrating the SCM activities in those areas within TELESP.
- 2.7. As the next step, it is intended to promote the merger of A TELECOM into T EMPRESAS, or vice-versa, in order to concentrate, in one single subsidiary of TELESP, the exploitation of the SCM activities in the remaining part of the national territory.
- 2.8. The management of the Companies recommend the approval of the Merger and Spin-Off proposals in the terms of this Contract, since they understand that the Restructuring will result in the following benefits for the Companies and their respective shareholders:
- (a) Higher administrative, commercial, operating, fiscal and financial efficiencies regarding data transmission operations performed by T EMPRESAS, A TELECOM and TELESP;
  - (b) Increase in the liquidity of the shares, especially for the shareholders of TDBH, but also for the shareholders of TELESP; and
  - (c) Reduction of costs after merging all the activities of all the companies under just one listed company, TELESP.

**3. CORPORATE APPROVALS**

- 3.1. On this date, the Executive Management of TDBH submitted to the Board of Directors and the Audit Committee of the TDBH the proposal for its merger into TELESP. The Executive Management of T EMPRESAS also submitted to the same organs the proposal for the partial spin-off of T EMPRESAS and the subsequent merger of the spun-off part into TELESP. The Board of Directors of TDBH approved the signing of the present Contract and the Audit Committee of TDBH, after due analysis of the operation, issued a favorable opinion to the Merger and Spin-Off and to the terms of the supporting documents of the proposals of the Executive Managements, according to the terms of paragraph III of article 163 of the Corporate Law. Therefore, the Board of Directors of TDBH

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decided to submit the Restructuring and the documents related to the operation for the deliberation of the General Shareholders Meetings of TDBH and T EMPRESAS, deciding to call for the respective extraordinary general shareholders meetings for that effect.

- 3.2. The Executive Management of TELESP today submitted to the Board of Directors and the Audit Committee the proposal for the Merger of TDBH, as well as the proposal for the partial spin-off of T EMPRESAS, with the subsequent merger of the spun-off part into TELESP. The Board of Directors of TELESP approved the signing of the present Contract and the Audit Committee of TELESP, after due analysis of the operation, issued an opinion favorable to the Merger and Spin-Off and to the terms of the supporting documents of the proposal of the Executive Management, according to the terms of paragraph III of article 163 of the Corporate Law. Therefore, the Board of Directors of TELESP also decided to submit the Restructuring and the documents related to the operation for the deliberation of the General Shareholders Meeting of TELESP, deciding to call for an extraordinary general shareholders meeting for that effect.

**4. CAPITAL STOCK OF TDBH, TELESP AND T EMPRESAS**

- 4.1. The capital stock of TELESP, which is fully paid-in, is R\$5,978,073,811.88 (five billion, nine hundred seventy eight million, seventy three thousand, eight hundred eleven Reais and eighty eight cents), divided into 492,029,981 (four hundred ninety two million, twenty nine thousand, nine hundred eighty one) shares, of which 164,061,698 (one hundred sixty four million, sixty one thousand, six hundred ninety eight) are common shares and 327,968,193 (three hundred twenty seven million, nine hundred sixty eight thousand, one hundred ninety three) are preferred shares, all of them book-entry shares without par value.
- 4.2. The capital stock of TDBH, which is fully paid-in, is R\$702,879,874.92 (seven hundred two million, eight hundred seventy nine thousand, eight hundred seventy four Reais and ninety two cents), divided into 1,071,153,385,962 (one trillion, seventy one billion, one hundred fifty three million, three hundred eighty five thousand, nine hundred sixty two) shares, of which 358,716,131,431 (three hundred fifty eight billion, seven hundred sixteen million, one hundred thirty one thousand, four hundred thirty one) are common shares and 712,437,254,531 (seven hundred twelve billion, four hundred thirty seven million, two hundred fifty four thousand, five hundred thirty one) are preferred shares, all of them book-entry shares without par value.

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- 4.3. The capital stock of T EMPRESAS, which is fully paid-in, is R\$235,235,748.45 (two hundred thirty five million, two hundred thirty five thousand, seven hundred forty eight Reais and forty five cents), divided into 241,525,513 (two hundred forty one million, five hundred twenty five thousand, five hundred thirteen) common shares, all of them book-entry shares without par value.
- 4.4. The shares of TDBH will be canceled as a result of the Merger and replaced by common or preferred shares or ADS, as appropriate, issued by TELESP, in the terms of the exchange ratio established in the Section 5 of this Contract. After the Merger is implemented, T EMPRESAS will become a fully owned subsidiary of TELESP.
- 4.5. Following suit and as a consequence of the Spin-Off, the capital stock of T EMPRESAS will be reduced in an amount corresponding to the fraction of the equity that was spun-off, as established in Section 5 of the present Contract. The shares of T EMPRESAS corresponding to the equity fraction that was spun-off will be canceled once such fraction is merged into TELESP.

**5. APPRAISALS AND EXCHANGE RATIO**

**(i) Appraisal by the Accounting Equity Value**

- 5.1. The increase in the capital stock of TELESP, resulting from the Merger and in the terms of Section 6 below, will be carried out based on the Appraisal of the Net Equity of TDBH, issued on March 06, 2006 by Hirashima & Associados Ltda, a limited company with headquarters located at Rua Flórida #1758, conjunto 11, São Paulo, state of São Paulo, registered under CNPJ/MF #005.215.691/0001-64 and under C.R.C. #2SP0222465/O-4 ( **Hirashima** ), specially hired for such purpose, according to the opinion that constitutes Annex I of the present Contract. The appraisal executed by Hirashima was made using the accounting principle of measuring the net equity value of TDBH, based on the constant elements of its balance sheet as of December 31, 2005, audited by Ernst & Young Auditores Independentes S.S. ( **Ernst & Young** ). According to the accounting appraisal, the net equity value of TDBH, as of December 31, 2005, was R\$597,164,881.58 (five hundred ninety seven million, one hundred sixty four thousand, eight hundred eighty one Reais and fifty eight cents).
- 5.2. The reduction in the capital stock of T EMPRESAS, resulting from Spin-Off and in the terms of Section 7 below, will be carried out based on the Appraisal of the

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Accounting Value for the purpose of the Spin-Off and Merger of T EMPRESAS, issued on March 06, 2006 by Hirashima, specially hired for such purpose, according to the opinion that constitutes Annex II of the present Contract. The appraisal executed by Hirashima was made using the accounting principle of measuring the net equity value of T EMPRESAS, based on the constant elements of its balance sheet as of December 31, 2005, audited by Ernst & Young. According to the accounting appraisal, the net equity value of T EMPRESAS, as of December 31, 2005, was R\$304,234,227.25 (three hundred four million, two hundred thirty four thousand, two hundred twenty seven Reais and twenty five cents) and the accounting equity value of the spun-off part, also as of December 31, 2005, was R\$273,797,261.22 (two hundred seventy three million, seven hundred ninety seven thousand, two hundred sixty one Reais and twenty two cents). As described with further details in Section 7, the merger of the spun-off part of T EMPRESAS into TELESP will not result in an increase nor a reduction of the net equity of TELESP, nor will the number of shares that compose its capital stock vary.

**(ii) Appraisal by the Economic and Financial Value**

- 5.3. In order to support the process of determining the exchange ratio of shares of TDBH by shares of TELESP, and according to the established in article 31 of the bylaws of TELESP and TDBH, the managements of the companies hired NM Rothschild & Sons (Brasil) Ltda., with headquarters located at Avenida Brigadeiro Faria Lima #2055, 18<sup>th</sup> Floor, São Paulo, state of São Paulo, registered under CNPJ/MF #32.210.791/0001-70 ( **Rothschild** ), to prepare the economic and financial analysis of TDBH and TELESP ( **Financial Analysis** ), that constitute Annex III of the present Contract.
- 5.4. The managements of TELESP and TDBH understand that the discounted free cash flow method used by Rothschild is the one that better reflects the value of TDBH and TELESP. Using the average of the value range determined by Rothschild, the following exchange ratio was found:

**EXCHANGE RATIO ECONOMIC AND FINANCIAL VALUE**

Common shares	1 share of TELESP for each group of 75,389 shares of TDBH
Preferred shares	1 share of TELESP for each group of 75,389 shares of TDBH
ADS <sup>1</sup>	1 ADS of TELESP for each group of 1.50778 ADSs of TDBH

<sup>1</sup> Each ADS of TDBH represents 50,000 preferred shares of the Company



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5.5. In case that, due to the exchange ratio, the shareholders of TDBH have the right to a fraction of a share of TELESP, they will be paid *pro rata* of their respective fractions. The amount paid will be the net value at market prices of the grouped fractions, determined in an auction (or auctions if needed) to be held at BOVESPA. Such payment to the shareholders of TDBH will be carried on up to 5 (five) business days after the last auction takes place.

**(iii) Appraisal by the Equity Value at Market Prices**

5.6. In accordance with the established by article 264 of the Corporate Law, the appraisals of the net equities at market prices for TDBH and TELESP, for comparison purposes of the calculation of the exchange ratio of shares of TDBH by shares of TELESP, were conducted by KPMG Corporate Finance Ltda., with headquarters located at Rua Dr. Renato Paes de Barros nº 33, 2<sup>nd</sup> Floor, São Paulo, state of São Paulo, registered under CNPJ/MF #48.883.938/0001- 23 ( **KPMG** ), according to the opinion issued on March 06, 2006, which constitute Annex IV and Annex V of the present Contract. Such appraisals were issued following the same criteria and using the same base date (December 31, 2005), and based on the audited financial statements of TDBH and TELESP, resulting in the following exchange ratio:

**EXCHANGE RATIO    ECONOMIC AND FINANCIAL VALUE**

Common shares	1 share of TELESP for each group of 88,258 shares of TDBH
Preferred shares	1 share of TELESP for each group of 88,258 shares of TDBH
ADS <sup>1</sup>	1 ADS of TELESP for each group of 1.76516 ADSs of TDBH

<sup>1</sup> Each ADS of TDBH represents 50,000 preferred shares of the Company

**(iv) Statement of the Appraisers**

5.7. The appraisers referred in this Section 5 declared that they do not have any conflict of interests, current or potential, with the controlling shareholder of the Companies, or before the minority shareholders, or regarding the Companies themselves, their respective partners, or regarding the proposed Restructuring operation.

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**6. MERGER OF TDBH AND CAPITAL STOCK INCREASE OF TELESP**

- 6.1. The Merger will be effective through the transfer of all the net accounting equity of TDBH to the equity of TELESP, appraised by Hirashima based on the financial statements of TDBH as of December 31, 2005, and audited by Ernst & Young. The equity variations that took place in the TDBH and TELESP between the base date of the appraisal opinion of their accounting value and the dates of the General Shareholders Meetings that approve the Merger will be absorbed by TELESP and accounted for as retained earnings.
- 6.2. In accordance with the established in the opinion of the accounting appraisal issued by Hirashima, the net accounting equity of TDBH to be merged into the net equity of TELESP was R\$597,164,881.58 (five hundred ninety seven million, one hundred sixty four thousand, eight hundred eighty one Reais and fifty eight cents) as of December 31, 2005, and corresponds to the total accounting equity of TDBH. TELESP has 2,262,924 (two million, two hundred sixty two thousand, nine hundred twenty four) common shares and 70,803,372 (seventy million, eight hundred three thousand, three hundred seventy two) preferred shares issued by TDBH, that represent 0.006821% of the capital stock of TDBH which shall be canceled at the time of the Merger.
- 6.3. As a result of the Merger, and considering that part of the net equity of TDBH that corresponds to the participation of TELESP is already accounted for in TELESP and thus should not be part of the capital increase, the capital stock of TELESP will be increased in R\$597,124,147.23 (five hundred ninety seven million, one hundred twenty four thousand, one hundred forty seven Reais and twenty three cents), going from R\$5,978,073,811.88 (five billion, nine hundred seventy eight million, seventy three thousand, eight hundred eleven reais and eighty eight cents) to R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents).
- 6.4. Considering the exchange ratio proposed in Clause 5.4 above, 4,758,172 (four million, seven hundred fifty eight thousand, one hundred seventy two) common shares and 9,449,209 (nine million, four hundred forty nine thousand, two hundred nine) preferred shares of TELESP will be issued, which will be distributed in exchange of the common and preferred shares of TDBH, according to the exchange ratio established in Clause 5.4 of this Contract, with the exception of TELESP's shares, whose shares in TDBH will be canceled.

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- 6.5. After the Merger, the capital stock of TELESP will be divided into 506,237,272 (five hundred six million, two hundred thirty seven thousand, two hundred seventy two) shares, of which 168,819,870 (one hundred sixty eight million, eight hundred nineteen thousand, eight hundred seventy) will be common shares and 337,417,402 (three hundred thirty seven million, four hundred seventeen thousand, four hundred two) will be preferred shares, all of them book-entry shares without par value.
- 6.6. The Merger is considered fair for the shareholders of TELESP and TDBH, since the exchange ratio between the shares of the two Companies was determined within the values of the respective companies, based on the Financial Analysis prepared by Rothschild, an independent financial institution of international reputation and with vast experience in executing economic and financial appraisals similar to the Financial Analysis, which confirmed that a fair treatment was given to all the shareholders.
- 6.7. Due to the Merger, TELESP will become the universal heir of TDBH in terms of all its assets, rights and obligations, without any continuity solution. Once the operation under discussion is approved, TDBH will be extinguished for all legal purposes and T EMPRESAS will become a fully owned subsidiary of TELESP. There are no relevant and unaccounted contingencies to be undertaken by TELESP as a result of the merger of TDBH.
- 6.8. The preferred shares of TELESP that will be distributed to the preferred shareholders of TDBH will have the same rights currently guaranteed by the preferred shares of TDBH, with the exception of the right to vote for the approval of contracts between related parties. In TDBH, this was applicable to any long-term contract between related parties, while in TELESP applies to the contracts with related parties whose terms and conditions are more expensive for the company than those usually in place in the market for similar operations (article 9 of the bylaws of TDBH and TELESP). The common and preferred shares of TELESP owned by the controlling shareholder have the same rights and characteristics of the common and preferred shares owned by the minority shareholders of TELESP and will not suffer any modification in their political or equity rights as a result of the Merger.

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**7. PARTIAL SPIN-OFF OF T EMPRESAS WITH SUBSEQUENT MERGER OF THE SPUN-OFF PART INTO TELESP**

- 7.1. The Spin-Off will represent the transfer from T EMPRESAS to TELESP of the assets, liabilities, rights and obligations related to the SCM activities in sectors 31, 32 and 34 of Region III of the Annex II of the General Concession Plan. They correspond to the elements of the assets and liabilities described in the transfer balance sheet included in the Appraisal of the Accounting Value for the Purpose of the Spin-Off and Merger prepared by Hirashima based in the financial statements of T EMPRESAS as of December 31, 2005, audited by Ernst & Young, which constitutes Annex II of this Contract ( Transfer Balance Sheet ). According to the terms of the accounting appraisal issued by Hirashima, the net accounting equity of T EMPRESAS to be merged into TELESP was R\$273,797,261.22 (two hundred seventy three million, seven hundred ninety seven thousand, two hundred sixty one Reais and twenty two cents), as of December 31, 2005.
- 7.2. Considering that at the time of the implementation of the Spin-Off, T EMPRESAS will be a fully owned subsidiary of TELESP, the transfer to TELESP of the spun-off part of the equity will be carried out through the reduction in the investment account of the fixed assets and the transfer to TELESP of the assets and liabilities contained in the Transfer Balance Sheet, without any increase or decrease in the net equity of TELESP, nor in the number of shares that compose its capital stock.
- 7.3. The equity variations that take place in T EMPRESAS between the base date of the appraisal of its accounting value and the date of the General Shareholders Meetings that approve the Spin-Off will be absorbed by TELESP and compensated in the investments account in the fixed assets, in order to make the result of the Spin-Off always neutral for TELESP.
- 7.4. The Spin-Off is considered fair for the shareholders of TELESP and T EMPRESAS, since at the time of the Spin-Off, T EMPRESAS will be a fully owned subsidiary of TELESP and therefore, the transfer of assets and liabilities from T EMPRESAS to TELESP by their accounting value does not imply in any loss for the shareholders of TELESP.
- 7.5. Following the terms of the sole paragraph of article 233 of the Corporate Law, it is established that TELESP will only be responsible for the obligations that are expressly transferred to it in the terms of the present Contract and of the Transfer Balance Sheet, without being responsible for TEMPRESAS. There are no relevant

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and unaccounted contingencies that will be undertaken by TELESP as a result of the spun-off part of the equity of T EMPRESAS.

**8. RIGHT OF WITHDRAWAL**

- 8.1. The Merger will grant the right of withdrawal to the shareholders of TDBH that express their will in that sense, while the respective payment of the reimbursement will depend of the effective consecution of the operation, as established in article 230 of the Corporate Law.
- 8.2. The withdrawal will be guaranteed to the owners of shares issued by TDBH that clearly and formally express their disagreement regarding the proposed Merger. It will be considered clear and formal when received in a period of 30 (thirty) days counted from the publication date of the minutes of the General Shareholders Meeting of TDBH that will deliberate about the Merger.
- 8.3. The accounting equity value of the shares of TDBH, based on the balance sheet as of December 31, 2005, for the purposes of the right of withdrawal corresponds to R\$0.56 (fifty six cents) per lot of 1,000 (one thousand) common or preferred shares of TDBH. The net equity value at market prices corresponds to R\$0.32 (thirty two cents) per lot of 1,000 (one thousand) common or preferred shares of TDBH.
- 8.4. Considering that the exchange ratio proposed in the terms of Clause 5.4, above, has more advantage for the non-controlling shareholders (and also for the controllers) of TDBH than the exchange ratio based on the net equity value at market prices, and considering that the accounting equity value of each group of 1,000 (one thousand) common or preferred share of TDBH is higher than the value based on the net equity at market prices, as explained in Clause 8.3, above, the value for the right of withdrawal available for the shareholders of TDBH that exercise such right will be the one calculated by the criteria of the accounting equity value, which represents R\$0.56 (fifty six cents) per lot of 1,000 (thousand) shares of TDBH.
- 8.5. The right of withdrawal of the shareholders of TDBH in the Merger process is limited to the shares that such shareholders own on March 09, 2006, and will not be exercised in relation to shares purchased at a later date, in the terms of paragraph 1 of article 137 of the Corporate Law.

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8.6. The shareholders of TELESP will not have the right of withdrawal as a result of the Merger nor the Spin-Off, in the terms of the Corporate Law.

**9. PROJECT TO MODIFY THE BYLAWS OF TELESP**

9.1. After deliberating about the Merger, the General Shareholders Meeting of TELESP will approve the modification of the heading of article 5 of the bylaws of TELESP, which will have the following wording: Art. 5 The subscribed capital stock, which is fully paid-in, is R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents), divided into 506,237,272 (five hundred six million, two hundred thirty seven thousand, two hundred seventy two) shares, of which 168,819,870 (one hundred sixty eight million, eight hundred nineteen thousand, eight hundred seventy) are common shares and 337,417,402 (three hundred thirty seven million, four hundred seventeen thousand, four hundred two) are preferred shares, all of them book-entry shares without par value . There will not be any modification of TELESP s bylaws as a result of the Spin-Off.

**10. GENERAL INSTRUCTIONS**

10.1. Right of Reconsideration: The Companies have the right to re-assess the Restructuring project here described in the hypothesis that the payment of the reimbursement of the shares resulting from the exercising of the right of withdrawal by shareholders of TDBH that have pronounced in that way endangers the financial stability of the company resulting of the Merger, in the terms of paragraph 3 of article 137 of the Corporate Law.

10.2. Dividends: The shareholders of T EMPRESAS, TELESP and TDBH will receive the dividends or interests on the company s net worth declared by their respective ordinary general shareholders meetings related to the fiscal year ended on December 31, 2005. After the Merger, the shareholders of TDBH that receive shares of TELESP will receive the dividends or interests on the company s net worth that are declared by TELESP starting from the date of the general shareholders meeting that approves the Merger, in equal conditions of those of the previous owners of TELESP, and TELESP will receive the dividends and interest on the company s net worth that are declared by T EMPRESAS starting from the date of the general shareholders meeting that approves the Merger.

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- 10.3. Evaluation of the Restructuring by the Regulatory Agencies: Despite the fact that the approval of Anatel (the National Telecommunications Agency) is not required, the Restructuring will be presented before it for filing purposes. Since the Merger and Spin-Off involves companies belonging to the same economic group, the Restructuring is not subject to approval from the CADE (Anti-trust Agency).
- 10.4. Presentation of the Restructuring before the SEC: According to the legislation of the American capital market, the Restructuring will not be submitted for approval or filing before the Securities and Exchange Commission ( **SEC** ). This Contract is not a public offering document and does not represent an offer to sell or a request for an offer to purchase any securities nor a request of any vote or approval.
- 10.5. Filing and Registration: Once the Restructuring is approved by the shareholders of T EMPRESAS, TDBH and TELESP, it will be the task of the managements of TELESP and T EMPRESAS to promote the filing and publication of all the acts related to the Merger and Spin-Off, as well as to promote all necessary acts needed for the process of extinguishing TDBH and its succession by TELESP.
- 10.6. Costs: The costs of the Restructuring are estimated at approximately R\$3.5 million, including the costs related with the appraisal, auditing, legal counseling, publications and other expenses.
- 10.7. Availability of Documents: All the opinions, appraisals, and related documents to the Restructuring are enclosed to the present Contract and are part of it for all legal purposes. The documents related to the Restructuring will be available for the shareholders of TELESP and TDBH from March 13, 2006 on, from 09:00 to 17:00 at the companies' headquarters, located at the following addresses: (i) TELESP: Rua Martiniano de Carvalho 851, São Paulo, state of São Paulo; (ii) TDBH: Avenida Brigadeiro Faria Lima 1188, São Paulo, state of São Paulo. The access to the referred documents and information will be allowed to the shareholders of the respective companies that present an abstract of their respective shareholder position issued no earlier than 10 (ten) days in advance. Further information can be obtained by telephone (11) 3549-7200 with Mr. Daniel de Andrade Gomes.
- 10.8. The Companies and their respective management choose the Central forum of the region of São Paulo as the place to resolve eventual doubts about this Contract.

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São Paulo, March 09, 2006

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**TELEFÔNICA DATA BRASIL HOLDING S.A.**

Fernando Xavier Ferreira

Gilmar Roberto Pereira Camurra

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**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

Fernando Xavier Ferreira

Gilmar Roberto Pereira Camurra

---

**TELEFÔNICA EMPRESAS S.A.**

Roberto José Maris de Medeiros

Cláudio Baumann

Witnesses:

1.  
Name:  
R.G.:  
CPF/MF:

2.  
Name:  
R.G.:  
CPF/MF:



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**ANNEX I**

**OPINION OF THE APPRAISAL OF THE NET ACCOUNTING EQUITY OF TDBH**

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**Free Translation of the original**

**in the Portuguese Language**

**TELEFÔNICA DATA BRASIL HOLDING S.A.**

**CNPJ: 04.295.166/0001-33**

**APPRAISAL REPORT BASED ON BOOK VALUE**

**FOR PURPOSES OF MERGER**

**1. THE SPECIALIZED FIRM AND ITS PARTNER IN CHARGE**

HIRASHIMA & ASSOCIADOS LTDA., limited liability partnership, based in São Paulo, at Rua Flórida, nº 1.758, Conjunto 11, registered at CNPJ under nº 005.215.691/0001-64, registered at 9º Oficial de Registro Civil da Pessoa Jurídica under nº 7711, and registered at CRC/SP nº 2SP022465/O-4.

The Partner in Charge signing this appraisal report is Taiki Hirashima, Brazilian, born in Promissão São Paulo, married, accountant, registered at CRC-SP under nº 1SP056189/O-1, with the identification card nº 2.531.456-7 SSP SP and CPF nº 007.568.818-20, with office located in São Paulo at Rua Flórida, nº 1.758, conjunto 11.

**2. THE COMPANY SUBJECT TO THE MERGER**

**TELEFÔNICA DATA BRASIL HOLDING S.A.**, an Brazilian corporation, located at Avenida Brigadeiro Faria Lima, 1.188 7º andar, São Paulo, Estado de São Paulo, registered at CNPJ/MF sob nº 04.295.166/0001-33, with its bylaws filed at Junta Comercial do Estado de São Paulo under NIRE nº 35.300.183.991, simply denominated, MERGED COMPANY, in the following paragraphs.

**3. THE MERGING COMPANY**

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELES**P, an Brazilian corporation, located in São Paulo, State of São Paulo, at Rua Martiniano de Carvalho, 851 19º Andar Bela Vista, registered at CNPJ/MF under nº 02.558.157/0001-62, with its bylaws filed at Junta Comercial do Estado de São Paulo under NIRE nº 3.530.015.881-4, simply denominated MERGING COMPANY, in the following paragraphs.

**4. OBJECT OF APPRAISAL REPORT AND BASE-DATE**

Net assets of Telefônica Data Brasil Holding S.A., as of December 31, 2005, to be merged into Telecomunicações de São Paulo S.A. TELESP.

**Table of Contents***Telefonica Data Brasil Holding S.A.**March 06, 2006**Page 2***5. CRITERIAS FOR VALUATION OF NET ASSETS TO BE MERGED**

The valuation criteria was the book value as of December 31, 2005.

The account records of the MERGED COMPANY are kept in accordance with the legal requirements and are recorded in accordance with the accounting practices adopted in Brazil.

**6. COMPOSITION OF NET ASSETS TO BE MERGED**

The composition of net assets of the MERGED COMPANY as of December 31, 2005 is as follows:

	R\$
<b>ASSETS</b>	
<b>CURRENT</b>	
Cash	2,77
<b>NONCURRENT ASSETS</b>	
Related Parties	
Telecomunicações de São Paulo S.A. TELESP	8.400.318,02
Telefonica Empresas S.A.	2.250,00
<b>PERMANENT</b>	
Investment	
Telefônica Empresas S.A.	304.234.227,25
Goodwill	301.275.902,19
Amortization of goodwill	(16.615.486,89)
<b>TOTAL ASSETS</b>	<b>597.297.213,34</b>

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Telefonica Data Brasil Holding S.A.

March 06, 2006

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	R\$
<b>LIABILITIES</b>	
<b>CURRENT</b>	
Suppliers	60.340,71
<b>NONCURRENT LIABILITIES</b>	
Related Parties	
Telecomunicações de São Paulo S.A. TELESP	44.267,58
Telefônica Empresas S.A.	11.937,76
Telefônica Gestão de Serviços Compartilhados do Brasil Ltda.	15.685,71
Telefônica Data do Brasil Ltda.	100,00
<b>TOTAL LIABILITIES</b>	<b>132.331,76</b>
<b>NET ASSETS</b>	<b>597.164.881,58</b>

The capital stock (quantity of shares) of the MERGED COMPANY as of December 31, 2005 is the following:

	Common	Preferred	
Shareholders	Shares	Shares	Total of Shares
Telefônica Data Brasil Ltda.	193.339.858.264	381.426.196.190	574.766.054.454
Telefônica Internacional S.A.	140.040.795.800	291.819.562.080	431.860.357.880
Telefônica S.A.	64.673		64.673
Minorities	25.335.412.694	39.191.496.261	64.526.908.955
	<b>358.716.131.431</b>	<b>712.437.254.531</b>	<b>1.071.153.385.962</b>

**7. PROCEDURES APPLIED BY THE SPECILISADED FIRM**

The balance sheet as of December 31, 2005, of the MERGED COMPANY was examined by other independent auditors whose report dated January 31, 2006 was unqualified. Accordingly, to assure as the adequacy of the book value of the assets and the liabilities comprising the net assets of the MERGED COMPANY as of December 31, 2005, we adopted the special review procedures in accordance with the standards issued by the Conselho Federal de Contabilidade, including the review of the working papers of the independent audit.

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*Telefonica Data Brasil Holding S.A.*

*March 06, 2006*

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**8. CONCLUSION**

As the result of the procedures and analyzes performed, we concluded that the total book value of the net assets of the merged company appraised in accordance with accounting practices adopted in Brazil for the purposes of merger into the MERGING COMPANY amounts to R\$597.164.881,58 (five hundred and ninety seven millions, one hundred sixty four thousand, eight hundred and eighty one reais and fifty eight cents) as of December 31, 2005.

**9. NON EXISTENCE OF CONFLICT OF INTEREST AND LIMITATIONS**

In accordance with the provision of Article 5° of Instruction n° 319 issued by da Comissão de Valores Mobiliários CVM, on December 3, 1999, we confirmed that:

- (a) In accordance with the professional standards issued by the Conselho Federal de Contabilidade CFC, through the Resolution n° 821/97, we are not aware of any circumstances with represents conflicts of interest, direct or indirect, in relation to the above mentioned companies or any related parties to these companies.
  
- (b) We are not aware of any action by the controlling shareholder or the administrators of these companies in order to direct, limit, difficult or practice of any act with have or might have compromised our access, the utilization or knowledge of information, assets, documents or working methodologies relevant to the quality of respective conclusions.

São Paulo, March 6, 2006.

Hirashima & Associados Ltda.  
CRC n° 2SP022465/O-4

Taiki Hirashima

Partner in Charge

CRC n° 1SP056189/O-1

\* \* \* \* \*

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**ANNEX II**

**OPINION OF THE APPRAISAL OF THE ACCOUNTING VALUE FOR THE  
PURPOSES OF THE SPIN-OFF AND MERGER OF T EMPRESAS**

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**Free Translation of the original**

**in the Portuguese Language**

**TELEFÔNICA EMPRESAS S.A.**

**CNPJ: 04.027.547/0001-31**

**APPRAISAL REPORT BASED ON BOOK VALUE**

**FOR PURPOSE OF SPLIT OFF AND SUBSEQUENT MERGER**

**1. THE SPECIALIZED FIRM AND ITS PARTNER IN CHARGE**

HIRASHIMA & ASSOCIADOS LTDA., limited liability partnership, based in São Paulo, at Rua Flórida, nº 1.758, Conjunto 11, registered at CNPJ under nº 005.215.691/0001-64, registered at 9º Oficial de Registro Civil da Pessoa Jurídica under nº 7711, and registered at CRC/SP nº 2SP022465/O-4.

The Partner in Charge signing this appraisal report is Taiki Hirashima, Brazilian, born in Promissão São Paulo, married, accountant, registered at CRC-SP under nº 1SP056189/O-1, with the identification card nº 2.531.456-7 SSP SP and CPF nº 007.568.818-20, with office located in São Paulo at Rua Flórida, nº 1.758, conjunto 11.

**2. THE COMPANY SUBJECT TO THE SPLIT OFF AND SUBSEQUENT MERGER**

**TELEFÔNICA EMPRESAS S.A.**, an Brazilian corporation, wholly-owned subsidiary of Telefônica Data Brasil Holding S.A., located at Avenida Tamboré, 341/371 - Alphaville, Barueri, State of São Paulo, registered at CNPJ/MF under nº 04.027.547/0001-31, with its bylaws filed at Junta Comercial do Estado de São Paulo under NIRE nº 35.300.179.838, simply denominated SPLITTED OFF COMPANY.

**3. THE MERGING COMPANY**

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELES P**, an Brazilian corporation, located at São Paulo, State of São Paulo, in the Rua Martiniano de Carvalho, 851 - 19º Andar - Bela Vista, registered at CNPJ/MF under nº 02.558.157/0001-62, with its bylaws filed at Junta Comercial do Estado de São Paulo under NIRE nº 3.530.015.881-4, simply denominated MERGING COMPANY.

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Telefônica Empresas S.A.

March 6, 2006

Page 2

**4. OBJECT OF APPRAISAL REPORT AND BASE-DATE**

Net assets of Telefônica Empresas S.A. object of the split off, as of December 31, 2005 and its subsequently merger into Telecomunicações de São Paulo S.A. - TELESP.

**5. CRITERIAS FOR VALUATION OF NET ASSETS TO BE SPLITTED OFF AND MERGED**

The valuation criteria was the book value as of December 31, 2005.

The account records of the SPLITTED COMPANY are kept in accordance with the legal requirements and are recorded in accordance with the accounting practices adopted in Brazil.

**6. COMPOSITION OF NET ASSETS TO BE SPLITTED OFF AND MERGED**

The composition of net assets of the SPLITTED COMPANY as of December 31, 2005 and subsequently merged, is as follows (see exhibit I):

	R\$
<b>ASSETS</b>	
<b>CURRENT</b>	
Cash	
Account Receivables	71.221.396,24
Advance and Recoverable Taxes	26.612.352,28
Inventory	1.214.131,53
Related Parties	39.743.687,30
Other Receivables	2.743.988,02
	141.535.555,37
<b>NON CURRENT</b>	
Advance and Recoverable Taxes	65.394.239,41
Other Receivables	149.956,16
Related Parties	976.315,48
	66.520.511,05
<b>PERMANENT</b>	
Investment	944.701,31
Fixed Assets net	244.071.301,91
Deferred Assets net	147.163.214,24
	392.179.217,46
<b>TOTAL ASSETS</b>	<b>600.235.283,88</b>



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Telefônica Empresas S.A.

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	R\$
<b>LIABILITIES</b>	
<b>CURRENT</b>	
Loans	150.274.347,99
Salaries and Social Charges	27.679.369,73
Suppliers	52.026.647,59
Payable Taxes	14.310.246,64
Related Parties	75.658.598,49
Other Payables	2.048.310,03
	321.997.520,47
<b>NON CURRENT</b>	
Provision for Profit Sharing	1.001.016,60
Provision for Contingencies	970.024,43
Related Parties	2.469.461,16
	4.440.502,19
<b>TOTAL LIABILITIES</b>	<b>326.438.022,66</b>
<b>NET ASSETS</b>	<b>273.797.261,22</b>

**7. PROCEDURES APPLIED BY THE SPECIALISED FIRM**

The balance sheet as of December 31, 2005, of the SPLITTED COMPANY was examined by other independent auditors whose report dated January 31, 2006 was unqualified. Accordingly, to assure as the adequacy of the book value of the assets and the liabilities comprising the net assets of the SPLITTED COMPANY as of December 31, 2005, we adopted the special review procedures in accordance with the standards issued by the Conselho Federal de Contabilidade, including the review of the working papers of the independent audit.

**8. CONCLUSION**

As the result of the procedures and analyzes performed, we concluded that the total book value of the NET ASSETS to be splitted off in accordance with accounting practices adopted in Brazil for the purposes of merger into the MERGING COMPANY amounts to R\$273.797.261,22 (two hundred and seventy three millions, seven hundred and ninety seven thousand, two hundred and sixty one reais and twenty two cents) as of December 31, 2005.

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*Telefônica Empresas S.A.*

*March 6, 2006*

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**9. INEXISTENCY OF CONFLICT OF INTEREST AND LIMITATIONS**

In accordance with the provision of Article 5° of Instruction n° 319 issued by da Comissão de Valores Mobiliários CVM, on December 3, 1999, we confirmed that:

- (a) In accordance with the professional standards issued by the Conselho Federal de Contabilidade CFC through the Resolution n° 821/97, we are not aware of any circumstances with represents conflicts of interest, direct or indirect, in relation to the above mentioned companies or any related parties to these companies.
  
- (b) We are not aware of any action by the controlling shareholder or the administrators of these companies in order to direct, limit, difficult or practice of any act with have or might have compromised our access, the utilization or knowledge of information, assets, documents or working methodologies relevant to the quality of respective conclusions.

São Paulo, March 6, 2006.

Hirashima & Associados Ltda.

CRC n° 2SP022465/O-4

Taiki Hirashima  
Sócio-Diretor Responsável  
CRC n° 1SP056189/O-1

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Telefônica Empresas S.A.

March 6, 2006

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Exhibit I

**TELEFÔNICA EMPRESAS S.A.**

Net Assets as of December 31, 2005

In reais

	Opening Balances	Splitted Balances	Balances after the split off
<b>CURRENT</b>			
Cash	9.518.293,17		9.518.293,17
Accounts Receivables	73.318.576,17	71.221.396,24	2.097.179,93
Advances and Recoverable Taxes	26.612.352,28	26.612.352,28	
Inventories	1.214.131,53	1.214.131,53	
Related Parties	41.753.413,37	39.743.687,30	2.009.726,07
Other Receivables	2.743.988,02	2.743.988,02	
	155.160.754,54	141.535.555,37	13.625.199,17
<b>NON CURRENT</b>			
Advances and Recoverable Taxes	65.394.239,41	65.394.239,41	
Other Receivables	149.956,16	149.956,16	
Related Parties	976.315,48	976.315,48	
	66.520.511,05	66.520.511,05	
<b>PERMANENT</b>			
Investment	944.701,31	944.701,31	
Net Fixed Assets	270.401.361,94	244.071.301,91	26.330.060,03
Net Deferred Assets	147.163.214,24	147.163.214,24	
	418.509.277,49	392.179.217,46	26.330.060,03
<b>TOTAL ASSETS</b>	<b>640.190.543,08</b>	<b>600.235.283,88</b>	<b>46.732.859,09</b>

**Table of Contents***Telefônica Empresas S.A.**March 6, 2006**Page 6***Exhibit I****TELEFÔNICA EMPRESAS S.A.****Net Assets as of December 31, 2005****In reais**

	<b>Opening Balances</b>	<b>Splitted Balances</b>	<b>Balances after the split off</b>
<b>LIABILITIES</b>			
Loan	150.274.347,99	150.274.347,99	
Salaries and Social Charges	27.679.369,73	27.679.369,73	
Suppliers	61.452.888,76	52.026.647,59	9.426.241,17
Payable Taxes	14.310.246,64	14.310.246,64	
Related Parties	75.750.650,49	75.658.598,49	92.052,00
Other Payables	2.048.310,03	2.048.310,03	
	331.515.813,64	321.997.520,47	9.518.293,17
<b>NON CURRENT LIABILITIES</b>			
Provision for Profit Sharing	1.001.016,60	1.001.016,60	
Provision for Contingencies	970.024,43	970.024,43	
Related Parties	2.469.461,16	2.469.461,16	
	4.440.502,19	4.440.502,19	
<b>TOTAL LIABILITIES</b>	<b>335.956.315,83</b>	<b>326.438.022,66</b>	<b>9.518.293,17</b>
<b>NET ASSETS</b>	<b>304.234.227,25</b>	<b>273.797.261,22</b>	<b>30.436.966,03</b>

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**ANNEX III**

**ECONOMIC AND FINANCIAL ANALYSIS OF TDBH AND TELESP**

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March 6, 2006 Confidential

**Valuation Report**

**Telecomunicações de São Paulo S.A. and Telefônica Data Brasil Holding S.A.**

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**1. Introduction**

NM Rothschild & Sons (Brasil) Ltda. ( Rothschild ) has been engaged by Telecomunicações de São Paulo S.A. TELESP ( Telesp ) and Telefônica Data Brasil Holding S.A. ( TDBH , together with Telesp, the Companies ) to perform a valuation analysis with respect to Telesp and TDBH (the Valuations ) in connection with the proposed merger of TDBH into Telesp (the Transaction ), in accordance with Law No. 6404 of December 15, 1976 ( Brazilian Corporate Law ).

The Valuations have been exclusively prepared for the use of the Board of Directors of the Companies in connection with their analysis of the Transaction, as described further below, and shall not be used for any other purposes, including, without limitation, the capital creation of Telesp under the terms of the Brazilian Corporate Law, including, but not limited to, Brazilian Corporate Law Article 8 provisions. The Valuations have been prepared in Portuguese and English, and the Portuguese version shall prevail for all purposes.

In connection with the drafting of the Valuations, we have considered, among other issues: (i) certain financial analysis and forecasts for each of the Companies, prepared and approved by the senior management of each such Company; (ii) publicly available audited financial statements for the years ended December 31, 2003, 2004 and 2005 of each of the Companies. We have held discussions with members of the senior management of each of the Companies with respect to the business and prospects of the Companies and its subsidiaries. We have also considered other information, financial surveys, analysis and researches and financial, economic and market criteria, as we deemed appropriate.

In preparing the Valuations, we have assumed and relied, with the express consent of the Companies and without independent verification, on the accuracy, content, truthfulness, consistency, completeness, sufficiency and integrity of the financial, accounting, legal, tax and other information provided to or discussed with us. We have not undertaken, and do not hereby undertake, any liability regarding independent validation of the information or to make an independent validation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Companies, nor have we examined the solvency or fair value of the Companies under any laws concerning bankruptcy, insolvency or similar matters. To this effect, we undertake no responsibility or liability with respect to the accuracy, truthfulness, integrity, consistency, or sufficiency of such information, for which the respective Companies are solely and exclusively responsible. In addition, we have not committed to conduct, and have not conducted, any physical inspection of the real estate or facilities of the Companies. We have assumed that the financial analyses and forecasts prepared by the senior management of each Company, as approved by the senior management of such Companies, have been prepared on a reasonable basis reflecting the currently available judgments and opinion of such Company.



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### **1. Introduction**

We were requested to prepare the Valuations under the requirements of Article 31 of the Companies By-laws that the Companies achieve equitable treatment in the exchange ratios for the proposed Transaction. Our analysis has been prepared on the basis that, if the Board of Directors of Telesp and TDBH propose an exchange ratio with respect to the Transaction that falls within the range of exchange ratios resulting from the ranges of value indication derived from the Valuations with respect to Telesp and TDBH, applied on a consistent basis, then that exchange ratio would constitute equitable treatment. The Valuations have been prepared solely based on the discounted cash flow methodology assuming a stable macroeconomic scenario for Brazil. The valuation analyses and the results therefrom do not purport to reflect the prices at which any of the Companies or its securities could be sold, nor do they take into account any element of value that may arise from the accomplishment or expectation of the proposed Transaction. You shall further consider that we are not an accounting firm and we did not provide accounting or audit services in connection with this Valuation Report. In addition, since these valuation analysis are based upon forecasts of future financial results, they are not necessarily indicative of actual future results, which may be significantly more or less favorable than those suggested by such analyses. Given, further, that these analysis are intrinsically subject to uncertainties and to various events or factors out of the control of the Companies and Rothschild, neither Rothschild, nor any of its affiliates and representatives, undertake any responsibility or liability if future results differ substantially from the projections presented in the Valuations and make no representation or warranty with respect to such projections.

The Valuations are based on economic, monetary, market and other conditions as in effect on at the time of Valuations drafting, and the information made available to us until the date hereof. As a result, the Valuations are valid exclusively on the date hereof, as future events and other developments may affect the conclusions therein. We do not commit to update, review, revise or revoke the Valuations as a result of any subsequent event or development or for any other reason. With respect to the preparation of the Valuations, the Companies and their Board of Directors have not authorized us to solicit, nor have we solicited, any indication of interest from third parties to acquire, in whole or in part, the shares of the Companies. Accordingly, the results contained in the Valuations do not necessarily correspond to, and should not be construed as representative of, the prices at which the Companies could be sold to a third party on the date hereof or in the future. In addition, the results specified in the Valuations do not represent our opinion with respect to the value of the shares of Telesp ( Telesp Shares ) to be issued in connection with the Transaction or the price at which the Telesp Shares will be traded after the Transaction.

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### **1. Introduction**

The preparation process of economic and financial analysis such as those conducted in the preparation of the Valuations is a complex process which involves subjective judgment and is not susceptible to a partial analysis or a summary description. In arriving at its conclusions, Rothschild did not attribute any subjective value to any particular factor considered by it; rather, Rothschild made qualitative judgments of the importance and relevance of all the factors considered therein. Accordingly, Rothschild believes that the Valuations shall be considered as a whole and that the analysis of selected portions and other factors considered therein can result in an incomplete and incorrect understanding of the conclusions of the Valuations. The results presented herein refer solely to the Transaction and do not extend to any other present or future matters or transactions regarding the Companies, the economic group to which they belong to or to the sector in which they operate.

The Valuations are exclusively addressed to the Board of Directors of Telesp and TDBH and do not evaluate the underlying business decision by the Companies to engage in the Transaction and do not constitute a recommendation to any of the Companies and/or the holders of the respective Companies' shares (including, but not limited to, as to how any such holder shall exercise its rights to vote or any other rights with respect thereto). In addition, the Valuations (i) treat the Companies as stand-alone operations and therefore, the analysis and results of the Valuations do not include any operational, fiscal or of other nature, or synergies, incremental value and/or costs for the Companies, if any, which may arise from the consummation of the Transaction and (ii) do not address the treatment of the different classes of shares of the Companies, and any adjustments intended to offset, or that may reflect, any specific rights associated with any specific class of shares of the Companies. We are therefore not expressing, and the Valuations do not contain, any judgment relating to the distribution of economic value among the various classes of shares of any of the Companies.

Rothschild and its affiliates, as part of their investment banking business, are continually engaged in performing financial analysis with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. We have been engaged by the Companies and, irrespective of whether the Transaction is consummated, we will receive a fee for the services provided by us. Moreover, the Companies have agreed to reimburse our expenses and indemnify us for certain liabilities that may arise as a result of our engagement. In addition, we have provided certain investment banking services to the Companies from time to time, including having acted as Telesp's financial advisor in connection with the acquisition of Santo Genovese Participações Ltda in 2004. We also have provided and currently are providing certain investment banking services to Telefónica S.A., the indirect controlling shareholder of the Companies. We also may provide investment banking services to each of the Companies and their affiliates in the future.

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**1. Introduction**

The companies of the Rothschild group provide services to the securities industry in securities trading, investment management and other related financial services for both companies and individuals. In the ordinary course of these activities, the companies of the Rothschild group may provide such services to each of the Companies and their respective affiliates, may actively trade the debt and equity securities (or related derivative securities) of the each of the Companies and their respective affiliates for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

In preparing the Valuations, in accordance with applicable laws and regulations, we did not take into account (i) the tax consequences of the Transaction for the holders of the Companies' shares, and (ii) the impact of any fees and expenses that may result from the consummation of the Transaction, including, but not limited to, those related to any depositary services that may be charged to the holders of the Companies' ADSs. In addition, pursuant to applicable laws and regulations, we have excluded the tax-related effects associated with the future use by Telesp of the non-amortized premium arising from the purchase by Telesp of shares of TDBH. The financial calculations contained in the Valuations may not always result in a precise sum due to rounding.

Based upon and subject to the foregoing and other factors we deem relevant and in reliance thereon, if the exchange ratio approved by the Board of Directors of Telesp and TDBH with respect to the Transaction is within the implied exchange ratios derived from the Valuations with respect to Telesp and the TDBH, it is our view that such exchange ratio as of the date hereof would constitute equitable treatment as understood in the manner described above.

**NM ROTHSCHILD & SONS (BRASIL) LTDA.**

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**2. Transaction Overview**

*Overview*

**Step I: shareholding reorganization of TDBH**

SP Telecomunicações S.A. ( SP Telecom ) is proposing to acquire 100% of the quotas held by Telefónica Datacorp S.A. in Telefônica Data do Brasil Ltda. ( TDBL ), in cash and based on the same economic terms described below in step II.

On December 31, 2005, TDBL held 193,339,858,264 ordinary shares and 381,426,196,190 preferred shares of Telefônica Data Brasil Holding S.A. ( TDBH ), which represents 53.90% and 53.66% of the voting capital and total capital of TDBH, respectively

SP Telecom is the current controlling shareholder of Telecomunicações de São Paulo S.A. TELESP ( Telesp )

**Step II: merger of TDBH with Telesp**

Telesp is proposing a merger with TDBH, whereby all voting and non-voting shares of TDBH would be exchanged for shares of the same class of Telesp.

TDBH owns 100% of Telefônica Empresas S.A. ( T Empresas )

TDBH and Telesp are registered in the Brazilian securities exchange commission (Comissão de Valores Mobiliários CVM ) and in the Securities Exchange Commission ( SEC ). Their shares trade in the São Paulo Stock Exchange (Bolsa de Valores de São Paulo Bovespa ) and in the New York Stock Exchange (through American Depositary Shares ADS)

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**2. Transaction Overview**

*Shareholding structure*

**Current shareholding structure**

**Pro forma shareholding structure**

**Notes**

<sup>1</sup> Excluding treasury stock

<sup>2</sup> TISA Telefónica Internacional S.A.; T Empresas Telefônica Empresas S.A.; A. Telecom A. Telecom S.A.

<sup>3</sup> Telefónica Datacorp S.A. owns 100% of TDBL  
Source **Companies** as of 12/31/05

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**3. Valuation Methodology**

*General valuation assumptions*

**Methodology**

Discounted cash flow methodology

Projection of unlevered free cash flows to the firm (FCFF before financial results)

Net present value is calculated by discounting unlevered free cash flows by the weighted average cost of capital ( WACC )

**Projections**

Valuations are based on operating and financial projections prepared by the senior management of the Companies.

**Currency**

Projections in nominal Brazilian Reais (R\$)

Free cash flows are converted to US\$ and then discounted. Exchange rate projections are based on a market consensus report disclosed by the Central Bank of Brazil

**Discounted cash flow**

Present value of free cash flows as of December 31, 2005

Projection period: from 2006 to 2015

Mid-year convention

Discounted free cash flows in US\$

**Table of Contents**

**3. Valuation Methodology**

*General valuation assumptions (continued)*

**Discount rate**

Weighted Average Cost of Capital (WACC) methodology

WACC in nominal US dollars (US\$)

WACC was determined by the combination of the cost of equity ( $C_e$ ) and the cost of debt ( $C_d$ ) of each Company, considering a target capital structure.

The  $C_e$  estimate was determined by the CAPM (Capital Asset Pricing Model) method adjusted for the country risk

The  $C_d$  estimate was determined considering the current situation of the debt capital market and the credit risk of each Company

**Perpetuity / terminal value**

Free cash flow of the last projection year was normalized to calculate the perpetuity depreciation equal to capex in order to exclude temporary tax benefits

Telesp's perpetuity growth rate is different from the one used for TDBH in light of the different growth perspectives presented by each Company.

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**3. Valuation Methodology**

*General valuation assumptions (continued)*

**Enterprise Value**

The Enterprise Value of the Companies was calculated by adding the:

Net present value as of December 31, 2005 of the unlevered free cash flows during the projection period, and

Net present value of the terminal value as of December 31, 2005, calculated using the perpetuity growth methodology applied to the normalized unlevered free cash flow of the last projection year

**Equity Value**

The Equity Value indications calculated for each Company were determined by subtracting the total value of the Net Debt from the illustrative Enterprise Value previously calculated. Net Debt as set forth in the audited balance sheets as of December 31, 2005, includes: (i) cash, currency hedges, loans and financing, (ii) contingencies, net of judicial deposits, and (iii) interest on capital and dividends already declared but not paid.

**Equity Value per Share**

The indications of Equity Value per Share for each one of the Companies were determined by dividing the Equity Value indications by the respective total number of shares outstanding in each Company, excluding treasury stock.

**Valuation results**

The Valuations present indications of the aggregate Equity Value of each of the Companies, not subject to value allocation between the different classes of shares. No adjustments were made as to the potential benefits that may arise from the transaction, such as synergies or tax gains.

The illustrative range of exchange ratios calculated for the Companies was determined by the consistent comparison of the Equity Value per Share calculated for each of the Companies.



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**4. Telesp Valuation**

*Valuation assumptions*

**Scope of valuation**

The valuation of Telesp took into consideration:

The consolidated cash flow projections for Telesp, including the results of its controlled companies: A. Telecom S.A., Santo Genovese Participações Ltda., Companhia AIX de Participações, Companhia ACT de Participações and Aliança Atlântica Holding B.V.

The market value of its direct and indirect participation in Portugal Telecom as of December 31, 2005, excluding the potential capital gains tax due in case of a sale (R\$234 million)

Payables related to the sale of fractions of shares as a result of the grouping of shares process (R\$99.9 millions) was added to the net debt as of December 31, 2005

**WACC**

WACC in nominal US\$ between 11.5% and 12.5% per year (see Appendix A for detailed calculation)

**Perpetuity growth rate**

Perpetuity growth rate between -0.5% and -1.5% per year in real terms

**Table of Contents**

**4. Telesp Valuation**

*Main operating indicators*

**Telephone density (per 100 inhabitants)**

**Net revenues per lines in service per month <sup>1</sup>**

**Lines in service (millions)**

**Revenue breakdown**

**Note**

<sup>1</sup> In nominal R\$  
Source **Telesp**

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**4. Telesp Valuation**

*Main financial projections*

**Net revenue (R\$ billion)**

**EBITDA margin (%)**

**EBITDA (R\$ billion)**

**Capex (R\$ billion)**

Source **Telesp**

**Table of Contents****4. Telesp Valuation***Cash flow projections***Unlevered income statement**

		2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	R\$ m	14,891	15,405	15,913	16,470	17,080	17,719	18,288	18,780	19,210	19,594
Growth	%	3.4%	3.4%	3.3%	3.5%	3.7%	3.7%	3.2%	2.7%	2.3%	2.0%
Costs and expenses	R\$ m	(8,067)	(8,242)	(8,650)	(9,127)	(9,467)	(9,824)	(10,142)	(10,417)	(10,659)	(10,875)
EBITDA	R\$ m	6,825	7,163	7,263	7,344	7,613	7,895	8,146	8,363	8,551	8,719
Margin	%	45.8%	46.5%	45.6%	44.6%	44.6%	44.6%	44.5%	44.5%	44.5%	44.5%
Depreciation and Amortization	R\$ m	(2,644)	(2,531)	(2,299)	(2,052)	(1,912)	(1,669)	(1,824)	(1,934)	(2,023)	(2,131)
EBIT	R\$ m	4,181	4,632	4,964	5,292	5,700	6,226	6,323	6,429	6,528	6,588
Income / social contribution taxes	R\$ m	(1,421)	(1,575)	(1,688)	(1,799)	(1,938)	(2,117)	(2,150)	(2,186)	(2,220)	(2,240)
Unlevered net income	R\$ m	2,759	3,057	3,276	3,492	3,762	4,109	4,173	4,243	4,309	4,348

**Unlevered free cash flows**

		2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Unlevered net income	R\$ m	2,759	3,057	3,276	3,492	3,762	4,109	4,173	4,243	4,309	4,348
Depreciation and Amortization	R\$ m	2,644	2,531	2,299	2,052	1,912	1,669	1,824	1,934	2,023	2,131
Capex	R\$ m	(1,749)	(1,921)	(1,830)	(1,894)	(1,936)	(1,979)	(2,012)	(2,034)	(2,049)	(2,057)
Changes in working capital	R\$ m	(68)	(43)	(2)	4	(34)	(36)	(32)	(27)	(24)	(21)
<b>Free cash flow</b>	<b>R\$ m</b>	<b>3,586</b>	<b>3,624</b>	<b>3,743</b>	<b>3,654</b>	<b>3,705</b>	<b>3,764</b>	<b>3,953</b>	<b>4,115</b>	<b>4,259</b>	<b>4,401</b>
Average exchange rate	R\$/US\$	2.26	2.38	2.48	2.59	2.65	2.72	2.77	2.81	2.86	2.91
<b>Free cash flow</b>	<b>US\$ m</b>	<b>1,587</b>	<b>1,523</b>	<b>1,509</b>	<b>1,411</b>	<b>1,398</b>	<b>1,383</b>	<b>1,428</b>	<b>1,463</b>	<b>1,489</b>	<b>1,514</b>

Source Telesp and Brazilian Central Bank

**Table of Contents****4. Telesp Valuation***Valuation summary and sensitivity analysis***Valuation summary (R\$ million) <sup>1</sup>****Assumptions**

WACC (nominal US\$)	12.0%
Perpetuity growth in real terms	-1.0%

**Net present value**

Cash flows from 2006 to 2015	20,737
Perpetuity	12,050
Market value of shares in Portugal Telecom <sup>4</sup>	234

**Enterprise Value****33,021**Consolidated net debt <sup>2</sup> 3,750**Equity Value 29,271**Shares outstanding (thousands) <sup>3</sup> 492,030**Value per Share (R\$) 59.49****Equity Value (R\$ million)**

<b>WACC</b>	<b>Perpetuity growth rate in real terms</b>				
	<b>-2.0%</b>	<b>-1.5%</b>	<b>-1.0%</b>	<b>-0.5%</b>	<b>0.0%</b>
12.5%	26,796	<b>27,305</b>	<b>27,864</b>	<b>28,479</b>	29,160
12.0%	28,055	<b>28,634</b>	<b>29,271</b>	<b>29,976</b>	30,760
11.5%	29,432	<b>30,093</b>	<b>30,823</b>	<b>31,635</b>	32,543

**Enterprise Value (R\$ million)**

<b>WACC</b>	<b>Perpetuity growth rate in real terms</b>				
	<b>-2.0%</b>	<b>-1.5%</b>	<b>-1.0%</b>	<b>-0.5%</b>	<b>0.0%</b>
12.5%	30,546	<b>31,055</b>	<b>31,614</b>	<b>32,229</b>	32,909
12.0%	31,805	<b>32,384</b>	<b>33,021</b>	<b>33,726</b>	34,510
11.5%	33,182	<b>33,842</b>	<b>34,572</b>	<b>35,384</b>	36,293

**Equity Value per Share (R\$)**

<b>WACC</b>	<b>Perpetuity growth rate in real terms</b>				
	<b>-2.0%</b>	<b>-1.5%</b>	<b>-1.0%</b>	<b>-0.5%</b>	<b>0.0%</b>
12.5%	54.46	<b>55.50</b>	<b>56.63</b>	<b>57.88</b>	59.26
12.0%	57.02	<b>58.20</b>	<b>59.49</b>	<b>60.92</b>	62.52
11.5%	59.82	<b>61.16</b>	<b>62.64</b>	<b>64.29</b>	66.14
Notes					

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- <sup>1</sup> Using an exchange rate as of 12/31/05 of R\$ 2.34/US\$ to translate the Enterprise Value from US\$ to R\$
- <sup>2</sup> As of 12/31/05, including the amount to be paid for the purchase of fractions of shares as a result of the share grouping process
- <sup>3</sup> As of 12/31/05, excluding treasury stock <sup>4</sup> As of 12/31/05

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**5. TDBH Valuation**

*Valuation assumptions*

**Scope of valuation**

The valuation of TDBH took into consideration:

The consolidated cash flows projections for TDBH including its wholly-owned subsidiaries T Empresas and Katalyx Cataloguing do Brasil Ltda.

Present value of TDBH's projected parent company expenses

Net present value of the tax benefits resulting from the goodwill amortization generated by the merger with Figueira Administração e Participações S.A. in 2001

T Empresas goodwill reserve was established in favor of the controlling shareholder (TDBH)

Net present value of tax benefits resulting from tax losses carried-forward

**WACC**

WACC in nominal US\$ between 13.1% and 14.1% per year (see Appendix A for detailed calculation)

**Perpetuity growth rate**

Perpetuity growth rate between 2.0% and 3.0% per year in real terms

**Table of Contents**

**5. TDBH Valuation**

*Main operating indicators*

**Number of ports ( 000s)**

**Revenue breakdown**

**Note**

<sup>1</sup> Decline in number of ports in 2006 as a result of the government of the State of São Paulo moving its network to Telesp  
Source **TDBH**



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**5. TDBH Valuation**

*Main financial projections*

**Net revenue (R\$ million)**

**EBITDA margin(%)**

**EBITDA (R\$ million)**

**Capex (R\$ million)**

Source **TDBH**

**Table of Contents****5. TDBH Valuation***Cash flow projections***Unlevered income statement <sup>1</sup>**

		2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	R\$m	888	1,011	1,149	1,307	1,473	1,643	1,814	1,982	2,144	2,294
Growth	%	20.2%	13.8%	13.6%	13.8%	12.7%	11.5%	10.4%	9.3%	8.1%	7.0%
Costs and expenses	R\$m	(701)	(804)	(914)	(1,048)	(1,183)	(1,321)	(1,462)	(1,600)	(1,733)	(1,858)
EBITDA	R\$m	187	207	235	260	291	322	353	382	410	436
Margin	%	21.1%	20.4%	20.5%	19.9%	19.7%	19.6%	19.4%	19.3%	19.1%	19.0%
Depreciation and Amortization	R\$m	(113)	(116)	(118)	(123)	(140)	(146)	(159)	(171)	(182)	(191)
EBIT	R\$m	74	91	117	136	151	176	194	212	229	244
Income / social contribution taxes	R\$m	(25)	(31)	(40)	(46)	(51)	(60)	(66)	(72)	(78)	(83)
Unlevered net income	R\$m	49	60	77	90	100	116	128	140	151	161

**Note**

<sup>1</sup> Unlevered income statement for TEmpresas and its subsidiaries

**Unlevered free cash flow**

		2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Unlevered net income	R\$m	49	60	77	90	100	116	128	140	151	161
Other expenses <sup>1</sup>	R\$m	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)
Depreciation and Amortization	R\$m	113	116	118	123	140	146	159	171	182	191
Capex	R\$m	(108)	(119)	(132)	(145)	(158)	(171)	(182)	(192)	(200)	(206)
Changes in working capital	R\$m	6	3	3	5	4	4	4	4	4	4
<b>Free cash flow</b>	<b>R\$m</b>	<b>59</b>	<b>58</b>	<b>64</b>	<b>71</b>	<b>83</b>	<b>93</b>	<b>106</b>	<b>120</b>	<b>134</b>	<b>148</b>
Average exchange rate	R\$/US\$	2.26	2.38	2.48	2.59	2.65	2.72	2.77	2.81	2.86	2.91
<b>Free cash flow</b>	<b>US\$m</b>	<b>26</b>	<b>24</b>	<b>26</b>	<b>27</b>	<b>31</b>	<b>34</b>	<b>38</b>	<b>43</b>	<b>47</b>	<b>51</b>

**Note**

<sup>1</sup> Including Parent company expenses in the unlevered free cash flow of TEmpresas and its subsidiaries to reflect the unlevered free cash flow of TDBH

Source **TDBH and Brazilian Central Bank**

**Table of Contents****5. TDBH Valuation***Valuation summary and sensitivity analysis***Valuation summary (R\$ million) <sup>1</sup>**

<b>Assumptions</b>	
WACC (nominal US\$)	13.6%
Perpetuity growth in real terms	2.5%
<b>Net present value</b>	
Cash flows from 2006 to 2015	419
Perpetuity	465
Tax benefit <sup>2</sup>	117
<b>Enterprise Value</b>	<b>1,001</b>
Consolidated net debt <sup>3</sup>	161
<b>Equity Value</b>	<b>840</b>
Shares Outstanding (millions) <sup>4</sup>	1,071,153
<b>Value per Share (R \$)</b>	<b>0.78</b>
<b>Equity Value (R\$ million)</b>	

<b>WACC</b>	<b>Perpetuity growth rate in real terms</b>				
	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>
<b>14.1%</b>	738	<b>760</b>	<b>786</b>	<b>814</b>	846
<b>13.6%</b>	785	<b>811</b>	<b>840</b>	<b>873</b>	912
<b>13.1%</b>	837	<b>867</b>	<b>902</b>	<b>941</b>	986

**Enterprise Value (R\$ million)**

<b>WACC</b>	<b>Perpetuity growth rate in real terms</b>				
	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>
<b>14.1%</b>	899	<b>922</b>	<b>947</b>	<b>975</b>	1,008
<b>13.6%</b>	946	<b>972</b>	<b>1,001</b>	<b>1,035</b>	1,073
<b>13.1%</b>	998	<b>1,028</b>	<b>1,063</b>	<b>1,102</b>	1,148

**Equity Value per Share (R\$/thousand shares)**

<b>WACC</b>	<b>Perpetuity growth rate in real terms</b>				
	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>
<b>14.1%</b>	0.69	<b>0.71</b>	<b>0.73</b>	<b>0.76</b>	0.79
<b>13.6%</b>	0.73	<b>0.76</b>	<b>0.78</b>	<b>0.82</b>	0.85
<b>13.1%</b>	0.78	<b>0.81</b>	<b>0.84</b>	<b>0.88</b>	0.92
<b>Notes</b>					

<sup>1</sup> Using an exchange rate as of 12/31/05 of R\$2.34/US\$ to translate the Enterprise Value from US\$ to R\$

<sup>2</sup> Net present value of tax benefits from tax losses carried-forward and goodwill amortization

<sup>3</sup> As of 12/31/05

<sup>4</sup> As of 12/31/05, excluding treasury stock

**Table of Contents****6. Valuation Summary***Summary of valuation results*

Calculation of equity value per share range R\$ million, except per share figures

	Telesp Indicative value range		TDBH Indicative value range	
<b>Valuation</b>				
Enterprise Value	31,055	35,384	922	1,102
Net debt <sup>1</sup>	3,750	3,750	161	161
<b>Equity Value</b>	<b>27,305</b>	<b>31,635</b>	<b>760</b>	<b>941</b>
Shares outstanding <sup>2</sup>	492,030	492,030	1,071,153	1,071,153
<b>Value per Share (R\$) <sup>3</sup></b>	<b>55.50</b>	<b>64.29</b>	<b>0.71</b>	<b>0.88</b>
<b>Implied exchange ratio</b>				
Number of shares of Telesp per thousand shares of TDBH			<b>0.0128</b>	<b>0.0137</b>
<b>Notes</b>				

<sup>1</sup> As of 12/31/05; Telesp includes the amount to be paid for the purchase of fractions of shares as a result of the share grouping process

<sup>2</sup> In thousand shares for Telesp and millions of shares for TDBH

<sup>3</sup> Value per share for Telesp and value per thousand shares for TDBH

**Summary**

Based on the methodology and assumptions previously presented on this report, the Equity Value estimated for Telesp ranges from R\$ 27,305 million to R\$ 31,635 million, implying an Equity Value per Share ranging from R\$55.50 to R\$64.29

Based on the methodology and assumptions previously presented on this report, the Equity Value estimated for TDBH ranges from R\$ 760 million to R\$ 941 million, implying an Equity Value per thousand shares from R\$0.71 to R\$0.88

The illustrative exchange ratios calculated for Telesp and TDBH ranges from 0.0128 to 0.0137 Telesp shares for each thousand shares of TDBH, based on the consistent comparison of the Equity Value per Share calculated for Telesp and TDBH

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**6. Valuation Summary**

*Value per share and implied exchange ratios*

**Telesp Equity Value per Share (R\$)**

	WACC	Perpetuity growth rate in real terms		
		Minimum -1.5%	Medium -1.0%	Maximum -0.5%
<b>Maximum</b>	<b>12.5%</b>	55.50	56.63	57.88
<b>Medium</b>	<b>12.0%</b>	58.20	59.49	60.92
<b>Minimum</b>	<b>11.5%</b>	61.16	62.64	64.29

**TDBH Equity Value per Share (R\$/thousand shares)**

	WACC	Perpetuity growth rate in real terms		
		Minimum 2.0%	Medium 2.5%	Maximum 3.0%
<b>Maximum</b>	<b>14.1%</b>	0.71	0.73	0.76
<b>Medium</b>	<b>13.6%</b>	0.76	0.78	0.82
<b>Minimum</b>	<b>13.1%</b>	0.81	0.84	0.88

**Implied exchange ratios Telesp shares per thousand shares of TDBH**

WACC <sup>2</sup>	Perpetuity growth rate in real terms <sup>1</sup>			Range of implied exchange ratios
	Minimum	Medium	Maximum	
<b>Maximum</b>	0.0128	0.0130	0.0131	based on the consistent comparison of the illustrative equity values per share calculated for Telesp and TDBH
<b>Medium</b>	0.0130	0.0132	0.0134	
<b>Minimum</b>	0.0132	0.0134	0.0137	

**Notes**

<sup>1</sup> Perpetuity growth rate for Telesp = -1.5% (minimum), -1.0% (medium) and -0.5% (maximum)  
Perpetuity growth rate for TDBH = 2.0% (minimum), 2.5% (medium) and 3.0% (maximum)

<sup>2</sup> WACC for Telesp = 11.5% (minimum), 12.0% (medium) and 12.5% (maximum)  
WACC for TDBH = 13.1% (minimum), 13.6% (medium) and 14.1% (maximum)



**Table of Contents****A. Other Valuation Assumptions***Macroeconomic assumptions***Main macroeconomic assumptions**

	2006 E	2007 E	2008 E	2009 E	2010 E	2011 E	2012 E	2013 E	2014 E	2015 E
<b>GDP</b>										
Growth	3.5%	3.5%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
<b>Inflation</b>										
Brazil (IGP-DI)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Brazil (IPC-A)	4.6%	4.5%	4.5%	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Brazil (IGP-M)	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
USA	2.8%	2.9%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
<b>Exchange Rate</b>										
R\$/US\$ Year-end	2.30	2.42	2.52	2.65	2.70	2.74	2.79	2.84	2.88	2.93
R\$/US\$ Year average	2.26	2.38	2.48	2.59	2.65	2.72	2.77	2.81	2.86	2.91
<b>Interest Rate</b>										
Selic (average)	15.6%	14.1%	12.9%	12.3%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%

Source **Companies, Central Bank of Brazil and Economist Intelligence Unit**



**Table of Contents****A. Other Valuation Assumptions****WACC** *Weighted Average Cost of Capital***Telesp**

<b>Cost of equity</b>	
Risk-free rate <sup>1</sup>	4.3%
Sovereign risk (Brazil) <sup>2</sup>	4.2%
Market risk premium <sup>3</sup>	6.0%
Beta <sup>4</sup>	1.03
<b>Total</b>	<b>14.7%</b>
<b>Cost of Debt</b>	
Pre-tax cost of debt <sup>5</sup>	8.6%
Marginal tax rate	34.0%
<b>Total (after taxes)</b>	<b>5.6%</b>
<b>Capitalization</b>	
Net debt / Total capitalization (target)	30.0%
<b>WACC (nominal US\$)</b>	<b>12.0%</b>

**TDBH**

<b>Cost of equity</b>	
Risk-free rate <sup>1</sup>	4.3%
Sovereign risk (Brazil) <sup>2</sup>	4.2%
Market risk premium <sup>3</sup>	6.0%
Beta <sup>4</sup>	1.33
<b>Total</b>	<b>16.5%</b>
<b>Cost of Debt</b>	
Pre-tax cost of debt <sup>5</sup>	10.5%
Marginal tax rate	34.0%
<b>Total (after taxes)</b>	<b>6.9%</b>
<b>Capitalization</b>	
Net debt / Total capitalization (target)	30.0%
<b>WACC (nominal US\$)</b>	<b>13.6%</b>

**Assumptions**

<sup>1</sup> Average yield of the 10-year US Treasury bond over the last 12 months

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- <sup>2</sup> Average of the Brazilian sovereign risk premium, calculated as the difference between the yield of the Brazil Republic Global Bond 2027 and the 10-year US Treasury bond over the last 12 months, given that both bonds have a similar duration
- <sup>3</sup> Based on the average market risk premium calculated by independent research prepared by Ibbotson and the London Business School jointly with ABN Amro
- <sup>4</sup> Based on the median of unlevered betas of companies in the same sector as each of the Companies, re-levered using the target capital structure of each of the Companies
- <sup>5</sup> Current debt raising cost of each of the Companies (Source: **Companies**)

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**B. Glossary**

**Beta** Coefficient that measures an asset's non-diversifiable risk. It is the sensitivity of a stock's returns to the returns on a stock market index.

**CAPEX** Capital Expenditures

**EBIT** Earnings Before Interest and Taxes

**EBITDA** Earnings Before Interest, Taxes, Depreciation and Amortization

**ON** Voting Shares

**PN** Non-voting Shares

**WACC** Weighted Average Cost of Capital

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**ANNEX IV**

**OPINION OF THE APPRAISAL OF THE NET EQUITY AT MARKET PRICES OF**

**TDBH**

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**Telefônica Data Brasil Holding S.A.**

Appraisal of shareholders' equity at  
market value

KPMG Corporate Finance Ltda.

March 2006

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**Confidential**

To the Board of Directors of

Telefônica Data Brasil Holding S.A.

São Paulo - SP

March 6, 2006

Dear sirs:

**Telefônica Data Brasil Holding S.A. Appraisal Report**

Under the terms of our contract for the provision of KPMG's professional services dated November 22, 2005, we have appraised the shareholders equity of Telefônica Data Brasil Holding S.A. at market value, including its subsidiaries, according to the attached report.

We consider that the delivery of this report totally completes the services that were the object of our contract.

We remain grateful for the opportunity of being of service to you in this matter and are available for any further information you may require.

Yours faithfully,

Luis Augusto Motta  
*Director*

Luiz Renato G. Pereira  
*Senior Manager*

KPMG Corporate Finance Ltda. é uma sociedade brasileira, simples, de responsabilidade limitada, membro da KPMG International, uma cooperativa suíça.

*KPMG Corporate Finance Ltda. is a Brazilian limited liability company, member firm of KPMG International, a Swiss cooperative.*

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**Abbreviations**

TDBH or Company	Telefônica Data Brasil Holding S.A.
T Empresas	Telefônica Empresas S.A.
Katalyx	Katalyx Cataloguing do Brasil Ltda.
TDBH and its subsidiary companies	Collectively TDBH, T Empresas and Katalyx
Bacen	Central Bank of Brazil
FGV	Getúlio Vargas Institute
BM&F	Brazilian Mercantile and Futures Exchange
CDI	Interbank Certificate of Deposit
Selic	Special settlement and custody system
ICMS	Tax levied on the Circulation of Goods and Services
Consult	Consult Consultoria Engenharia e Avaliações S/C Ltda.
Century	Century Business Consultants S/C Ltda.



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**1 Introduction**

- 1.1** Telecomunicações de São Paulo S.A. - Telesp and Telefônica Data Brasil Holding S.A. are Brazilian companies which belong to the Spanish group Telefonica, one of the ten largest global telecommunications conglomerates, with sales of USD 37.6 billion in 2004, 121 million customers in over 40 countries and a communications market leader in South American countries.
- 1.2** Telefônica is the largest non-financial business conglomerate in Brazil, where it recorded revenue of R\$ 28 billion in 2004, operating in the fixed telephony, wireless telephony, Internet and call centre sectors.
- 1.3** Telefônica is currently analyzing a potential corporate restructuring involving Telecomunicações de São Paulo S.A. Telesp and Telefônica Data Brasil Holding S.A.
- 1.4** Under this restructuring, in respect of the migration of the minority shareholders to this new structure, KPMG Corporate Finance was engaged to appraise the assets at market value of Telesp, TDBH, and its respective subsidiary companies, in order to comply with, when applicable, the provisions established by article 264 of Law 6404, dated December 15, 1976, as amended by Law 9457, dated May 05, 1997.

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**2 Objective**

- 2.1** According to the terms of our contract for the provision of professional services dated November 22, 2005, we carried out the independent appraisal at market value of the assets of TDBH (controlling shareholder), with the purpose of complying with, when applicable, the provisions established by article 264 of Law 6404, dated December 15, 1976, as amended by Law 9457, dated May 05, 1997.

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**3 Sources of information**

- 3.1** We initially used information from the audited financial statements of TDBH and its subsidiaries, on the base date as of December 31, 2005.
- 3.2** The appraisal also was based on interviews with the Management of TDBH and its subsidiaries, management data, and written or verbal additional information, interim balance sheets, income projections drawn up by the Management, quotes from futures contracts traded on the BM&F<sup>1</sup> and projections of economic indicators disclosed by BACEN<sup>2</sup> on its website.
- 3.3** We stress that this appraisal is not an audit of the financial statements utilized, nor of any other data contained herein and must not therefore be construed as such.
- 3.4** We are also unable to guarantee, as are the Administrators of TDBH, that the future income will actually be achieved as projected, because the projected events may well not occur due to a range of external economic and operating factors, therefore resulting in material variations.

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<sup>1</sup> BM&F site (Brazilian Mercantile & Futures Exchange), [www.bmf.com.br](http://www.bmf.com.br).

<sup>2</sup> BACEN site (Central Bank of Brazil), [www.bacen.gov.br](http://www.bacen.gov.br).

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**4 Subsequent events**

- 4.1** This appraisal does not reflect any events taking place after it has been issued. Any relevant facts occurring between the appraisal's base date and this document's date of issue and not brought to the attention of KPMG Corporate Finance may affect the value obtained by the appraisal.
- 4.2** KPMG Corporate Finance is not aware of any event occurring on or before the date this report is issued that may substantially change the results of this appraisal.
- 4.3** KPMG Corporate Finance was not hired to update this report after its date of issue.

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**5 Methodology and Scope**

- 5.1** The methodology of adjusted shareholders' equity at market value was applied to calculate the market value of shareholders' equity of TDBH, considering, the assets and liabilities recorded in its financial statements dated December 31, 2005.
- 5.2** The application of this methodology begins with the book value of the accounted assets and liabilities, some of which require adjustments to reflect their probable realization values.
- 5.3** The methodology and scope of this appraisal intended to value an ongoing corporation. Thus, some costs arising from expenses normally incurred during the realization of assets or the payment of liabilities (brokerages, commissions, among others), as well as those arising from company bankruptcies or liquidations, such as rescissions, judicial disputes and the hiring of third-parties (lawyers, advisors etc.) were not considered in our calculations. However, a number of assets were considered which would not usually be recoverable in the event of liquidation of companies.
- 5.4** In short, the following procedures were adopted to apply this methodology:

Reading and analysis of the partial balance sheets of TDBH and its subsidiaries: Telefônica Empresas S.A. and Katalyx Cataloguing do Brasil Ltda.

Analysis of the assets and liabilities accounts recorded in the balance sheet of TDBH and its subsidiaries, to identify the items susceptible to adjustments, as well as the calculation of their probable market values.

Adjustment of the fixed assets and certain items from the spare parts and replacement materials inventory of TDBH and its subsidiaries by their respective market values based on the appraisals prepared by the companies Consult and Century specializing in the appraisal of such assets, dated January 24, 2006.

Application of the equivalent net worth method on the shareholders' equities at market value of the companies controlled by TDBH for calculating the value of investments in controlled companies.

Calculation of the tax effects (income tax and social contribution) on the increased and reduced values resulting from this appraisal.

Calculation of the market value of the shareholders' equity of TDBH and its subsidiaries (see the **Appendix**).

- 5.5** The procedures applied to adjust the assets subject to appraisal at market values are described in Chapter 6 of this report.

**5.6**

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It should be noted that our appraisal did not entail the identification and appraisal of the intangible assets that were not recorded in the financial statements, nor the identification and quantification of any liabilities not recorded or unveiled by the Management.

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**6 Parameters adopted for the adjustment of assets subject to appraisal at market value**

**6.1** To calculate the market value of the assets and liabilities of TDBH and its subsidiaries identified as susceptible to relevant adjustments, and to ensure they are reflected at their respective realization values, the following criteria were applied:

**Service accounts receivable**

**6.2 Adjustment criteria:** Discount at the present value according to the respective realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.3 Value of the adjustment:** Decrease of R\$ 4,662 thousand (four million, six hundred and sixty-two thousand Reais) to the item Accounts receivable of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Deferred taxes and taxes recoverable**

**ICMS recoverable over purchases of property plant and equipment**

**6.4 Adjustment criteria:** The ICMS recoverable on purchases of property, plant and equipment of T Empresas was discounted at the present value according to the respective realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.5 Value of the adjustment:** Decrease of R\$ 256 thousand (two hundred and fifty-six thousand Reais) to the item short-term ICMS recoverable and R\$ 2,205 thousand (two million, two hundred and five thousand Reais) to the item long-term ICMS recoverable of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Income tax on losses and Social contribution on the negative base**

**6.6 Adjustment criteria:** Discount at the present value based on future CDI projections, prepared according to quotations from the BM&F, in accordance with the realization schedule, limited to 30% of the annual projected profit.

**6.7 Value of the adjustment:** Decrease of R\$ 17,836 thousand (seventeen million, eight hundred and thirty-six thousand Reais) to the item Long-term deferred taxes recoverable of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

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**Investments**

**Interests in Controlled Companies**

**6.8 Adjustment criteria:** The book value balances stated in the balance sheet of the companies controlled by TDBH were adjusted to market value using the same criteria adopted for TDBH. The recorded value of TDBH's interests in these companies was then adjusted based on the equivalent net worth method, taking as bases the shareholder's equity at market value of its controlled companies.

**6.9 Value of the adjustments:** Increase of R\$ 28,003 thousand (twenty-eight million and three thousand Reais) to the item Investments referring to the investment by TDBH in T Empresas.

**Other investments**

**6.10 Adjustment criteria:** The premiums recorded in the investment accounts maintained at TDBH and at TDBH were considered to be zero.

**6.11 Value of the adjustments:**

Decrease of R\$ 284,660 thousand (two hundred and eighty-four million six hundred and sixty thousand Reais) referring to the net premium recorded in the item Investments of TDBH.

Decrease of R\$ 945 thousand (nine hundred and forty-five thousand Reais) referring to the net premium recorded in the item Investments of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Property, plant and equipment**

**6.12 Adjustment criteria:** Appraised at market value as of December 31, 2005, based on the expert appraisal reports produced by Century and Consult.

**6.13 Value of the adjustments:** Increase of R\$ 147,559 thousand (one hundred and forty-seven million five hundred and fifty-nine thousand Reais) to the item Property, plant and equipment of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Deferred assets**

**Deferred expenses**

**6.14 Adjustment criteria:** The market value of deferred expenses was considered to be zero, because of the low chance of realization through sales to third parties.





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**6.15 Value of the adjustments:** Decrease of R\$ 24 thousand (twenty-four thousand Reais) to the item Deferred assets of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Fiscal credit on the premium**

**6.16 Introduction:** In June 2001, TDBH raised the share capital of Figueira Administração e Participações S.A., corresponding to 50% of its capital. In July 2001, Figueira Administração e Participações S.A. underwent a partial spin-off, involving the transfer of operating assets and investments to the wholly-owned subsidiary Spanish Participações S.A. This operation generated a premium, whose net amortization balance as of December 31, 2005 stood at R\$ 431,304 thousand (four hundred and thirty-one million three hundred and four thousand Reais). The incorporated premium was recorded as a corresponding entry against the deferred assets and special premium reserve in the incorporation of shareholders' equity of the companies subject to the restructure, where the special premium reserve in T Empresas was established in favor of the controlling shareholder in terms of the future tax benefit to be obtained. The individual balance sheet of T Empresas states the resulting tax credit at R\$ 145,681 thousand (one hundred and forty-five million six hundred and eighty-one thousand Reais) as of December 31, 2005.

**6.17 Adjustment criteria:** Discount at the present value based on future CDI projections, prepared according to quotations from the BM&F, in accordance with the business plan drawn up by the Management of T Empresas and the realization schedule detailed in the quarterly information report of TDBH issued in September 2005.

**6.18 Value of the adjustments:** Decrease of R\$ 52,773 thousand (fifty-two million seven hundred and seventy-three thousand Reais) to the item Deferred assets of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Trade Payables**

**6.19 Adjustment criteria:** Discount at the present value according to the respective realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.20 Value of the adjustment:** Decrease of R\$ 482 thousand (four hundred and eighty-two thousand Reais) to the item Trade payables of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Loans and financing**

**6.21 Adjustment criteria:** Projection of the flows of payments from these financial transactions according to their respective rates, indexes and other contractual conditions and discount from them at the present value based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

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**6.22 Value of the adjustment:** Increase of R\$ 171 thousand (one hundred and seventy-one thousand Reais) to the item Loans and financing of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Losses in derivative operations**

**6.23 Adjustment criteria:** Projection of the income from these financial transactions according to their respective rates, indexes and other contractual conditions and discount from them at the present value based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.24 Value of the adjustment:** Increase of R\$ 376 thousand (three hundred and seventy-six thousand Reais) to the item Losses in derivative operations of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Taxes and contributions**

**6.25 Adjustment criteria:** Discount at the present value according to the respective payment terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.26 Value of the adjustments:** Decrease of R\$ 69 thousand (sixty-nine thousand Reais) to the item Taxes and contributions of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

**Taxes payable/recoverable on increased amounts**

**6.27** Considerable that part of the adjustments made to the shareholders' equity of TDBH and its subsidiaries would result in a taxable gain, the deduction of the respective Income Tax and Social Contribution should be considered to be a negative adjustment factor in the shareholders' equity of these companies, as when the assets and liabilities appraised are realized, the gain ascertained as a result of the adjustments shall result in an additional tax debt to those already calculated by these companies.

**6.28** Adjustments were accordingly detected which individually entail an expense, in addition to others which entail revenue, classifying them as either operating or nonoperating (considering the definition of nonoperating income established by Law 9249/95).

**6.29** Based only on the adjustments which involve a deductible expense and/or taxable revenue, a taxable gain was ascertained, the tax effect was calculated deriving from the above adjustments in the item Taxes recoverable on increased amounts or Taxes payable on increased amounts.

**6.30 Value of the adjustments:** Increase of R\$ 40,861 thousand (forty million eight hundred and sixty-one thousand Reais) to the item Taxes payable on increased amounts of T Empresas, reflected in the calculation of the item Equity in net income of subsidiaries of TDBH.

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**Remaining Goods, Rights and Obligations not Appraisable at Market Prices**

**6.31** These are items that by their nature, are already defined by their probable realization values. These items were appraised based on their book value in accordance with the accounting practices established by the Corporate Legislation in the countries where they are located.

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**7 Conclusion**

- 7.1** Based on the objective and scope of this appraisal, the market value of TDBH's shareholder equity as of December 31, 2005 is R\$ 340,507 thousand (three hundred and forty million five hundred and seven thousand Reais).
- 7.2** The market values of the comprising the fixed assets and inventory of TDBH and its subsidiary companies were not subjected to appraisal by KPMG Corporate Finance. We limited our task to compiling the amounts reported in the Expert Appraisal issued by Consult and Century on January 24, 2006.
- 7.3** A complete understanding of the conclusion of this report can only be obtained if it and its appendices are read in their entirety. No conclusions should therefore be drawn from an incomplete reading hereof.
- 7.4** KPMG Corporate Finance duly declares that it does not have any direct or indirect interests in TDBH and its subsidiary companies, or in the operation for which this appraisal concerns.
- 7.5** It further declares that it did not suffer any type of limitation when carrying out this appraisal from the controllers and the managers of companies concerned.
- 7.6** KPMG Corporate Finance was not hired to update this report after its date of issue.

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**Appendix**

Calculation of the market value of the  
shareholders' equity of TDBH and its subsidiaries  
as of December 31, 2005

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<b>Shareholders' equity recorded on the base date</b>	<b>597,165</b>
<b>Adjustments to assets</b>	<b>(256,658)</b>
Investments	(256,658)
<b>Shareholders' equity at market value on the base date</b>	<b>340,507</b>

**Adjustments made to the shareholders' equity of T Empresas (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>304,234</b>
<b>Adjustments to assets</b>	<b>68,859</b>
Service accounts receivable	(4,662)
Deferred taxes and taxes recoverable - Short term	(256)
Deferred taxes and taxes recoverable - Long term	(20,041)
Investments	(945)
Property, plant and equipment	147,559
Deferred assets	(52,797)
<b>Adjustments to liabilities</b>	<b>(40,856)</b>
Taxes and contributions	(69)
Loans and financing	171
Materials and services trade payables	(482)
Losses in derivative operations	376
<i>Tax payable on increased amounts</i>	40,861
<b>Shareholders' equity adjusted to market value</b>	<b>332,237</b>

**Adjustments made to the shareholders' equity of Katalyx (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>(63)</b>
<b>Total adjustments</b>	<b>0</b>
<b>Shareholders' equity adjusted to market value</b>	<b>(63)</b>

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**ANNEX V**

**OPINION OF THE APPRAISAL OF THE NET EQUITY AT MARKET PRICES OF**

**TELESP**

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Appraisal of shareholders' equity at

market value

KPMG Corporate Finance Ltda.

March 2006

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**KPMG Corporate Finance Ltda.**  
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To the Board of Directors of

Telecomunicações de São Paulo S.A. - Telesp

São Paulo - SP

March 6, 2006

Dear sirs:

**Telecomunicações de São Paulo S.A. - Telesp Appraisal Report**

Under the terms of our contract for the provision of KPMG's professional services dated November 22, 2005, we have appraised the shareholders equity of Telecomunicações de São Paulo S.A. - Telesp at market value, including its subsidiaries, according to the attached report

We consider that the delivery of this report totally completes the services that were the object of our contract.

We remain grateful for the opportunity of being of service to you in this matter and are available for any further information you may require.

Yours faithfully,

Luis Augusto Motta  
*Director*

Luiz Renato G. Pereira  
*Senior Manager*

KPMG Corporate Finance Ltda. é uma sociedade brasileira, simples, de responsabilidade limitada, membro da KPMG International, uma cooperativa suíça.

*KPMG Corporate Finance Ltda. is a Brazilian limited liability company, member firm of KPMG International, a Swiss cooperative.*

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**Abbreviations**

Telesp or Company	Telecomunicações de São Paulo S.A. - Telesp
TDBH	Telefônica Data Brasil Holding S.A.
Aliança	Aliança Atlântica Holding B.V.
A Telecom	A Telecom S.A.
Companhia AIX	Companhia AIX de Participações
Companhia ACT	Companhia ACT de Participações
Santo Genovese	Santo Genovese Participações Ltda.
Atrium	Atrium Telecomunicações Ltda.
Telesp and its subsidiary companies	Collectively Telesp, Aliança, A Telecom, Companhia AIX, Companhia ACT, Santo Genovese and Atrium.
Bacen	Central Bank of Brazil
FGV	Getúlio Vargas Institute
CDI	Interbank Certificate of Deposit
BM&F	Brazilian Mercantile and Futures Exchange
Selic	Special settlement and custody system
ICMS	Tax levied on the Circulation of Goods and Services
Consult	Consult Consultoria Engenharia e Avaliações S/C Ltda.
Century	Century Business Consultants S/C Ltda.

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**1 Introduction**

- 1.1** Telecomunicações de São Paulo S.A. - Telesp and Telefônica Data Brasil Holding S.A. are Brazilian companies which belong to the Spanish group Telefonica, one of the ten largest global telecommunications conglomerates, with sales of USD 37.6 billion in 2004, 121 million customers in over 40 countries and a communications market leader in South American countries.
- 1.2** Telefonica is the largest non-financial business conglomerate in Brazil, where it recorded revenue of R\$28 billion in 2004, operating in the fixed telephony, wireless telephony, Internet and call centre sectors.
- 1.3** Telefonica is currently analyzing a potential corporate restructuring involving Telecomunicações de São Paulo S.A. - Telesp and Telefônica Data Brasil Holding S.A.
- 1.4** Under this restructuring, in respect of the migration of the minority shareholders to this new structure, KPMG Corporate Finance was engaged to appraise the assets at market value of Telesp, TDBH, and its respective subsidiary companies, in order to comply with, when applicable, the provisions established by article 264 of Law 6404, dated December 15, 1976, as amended by Law 9457, dated May 05, 1997.

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**2 Objective**

- 2.1** According to the terms of our contract for the provision of professional services dated November 22, 2005, we carried out the independent appraisal at market value of the assets of Telesp (controlling shareholder), with the purpose of complying with, when applicable, the provisions established by article 264 of Law 6404, dated December 15, 1976, as amended by Law 9457, dated May 05, 1997.

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**3 Sources of information**

- 3.1** We initially used information from the audited financial statements of Telesp and its subsidiaries, on the base date as of December 31, 2005.
- 3.2** The appraisal also was based on interviews with the Management of Telesp and its subsidiaries, management data, and written or verbal additional information, interim balance sheets, income projections drawn up by the Management, quotes from futures contracts traded on the BM&F<sup>1</sup> and projections of economic indicators disclosed by BACEN<sup>2</sup> on its website.
- 3.3** We stress that this appraisal is not an audit of the financial statements utilized, nor of any other data contained herein and must not therefore be construed as such
- 3.4** We are also unable to guarantee, as are the Administrators of Telesp, that the future income will actually be achieved as projected, because the projected events may well not occur due to a range of external economic and operating factors, therefore resulting in material variations.

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<sup>1</sup> BM&F site (Brazilian Mercantile & Futures Exchange), [www.bmf.com.br](http://www.bmf.com.br).

<sup>2</sup> BACEN site (Central Bank of Brazil), [www.bacen.gov.br](http://www.bacen.gov.br).

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**4 Subsequent events**

- 4.1** This appraisal does not reflect any events taking place after it has been issued. Any relevant facts occurring between the appraisal's base date and this document's date of issue and not brought to the attention of KPMG Corporate Finance may affect the value obtained by the appraisal.
- 4.2** In February 2006 A Telecom is going to take over Santo Genovese and Atrium. We did not detect relevant effects from these takeovers on the consolidated shareholders' equity of these three companies.
- 4.3** KPMG Corporate Finance is not aware of any event occurring on or before the date this report is issued that may substantially change the results of this appraisal.
- 4.4** KPMG Corporate Finance was not hired to update this report after its date of issue.



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**5 Methodology and Scope**

- 5.1** The methodology of adjusted shareholder's equity at market value was applied to calculate the market value of shareholders' equity of Telesp, considering, the assets and liabilities recorded in its financial statements dated December 31, 2005.
- 5.2** The application of this methodology begins with the book value of the accounted assets and liabilities, some of which require adjustments to reflect their probable realization values
- 5.3** The methodology and scope of this appraisal intended to value an ongoing corporation. Thus, some costs arising from expenses normally incurred during the realization of assets or the payment of liabilities (brokerages, commissions, among others), as well as those arising from company bankruptcies or liquidations, such as rescissions, judicial disputes and the hiring of third-parties (lawyers, advisors etc.) were not considered in our calculations. However, a number of assets were considered which would not usually be recoverable in the event of liquidation of companies.
- 5.4** In short, the following procedures were adopted to apply this methodology:
- Reading and analysis of the partial balance sheets of Telesp and its subsidiaries: A Telecom, Aliança, Companhia AIX, Companhia ACT, Santo Genovese and Atrium;
- Analysis of the assets and liabilities accounts recorded in the balance sheet of Telesp and its subsidiaries, to identify the items susceptible to adjustments, as well as the calculation of their probable market values;
- Adjustment of the fixed assets and certain items from the spare parts and replacement materials inventory of Telesp and its subsidiaries by their respective market values based on the appraisals prepared by the companies Consult and Century, dated January 24, 2006;
- Application of the equivalent net worth method on the shareholder's equities at market value of the companies controlled by Telesp for calculating the value of investments in controlled companies;
- Calculation of the tax effects (income tax and social contribution) on the increased and decreased values resulting from this appraisal; and
- Calculation of the market value of the shareholders' equity of Telesp and its subsidiaries (**Appendix**).
- 5.5** The procedures applied to adjust the assets subject to appraisal at market values are described in Chapter 6 of this report.

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- 5.6** It should be noted that our appraisal did not entail the identification and appraisal of the Company's intangible assets that were not recorded in the financial statements, nor the identification and quantification of any liabilities not recorded or unveiled by the Company's Management.

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**6 Parameters adopted for the adjustment of assets subject to appraisal at market value**

**6.1** To calculate the market value of the assets and liabilities of Telesp and its subsidiaries identified as susceptible to relevant adjustments, and to ensure they are reflected at their respective realization values, the following criteria were replied:

**Trade accounts receivable**

**6.2 Adjustment criteria:** Discount at the present value according to the respective realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.3 Value of the adjustments:**

Decrease of R\$29,834 thousand (twenty-nine million eight hundred and thirty-four thousand Reais) to the item Trade accounts receivable of Telesp

Decrease of R\$3,481 thousand (three million four hundred and eighty-one thousand Reais) to the item Trade accounts receivable of A Telecom, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp, and

Decrease of R\$472 thousand (four hundred and seventy-two thousand Reais) to the item Trade accounts receivable of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Deferred taxes recoverable**

**ICMS recoverable over purchases of property plant and equipment**

**6.4 Adjustment criteria:** Discount at the present value according to the recovery timetable, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F). **6.5 Adjustment amount:** Decrease of R\$231 thousand (two hundred and thirty-one thousand Reais) to the item short-term ICMS recoverable and R\$25,161 thousand (twenty-five million one hundred and sixty-one thousand Reais) to the item long-term ICMS recoverable of Telesp.

**ICMS recoverable on amounts contested by customers and reverted**

**6.6 Adjustment criteria:** The market value of the ICMS recoverable on amounts contested by customers and reverted was considered to be zero, due to its low possibility of realization.

**6.7 Value of the adjustment:** Decrease of R\$38,225 thousand (thirty-eight million two hundred and twenty-five thousand Reais) in the item Deferred taxes recoverable of Telesp.



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**Other current assets**

**Sale of assets in installments**

**6.8 Adjustment criteria:** Discount at the present value according to the respective realization terms of amounts paid in installments for the sale of assets, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.9 Value of the adjustment:** Decrease of R\$1,087 thousand (one million eighty-seven thousand Reais) to the item sale of assets in installments of Telesp.

**Prepaid expenses**

**6.10 Adjustment criteria:** The market value of the prepaid expenses, concerning expenses to place debentures and the inventory of mandatory telephone directories, was considered to be zero.

**6.11 Value of the adjustment:** Decrease of R\$2,629 thousand (two million six hundred and twenty-nine thousand Reais) to the item prepaid expenses of Telesp.

**Long-term amounts recoverable**

**Income tax losses and negative social contribution base**

**6.12 Adjustment criteria:** Discount at the present value according to the projected income in the business plan of A Telecom, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.13 Value of the adjustment:** Decrease of R\$8,307 thousand (eight million three hundred and seven thousand Reais) to the item long-term amounts recoverable of A Telecom, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Long-term rights receivable - Barramar**

**6.14 Introduction:** This entails credits held by Companhia AIX against Barramar S.A., net of the provision for losses. These credits are related to the right to use the underground networks of ducts for optical fibers and were accounted for based on the independent appraisal of Companhia AIX dated December 30, 2004, performed by the company Avaliar - Avaliações e Assessoria S/C Ltda. This appraisal, which yielded a value of R\$153,048 thousand (one hundred and fifty-three million forty-eight thousand Reais), considers the present value discount of discounted cash flows deriving from Companhia AIX. This calculation considers items such as the company's networking capital, its net indebtedness and other assets and liabilities.

**6.15** Therefore note that the recorded amount considers other amounts already recorded in the assets and liabilities of Companhia AIX, such as working capital, indebtedness and property plant and equipment, so that these would be doubly reflected in the company's shareholders

equity, if the original value of this appraisal were maintained.

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**6.16 Adjustment criteria:** The book amount was adjusted disregarding the next financial indebtedness, networking capital, and property plant and equipment of Companhia AIX as of the appraisal base date, in addition to the respective fiscal effects from these adjustments on the discounted cash flow, as per the data described in the appraisal report produced by Avaliar - Avaliações e Assessoria S/C Ltda.

**6.17 Value of the adjustment:** Increase of R\$11,723 thousand (eleven million seven hundred and twenty-three thousand Reais) to the item long-term rights recoverable of Companhia AIX, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.  
**Long-term shareholders credits**

**6.18 Introduction:** Premium in the purchase of the customer portfolio from the company Global Osi, acquired in May 2002.

**6.19 Adjustment criteria:** The market value of the item Long-term shareholders credits was considered to be zero.

**6.20 Value of the adjustment:** Decrease of R\$9 thousand (nine thousand Reais) to the item long-term shareholders credit of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Investments**

**Interests in Controlled Companies**

**6.21 Adjustment criteria:** The book value balances stated in the balance sheet of the companies controlled by Telesp were adjusted to market value using the same criteria adopted for Telesp. The recorded value of Telesp's interests in these companies was then adjusted based on the equivalent net worth method, taking as bases the shareholder's equity at market value of its controlled companies.

**6.22 Value of the adjustments:**

Increase of R\$2,973 thousand (two million nine hundred and seventy-three thousand Reais) to the item Investments of Telesp, referring to investments in the subsidiaries A Telecom, Aliança, Companhia AIX, Companhia ACT and Santo Genovese, and

Increase of R\$4,943 thousand (four million nine hundred and forty-three thousand Reais) to the item Investments of Santo Genovese, referring to the investment in Atrium, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Premium and discount**

**6.23 Adjustment criteria:** The premiums and discounts recorded in the investment accounts maintained at Telesp were considered to be zero

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**6.24 Value of the adjustments:**

Decrease of R\$107,838 thousand (one hundred and seven million eight hundred and thirty-eight thousand Reais) referring to the net premium deriving from the acquisition of Santo Genovese, recorded in the item Investments of Telesp, and

Increase of R\$17,470 thousand (seventeen million four hundred and seventy thousand Reais) referring to the net premium deriving from the acquisition of Companhia AIX, recorded in the item Investments of Telesp

**Other investments**

**6.25 Introduction:** This refers to investments in listed companies, traded on the stock market.

**6.26 Adjustment criteria:** Market value of the shares traded on the stock market as of the appraisal base date, December 31, 2005.

**6.27 Value of the adjustments:**

Increase of R\$114,001 thousand (one hundred and fourteen million one thousand Reais) to the item Investments of Telesp, including the interest in Portugal Telecom, and

Increase of R\$8,797 thousand (eight million seven hundred and ninety-seven thousand Reais) to the item Investments of Aliança, referring to the investment in Portugal Telecom, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Property, plant and equipment**

**6.28 Adjustment criteria:** Appraised at market value as of December 31, 2005, based on the expert appraisal reports produced by Century and Consult.

**6.29 Value of the adjustments:**

Increase of R\$5,564,703 thousand (five billion five hundred and sixty-four million seven hundred and three thousand Reais) to the item Property, plant and equipment of Telesp

Increase of R\$6,957 thousand (six million nine hundred and fifty-seven thousand Reais) to the item Property, plant and equipment of A Telecom, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp



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Increase of R\$2,056 thousand (two million fifty-six thousand Reais) to the item Property, plant and equipment of Companhia AIX, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp, and

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Increase of R\$7,802 thousand (seven million eight hundred and two thousand Reais) to the item Property, plant and equipment of Atrium, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Deferred assets**

**6.30 Introduction:** The deferred assets recorded in the financial statements of Telesp, Companhia AIX and Companhia ACT are comprised of deferred expenses.

**6.31 Adjustment criteria:** The market value of the preoperating expenses was considered to be zero, because of the low chance of realization through sales to third parties.

**6.32 Value of the adjustments:**

Decrease of R\$65,595 thousand (sixty-five million five hundred and ninety-five thousand Reais) to the item Deferred assets of Telesp

Decrease of R\$25,921 thousand (twenty-five million nine hundred and twenty-one thousand Reais) to the item Deferred assets of Companhia AIX, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp, and

Decrease of R\$51 thousand (fifty-one thousand Reais) to the item Deferred assets of Companhia ACT, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Trade Payables**

**6.33 Adjustment criteria:** Discount at the present value according to the realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.34 Value of the adjustments:**

Decrease of R\$8,556 thousand (eight million five hundred and fifty-six thousand Reais) to the item Trade payables of Telesp

Decrease of R\$346 thousand (three hundred and forty-six thousand Reais) to the item Trade payables - materials and services of A Telecom, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp, and

Decrease of R\$101 thousand (one hundred and one thousand Reais) to the item Trade payables - accounts payable of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.



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**Loans and financing**

**6.35 Adjustment criteria:** Projection of the flows of payments from these financial transactions according to their respective rates, indexes and other contractual conditions and discount from them at the present value based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.36 Value of the adjustments:**

Increase of R\$6,617 thousand (six million six hundred and seventeen thousand Reais) to the item Loans and Financing of Telesp, and

Decrease of R\$24 thousand (twenty-four thousand Reais) to the item Loans and Financing of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Losses in swap transactions**

**6.37 Adjustment criteria:** Projection of the income from these financial transactions according to their respective rates, indexes and other contractual conditions and discount from them at the present value based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.38 Value of the adjustment:** Decrease of R\$69,574 thousand (sixty-nine million five hundred and seventy-four thousand Reais) to the item Losses in swap transactions of Telesp.

**Tax obligations**

**6.39 Adjustment criteria:** Discount at the present value according to the realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.40 Value of the adjustment:** Decrease of R\$21 thousand (twenty-one thousand Reais) to the item Tax obligations of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Labor obligations**

**6.41 Introduction:** Part of the amount comprising this item refers to employee bonuses to be paid in February 2006.

**6.42 Adjustment criteria:** Discount at the present value according to the realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.43 Value of the adjustment:** Decrease of R\$23 thousand (twenty-three thousand Reais) to the item Labor obligations of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

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**Other accounts payable**

**6.44 Adjustment criteria:** Discount at the present value according to the realization terms, based on future CDI projections, prepared according to quotations from the BM&F (Source: BM&F).

**6.45 Value of the adjustment:** Decrease of R\$60 thousand (sixty thousand Reais) to the item Other accounts payable of A Telecom, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Taxes payable/recoverable on increased amounts**

**6.46** Considerable that part of the adjustments made to the shareholders equity of TELESP and its subsidiaries would result in a taxable gain, the deduction of the respective Income Tax and Social Contribution should be considered to be a negative adjustment factor in the shareholders equity of these companies, as when the assets and liabilities appraised are realized, the gain ascertained as a result of the adjustments shall result in an additional tax debt to those already calculated by these companies.

**6.47** Adjustments were accordingly detected which individually entail an expense, in addition to others which entail revenue, classifying them as either operating or nonoperating (considering the definition of nonoperating income established by Law 9.249/95).

**6.48** Based only on the adjustments which involve a deductible expense and/or taxable revenue, a taxable gain was ascertained, the tax effect was calculated deriving from the above adjustments in the item Taxes recoverable on increased amounts or Taxes payable on increased amounts .

**6.49 Value of the adjustments:**

Increase of R\$1,899,735 thousand (one billion, eight hundred and ninety-nine million, seven hundred and thirty-five thousand) to the item Taxes payable on increased amounts of Telesp

Increase of R\$1,320 thousand (one million three hundred and twenty thousand Reais) to the item Taxes payable on increased amounts of A Telecom, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp

Increase of R\$2,991 thousand (two million nine hundred and ninety-one thousand Reais) to the item Taxes payable on increased amounts of Aliança, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp

Increase of R\$8,114 thousand (eight million one hundred and fourteen thousand Reais) to the item Taxes recoverable on increased amounts of Companhia AIX, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp

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Increase of R\$17 thousand (seventeen thousand Reais) to the item Taxes payable on increased amounts of Companhia ACT, reflected in the calculation of the item Equity in net income of subsidiaries of Telesp

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Increase of R\$2,546 thousand (two million five hundred and forty-six thousand Reais) to the item Taxes payable on increased amounts of Atrium, indirectly reflected in the calculation of the item Equity in net income of subsidiaries of Telesp.

**Remaining Goods, Rights and Obligations not Appraisable at Market Prices**

**6.50** These are items that by their nature, are already defined by their probable realization values. These items were appraised based on their book value in accordance with the accounting practices established by the Corporate Legislation in the countries where they are located.



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**7 Conclusion**

- 7.1** Based on the objective and scope of this appraisal, the market value of Telesp's shareholder equity as of December 31, 2005 is R\$13,804,532 thousand (thirteen billion, eight hundred and four million, five hundred and thirty-two thousand reais).
- 7.2** The market values of the comprising the fixed assets and inventory of Telesp and its subsidiary companies were not subjected to appraisal by KPMG Corporate Finance. We limited our task to compiling the amounts reported in the Expert Appraisal issued by Consult and Century on January 24, 2006.
- 7.3** A complete understanding of the conclusion of this report can only be obtained if it and its appendices are read in their entirety. No conclusions should therefore be drawn from an incomplete reading hereof.
- 7.4** KPMG Corporate Finance duly declares that it does not have any direct or indirect interests in Telesp and its subsidiary companies, or in the operation for which this appraisal concerns.
- 7.5** It further declares that it did not suffer any type of limitation when carrying out this appraisal from the controllers and the managers of companies concerned.
- 7.6** KPMG Corporate Finance was not hired to update this report after its date of issue.

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**Appendix**

Calculation of the market value of the  
shareholders' equity of Telesp and its subsidiaries  
as of December 31, 2005

**Table of Contents***Telecomunicações de São Paulo S.A. - Telesp**Avaliação do patrimônio líquido a valor de mercado***Adjustments made to the shareholders' equity of Telesp (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>10,204,207</b>
<b>Adjustments to assets</b>	<b>5,428,548</b>
Service accounts receivable	(29,834)
Deferred taxes and taxes recoverable	(38,456)
Sale of assets in installments	(1,087)
Prepaid expenses	(2,629)
Deferred taxes and taxes recoverable - Long term	(25,161)
Investments	26,605
Property, plant and equipment	5,564,703
Deferred assets	(65,595)
<b>Adjustment to liabilities</b>	<b>(1,828,222)</b>
Trade Payables	(8,556)
Loans and financing	6,617
Losses in SWAP transactions	(69,574)
<i>Tax payable on increased amounts</i>	1,899,735
<b>Shareholders' equity adjusted to market value on the base date</b>	<b>13,804,532</b>

**Adjustments made to the shareholders' equity of A Telecom (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>159,386</b>
<b>Adjustment to assets</b>	<b>(4,831)</b>
Service accounts receivable	(3,481)
Amounts recoverable - long-term	(8,307)
Property, plant and equipment	6,957
<b>Adjustment to liabilities</b>	<b>(914)</b>
Materials and services	(346)
Other obligations	(60)
<i>Taxes payable on increased amounts</i>	1,320
<b>Shareholders' equity adjusted to market value on the base date</b>	<b>153,641</b>

**Adjustments made to the shareholders' equity of Aliança (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>55,583</b>
<b>Adjustment to assets</b>	<b>8,797</b>
Investments	8,797
<b>Adjustment to liabilities</b>	<b>(2,991)</b>
<i>Tax payable on increased amounts</i>	2,991
<b>Shareholders' equity adjusted to market value on the base date</b>	<b>61,389</b>



**Table of Contents***Telecomunicações de São Paulo S.A. - Telesp**Avaliação do patrimônio líquido a valor de mercado***Adjustments made to the shareholders' equity of AIX (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>131,285</b>
<b>Adjustment to assets</b>	<b>(4,028)</b>
Property, plant and equipment	2,056
Deferred assets	(25,921)
Rights receivable	11,723
<i>Tax recoverable on decreased amounts</i>	8,114
<b>Shareholders' equity adjusted to market value on the base date</b>	<b>127,256</b>

**Adjustments made to the shareholders' equity of ACT (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>51</b>
<b>Adjustments to assets</b>	<b>(34)</b>
Deferred assets	(51)
<i>Tax recoverable on decreased amounts</i>	17
<b>Shareholders' equity adjusted to market value on the base date</b>	<b>18</b>

**Adjustments made to the shareholders' equity of Santo Genovese (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>16,969</b>
<b>Adjustments to assets</b>	<b>4,943</b>
Investments	4,943
<b>Shareholders' equity adjusted to market value</b>	<b>21,912</b>

**Table of Contents***Telecomunicações de São Paulo S.A. - Telesp**Avaliação do patrimônio líquido a valor de mercado***Adjustments made to the shareholders' equity of Atrium (in Reais)**

<b>Shareholders' equity recorded on the base date</b>	<b>16,971</b>
<b>Adjustments to assets</b>	<b>7,320</b>
Accounts receivable	(472)
Shareholders' credits	(9)
Property, plant and equipment	7,802
<b>Adjustments to liabilities</b>	<b>(2,377)</b>
Loans and financing	(24)
Accounts payable	(101)
Tax obligations	(21)
Labor obligations	(23)
<i>Tax payable on increased amounts</i>	2,546
<b>Shareholders' equity adjusted to market value</b>	<b>21,914</b>

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**Exhibit C**

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**TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP**

LISTED COMPANY

CNPJ/MF #02.558.157/0001-62

NIRE 35.300.158.814

**TELEFÔNICA DATA BRASIL HOLDING S.A.**

LISTED COMPANY

CNPJ/MF #04.295.166/0001-33

NIRE 35.300.183.991

**RELEVANT FACT**

**Telecomunicações de São Paulo S.A. TELESP ( TELESP or Merger ), Telefônica Data Brasil Holding S.A. ( TDBH or Mergee ) and Telefônica Empresas S.A. ( T EMPRESAS or Spun-Off and with TELESP and TDBH, The Companies ),** according and for the CVM Instruction 319/99 and 358/02, inform for the shareholders and the market in general that, in this date, it was approved of their respective Board of Directors a proposed of restructuring the activities of the Multimedia Communication Services ( **SCM** ) and Data transmission, to be submitted for the shareholders of the Companies, according the terms and conditions, as established below:

**1. SUMMARY OF THE OPERATION**

- 1.1. The objective of the current Contract is the proposal for the restructuring of the SCM activities of TELESP, TDBH and T EMPRESAS ( **Restructuring** ), comprising: (i) the merger of TDBH into TELESP, companies with a common controller, in the terms of articles 227 and 264 of the Corporate Law ( **Merger** ); and (ii) the partial spin-off of T EMPRESAS, transferring to TELESP the assets and activities related to the SCM in the regions where such services are already rendered by TELESP, in the terms of article 229 of the Corporate Law ( **Spinoff** ), in the terms of the Contract and Justification of the Merger of TDBH into TELESP and the Partial Spin-Off of T EMPRESAS ( **Contract** ), signed in this date by the representatives of TELESP, TDBH and T EMPRESAS.
- 1.2. Once the Restructuring is approved: (i) TDBH will be extinguished; (ii) its shareholders will receive common or preferred shares, or American Depositary



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Shares ( **ADS** ), as appropriate, issued by TELESP and following the exchange ratio established in Section 5, below; (iii) TELESP will succeed TDBH in all its rights and obligations; and (iv) T EMPRESAS will become a fully owned subsidiary of TELESP, with the assets and activities related to the SCM in the regions where such service is not rendered by TELESP, as well as the IT and data center assets and activities that are of its property.

**2. JUSTIFICATION OF THE OPERATION**

- 2.1. TDBH is a holding company whose main asset is the stake of 100% in the capital stock of TELEFÔNICA EMPRESAS S.A., a nationwide SCM operator.
- 2.2. TELESP, besides rendering the Switched Fixed Telephony Service (STFC), is also a SCM operator in sectors 31, 32 and 34 of Region III of the Annex II of the General Concession Plan (Decree #2534, dated as of April 02, 1998).
- 2.3. TELESP has another fully owned subsidiary, A. TELECOM S.A., a company with headquarters located at Rua do Rocío #291, 2<sup>nd</sup> Floor, São Paulo, state of São Paulo, registered under CNPJ/MF #03.498.897/0001-13, with its bylaws registered at Junta Comercial do Estado de São Paulo JUCESP under NIRE 35.3.0017438.1 ( **A. TELECOM** ), that renders nationwide SCM services, except in sectors 31, 32 and 34 of Region III of Annex II of the General Concession Plan do Plano (where the exploitation of the SCM is carried out directly by TELESP).
- 2.4. TDBH was created in January 2001 as the result of the partial spin-off of TELESP. At that time and based on the opinion of the external consultants, the management of TELESP understood that it would be in the best interest of the company to segregate the assets related to the rendering of the Switched Packaged Network services, transferring all the shares of T EMPRESAS to the then newly-created TDBH.
- 2.5. After five years, the managements of TELESP and TDBH understand that the segregation of T EMPRESAS reached the expected objectives, which were: (i) consolidation of the SCM services in the corporate segment, both in terms of the technical specialty as well as the client portfolio; and (ii) execution of specific investments that allowed a significant growth of T EMPRESAS. Nevertheless, the managements of TELESP and TDBH understand that the considerable increase in competition within this market, currently dominated by companies directly tied to

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communication companies linked to large national and foreign groups, and the transactional costs and the opportunities for merging expertise to address the technological convergence and the development of new products dictate new conditions and projections for the segment in which the companies operate, which justify and validate the decision to merge its operations.

- 2.6. With the Merger of TDBH into TELESP, T EMPRESAS will become a fully owned subsidiary of TELESP, similar to A TELECOM. Following suit and through the Spin-Off, the assets and activities related to the SCM service of T EMPRESAS in sectors 31, 32 and 34 of Region III of Annex II of the General Concession Plan will be transferred to TELESP, thus concentrating the SCM activities in those areas within TELESP.
- 2.7. As the next step, it is intended to promote the merger of A TELECOM into T EMPRESAS, or vice-versa, in order to concentrate, in one single subsidiary of TELESP, the exploitation of the SCM activities in the remaining part of the national territory.
- 2.8. The management of the Companies recommend the approval of the Merger and Spin-Off proposals in the terms of this Contract, since they understand that the Restructuring will result in the following benefits for the Companies and their respective shareholders:
  - (a) Higher administrative, commercial, operating, fiscal and financial efficiencies regarding data transmission operations performed by T EMPRESAS, A TELECOM and TELESP;
  - (b) Increase in the liquidity of the shares, especially for the shareholders of TDBH, but also for the shareholders of TELESP; and
  - (c) Reduction of costs after merging all the activities of all the companies under just one listed company, TELESP.

**3. SOCIETARY ACTS**

- 3.1. TELEFÓNICA DATACORP, S.A., a company organized and established under the Spanish laws, with headquarter located at Gran Via, 28, Madrid, Spain, with CIF #A-82/196964 and registered under CNPJ #05.712.863/0001-05, had already transferred the totality of the quota that had in TELEFÔNICA DATA DO BRASIL

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LTDA., a company with headquarters located at Avenida Brigadeiro Faria Lima nº 1.188, 11<sup>th</sup> floor, São Paulo, State of São Paulo, registered under CNPJ/MF #03.056.714/0001-00, direct controlling company of TDBH, to SP TELECOMUNICAÇÕES HOLDING LTDA., a company with headquarters located at Rua Martiniano de Carvalho nº 851, 20<sup>th</sup> floor, São Paulo, State of São Paulo, registered under CNPJ #01.900.954/0001-13, direct controlling company of TELESP.

- 3.2. The cession and transfer of 501.671.702 (five hundred and one million, six hundred and seventy one thousand and seven hundred and two) quotas, representing 99,99% of the capital stock of TELEFÔNICA DATA DO BRASIL LTDA., was formalized by an Private contract of Cession and Transfer of Shares and the 8<sup>th</sup> Modify of the Social Contract of TELEFÔNICA DATA DO BRASIL LTDA., between TELEFÔNICA DATACORP, S.A. and SP TELECOMUNICAÇÕES HOLDING LTDA., with the agreement of the shareholder Pedro Riviere Torrado, holder of 1 (one) share.
- 3.3. In this date, the Board of TDBH submitted the proposal of its Merger into TELESP, as well as the Board of T EMPRESAS submitted the proposal of its partial Spin-Off, with the subsequent merger of the spun-off part into TELESP, for the Board of Directors and Audit Committee of TDBH. The Board of Directors of TDBH approved the Contract and the Audit Committee of TDBH, after the analysis of the operation, spoke favorably for the Merger and Spin-Off and about the contents of the documents support the Management Proposals, according paragraph III of article 163 of the Corporate Law. This way, the Board of Directors of TDBH decided to submit the restructuring and the documents relative to the operation for approval of the General Shareholder s Meeting of TDBH and T EMPRESAS, therefore defining the call notice the respective Extraordinary General Shareholder s Meeting for such.
- 3.4. In this date, the Board of TELESP, submitted the proposal of the Merger of TDBH, as well as the proposal for partial Spin-Off of T EMPRESAS, with the merger of the Spun-Off part into TELESP, to their Audit Committee and Board of Directors. TELESP s Board of Director approved the celebration of the contract and the Audit Committee, after analysis of the operation, spoke in favor of the Merger and the Spin-Off as well the content of the documents that supported the Board s proposal, in terms with paragraph III of article 163 of the Brazilian Corporate Law. This way, TELESP s Board of Directors also decided to submit the Restructuring and the documents relative to the operation for approval of TELESP s General Shareholders

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Meeting, defining the call notice for the Extraordinary General Shareholders Meeting for such.

- 3.5. The Extraordinary General Shareholders Meeting of T EMPRESAS, TDBH and TELESP will take place on April 28, 2006, according to the call notice that will be published in due time

**4. CAPITAL STOCK OF TDBH, TELESP AND T EMPRESAS**

- 4.1. The capital stock of TELESP, which is fully paid-in, is R\$5,978,073,811.88 (five billion, nine hundred seventy eight million, seventy three thousand, eight hundred eleven Reais and eighty eight cents), divided into 492,029,981 (four hundred ninety two million, twenty nine thousand, nine hundred eighty one) shares, of which 164,061,698 (one hundred sixty four million, sixty one thousand, six hundred ninety eight) are common shares and 327,968,193 (three hundred twenty seven million, nine hundred sixty eight thousand, one hundred ninety three) are preferred shares, all of them book-entry shares without par value.
- 4.2. The capital stock of TDBH, which is fully paid-in, is R\$702,879,874.92 (seven hundred two million, eight hundred seventy nine thousand, eight hundred seventy four Reais and ninety two cents), divided into 1,071,153,385,962 (one trillion, seventy one billion, one hundred fifty three million, three hundred eighty five thousand, nine hundred sixty two) shares, of which 358,716,131,431 (three hundred fifty eight billion, seven hundred sixteen million, one hundred thirty one thousand, four hundred thirty one) are common shares and 712,437,254,531 (seven hundred twelve billion, four hundred thirty seven million, two hundred fifty four thousand, five hundred thirty one) are preferred shares, all of them book-entry shares without par value.
- 4.3. The capital stock of T EMPRESAS, which is fully paid-in, is R\$235,235,748.45 (two hundred thirty five million, two hundred thirty five thousand, seven hundred forty eight Reais and forty five cents), divided into 241,525,513 (two hundred forty one million, five hundred twenty five thousand, five hundred thirteen) common shares, all of them book-entry shares without par value.
- 4.4. The shares of TDBH will be canceled as a result of the Merger and replaced by common or preferred shares or ADS, as appropriate, issued by TELESP, in the terms of the exchange ratio established in the Section 5 of this Contract. After the Merger is implemented, T EMPRESAS will become a fully owned subsidiary of TELESP.

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- 4.5. Following suit and as a consequence of the Spin-Off, the capital stock of T EMPRESAS will be reduced in an amount corresponding to the fraction of the equity that was spun-off, as established in Section 5 of the present Contract. The shares of T EMPRESAS corresponding to the equity fraction that was spun-off will be canceled once such fraction is merged into TELESP.

**5. APPRAISALS AND EXCHANGE RATIO**

**(i) Appraisal by the Accounting Equity Value**

- 5.1. The increase in the capital stock of TELESP, resulting from the Merger and in the terms of Section 6 below, will be carried out based on the Appraisal of the Net Equity of TDBH, issued on March 06, 2006 by Hirashima & Associados Ltda, a limited company with headquarters located at Rua Flórida #1758, conjunto 11, São Paulo, state of São Paulo, registered under CNPJ/MF #005.215.691/0001-64 and under C.R.C. #2SP0222465/O-4 ( **Hirashima** ), specially hired for such purpose, according to the opinion that constitutes Annex I of the present Contract. The appraisal executed by Hirashima was made using the accounting principle of measuring the net equity value of TDBH, based on the constant elements of its balance sheet as of December 31, 2005, audited by Ernst & Young Auditores Independentes S.S. ( **Ernst & Young** ). According to the accounting appraisal, the net equity value of TDBH, as of December 31, 2005, was R\$597,164,881.58 (five hundred ninety seven million, one hundred sixty four thousand, eight hundred eighty one Reais and fifty eight cents).
- 5.2. The reduction in the capital stock of T EMPRESAS, resulting from Spin-Off and in the terms of Section 7 below, will be carried out based on the Appraisal of the Accounting Value for the purpose of the Spin-Off and Merger of T EMPRESAS, issued on March 06, 2006 by Hirashima, specially hired for such purpose, according to the opinion that constitutes Annex II of the present Contract. The appraisal executed by Hirashima was made using the accounting principle of measuring the net equity value of T EMPRESAS, based on the constant elements of its balance sheet as of December 31, 2005, audited by Ernst & Young. According to the accounting appraisal, the net equity value of T EMPRESAS, as of December 31, 2005, was R\$304,234,227.25 (three hundred four million, two hundred thirty four thousand, two hundred twenty seven Reais and twenty five cents) and the accounting equity value of the spun-off part, also as of December 31, 2005, was R\$273,797,261.22 (two hundred seventy three million, seven

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hundred ninety seven thousand, two hundred sixty one Reais and twenty two cents). As described with further details in Section 7, the merger of the spun-off part of T EMPRESAS into TELESP will not result in an increase nor a reduction of the net equity of TELESP, nor will the number of shares that compose its capital stock vary.

**(ii) Appraisal by the Economic and Financial Value**

5.3. In order to support the process of determining the exchange ratio of shares of TDBH by shares of TELESP, and according to the established in article 31 of the bylaws of TELESP and TDBH, the managements of the companies hired NM Rothschild & Sons (Brasil) Ltda., with headquarters located at Avenida Brigadeiro Faria Lima #2055, 18<sup>th</sup> Floor, São Paulo, state of São Paulo, registered under CNPJ/MF #32.210.791/0001-70 ( **Rothschild** ), to prepare the economic and financial analysis of TDBH and TELESP ( **Financial Analysis** ), that constitute Annex III of the present Contract.

5.4. The managements of TELESP and TDBH understand that the discounted free cash flow method used by Rothschild is the one that better reflects the value of TDBH and TELESP. Using the average of the value range determined by Rothschild, the following exchange ratio was found:

**EXCHANGE RATIO    ECONOMIC AND FINANCIAL VALUE**

Common shares	1 share of TELESP for each group of 75,389 shares of TDBH
Preferred shares	1 share of TELESP for each group of 75,389 shares of TDBH
ADS <sup>1</sup>	1 ADS of TELESP for each group of 1.50778 ADSs of TDBH

<sup>1</sup> Each ADS of TDBH represents 50,000 preferred shares of the Company

5.5. In case that, due to the exchange ratio, the shareholders of TDBH have the right to a fraction of a share of TELESP, they will be paid *pro rata* of their respective fractions. The amount paid will be the net value at market prices of the grouped fractions, determined in an auction (or auctions if needed) to be held at BOVESPA. Such payment to the shareholders of TDBH will be carried on up to 5 (five) business days after the last auction takes place.

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(iii) **Appraisal by the Equity Value at Market Prices**

5.6. In accordance with the established by article 264 of the Corporate Law, the appraisals of the net equities at market prices for TDBH and TELESP, for comparison purposes of the calculation of the exchange ratio of shares of TDBH by shares of TELESP, were conducted by KPMG Corporate Finance Ltda., with headquarters located at Rua Dr. Renato Paes de Barros nº 33, 2<sup>nd</sup> Floor, São Paulo, state of São Paulo, registered under CNPJ/MF #48.883.938/0001-23 ( **KPMG** ), according to the opinion issued on March 06, 2006, which constitute Annex IV and Annex V of the present Contract. Such appraisals were issued following the same criteria and using the same base date (December 31, 2005), and based on the audited financial statements of TDBH and TELESP, resulting in the following exchange ratio:

**EXCHANGE RATIO ECONOMIC AND FINANCIAL VALUE**

Common shares	1 share of TELESP for each group of 88,258 shares of TDBH
Preferred shares	1 share of TELESP for each group of 88,258 shares of TDBH
ADS <sup>1</sup>	1 ADS of TELESP for each group of 1.76516 ADSs of TDBH

<sup>1</sup> Each ADS of TDBH represents 50,000 preferred shares of the Company

(iv) **Statement of the Appraisers**

5.7. The appraisers referred in this Section 5 declared that they do not have any conflict of interests, current or potential, with the controlling shareholder of the Companies, or before the minority shareholders, or regarding the Companies themselves, their respective partners, or regarding the proposed Restructuring operation.

**6. MERGER OF TDBH AND CAPITAL STOCK INCREASE OF TELESP**

6.1. The Merger will be effective through the transfer of all the net accounting equity of TDBH to the equity of TELESP, appraised by Hirashima based on the financial statements of TDBH as of December 31, 2005, and audited by Ernst & Young. The equity variations that took place in the TDBH and TELESP between the base date of the appraisal opinion of their accounting value and the dates of the General Shareholders Meetings that approve the Merger will be absorbed by TELESP and accounted for as retained earnings.

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In accordance with the established in the opinion of the accounting appraisal issued by Hirashima, the net accounting equity of TDBH to be merged into the net equity of TELESP was R\$597,164,881.58 (five hundred ninety seven million, one hundred sixty four thousand, eight hundred eighty one Reais and fifty eight cents) as of December 31, 2005, and corresponds to the total accounting equity of TDBH. TELESP has 2,262,924 (two million, two hundred sixty two thousand, nine hundred twenty four) common shares and 70,803,372 (seventy million, eight hundred three thousand, three hundred seventy two) preferred shares issued by TDBH, that represent 0.006821% of the capital stock of TDBH which shall be canceled at the time of the Merger.

- 6.3. As a result of the Merger, and considering that part of the net equity of TDBH that corresponds to the participation of TELESP is already accounted for in TELESP and thus should not be part of the capital increase, the capital stock of TELESP will be increased in R\$597,124,147.23 (five hundred ninety seven million, one hundred twenty four thousand, one hundred forty seven Reais and twenty three cents), going from R\$5,978,073,811.88 (five billion, nine hundred seventy eight million, seventy three thousand, eight hundred eleven reais and eighty eight cents) to R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents).
- 6.4. Considering the exchange ratio proposed in Clause 5.4 above, 4,758,172 (four million, seven hundred fifty eight thousand, one hundred seventy two) common shares and 9,449,209 (nine million, four hundred forty nine thousand, two hundred nine) preferred shares of TELESP will be issued, which will be distributed in exchange of the common and preferred shares of TDBH, according to the exchange ratio established in Clause 5.4 of this Contract, with the exception of TELESP's shares, whose shares in TDBH will be canceled.
- 6.5. After the Merger, the capital stock of TELESP will be divided into 506,237,272 (five hundred six million, two hundred thirty seven thousand, two hundred seventy two) shares, of which 168,819,870 (one hundred sixty eight million, eight hundred nineteen thousand, eight hundred seventy) will be common shares and 337,417,402 (three hundred thirty seven million, four hundred seventeen thousand, four hundred two) will be preferred shares, all of them book-entry shares without par value.
- 6.6. The Merger is considered fair for the shareholders of TELESP and TDBH, since



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the exchange ratio between the shares of the two Companies was determined within the values of the respective companies, based on the Financial Analysis prepared by Rothschild, an independent financial institution of international reputation and with vast experience in executing economic and financial appraisals similar to the Financial Analysis, which confirmed that a fair treatment was given to all the shareholders.

- 6.7. Due to the Merger, TELESP will become the universal heir of TDBH in terms of all its assets, rights and obligations, without any continuity solution. Once the operation under discussion is approved, TDBH will be extinguished for all legal purposes and T EMPRESAS will become a fully owned subsidiary of TELESP. There are no relevant and unaccounted contingencies to be undertaken by TELESP as a result of the merger of TDBH.
- 6.8. The preferred shares of TELESP that will be distributed to the preferred shareholders of TDBH will have the same rights currently guaranteed by the preferred shares of TDBH, with the exception of the right to vote for the approval of contracts between related parties. In TDBH, this was applicable to any long-term contract between related parties, while in TELESP applies to the contracts with related parties whose terms and conditions are more expensive for the company than those usually in place in the market for similar operations (article 9 of the bylaws of TDBH and TELESP). The common and preferred shares of TELESP owned by the controlling shareholder have the same rights and characteristics of the common and preferred shares owned by the minority shareholders of TELESP and will not suffer any modification in their political or equity rights as a result of the Merger.

**7. PARTIAL SPIN-OFF OF T EMPRESAS WITH SUBSEQUENT MERGER OF THE SPUN-OFF PART INTO TELESP**

- 7.1. The Spin-Off will represent the transfer from T EMPRESAS to TELESP of the assets, liabilities, rights and obligations related to the SCM activities in sectors 31, 32 and 34 of Region III of the Annex II of the General Concession Plan. They correspond to the elements of the assets and liabilities described in the transfer balance sheet included in the Appraisal of the Accounting Value for the Purpose of the Spin-Off and Merger prepared by Hirashima based in the financial statements of T EMPRESAS as of December 31, 2005, audited by Ernst & Young, which constitutes Annex II of this Contract ( Transfer Balance Sheet ). According to the terms of the accounting appraisal issued by Hirashima, the net

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accounting equity of T EMPRESAS to be merged into TELESP was R\$273,797,261.22 (two hundred seventy three million, seven hundred ninety seven thousand, two hundred sixty one Reais and twenty two cents), as of December 31, 2005.

- 7.2. Considering that at the time of the implementation of the Spin-Off, T EMPRESAS will be a fully owned subsidiary of TELESP, the transfer to TELESP of the spun-off part of the equity will be carried out through the reduction in the investment account of the fixed assets and the transfer to TELESP of the assets and liabilities contained in the Transfer Balance Sheet, without any increase or decrease in the net equity of TELESP, nor in the number of shares that compose its capital stock.
- 7.3. The equity variations that take place in T EMPRESAS between the base date of the appraisal of its accounting value and the date of the General Shareholders Meetings that approve the Spin-Off will be absorbed by TELESP and compensated in the investments account in the fixed assets, in order to make the result of the Spin-Off always neutral for TELESP.
- 7.4. The Spin-Off is considered fair for the shareholders of TELESP and T EMPRESAS, since at the time of the Spin-Off, T EMPRESAS will be a fully owned subsidiary of TELESP and therefore, the transfer of assets and liabilities from T EMPRESAS to TELESP by their accounting value does not imply in any loss for the shareholders of TELESP.
- 7.5. Following the terms of the sole paragraph of article 233 of the Corporate Law, it is established that TELESP will only be responsible for the obligations that are expressly transferred to it in the terms of the present Contract and of the Transfer Balance Sheet, without being responsible for T EMPRESAS. There are no relevant and unaccounted contingencies that will be undertaken by TELESP as a result of the spun-off part of the equity of T EMPRESAS.

**8. RIGHT OF WITHDRAWAL**

- 8.1. The Merger will grant the right of withdrawal to the shareholders of TDBH that express their will in that sense, while the respective payment of the reimbursement will depend of the effective consecution of the operation, as established in article 230 of the Corporate Law.

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- 8.2. The withdrawal will be guaranteed to the owners of shares issued by TDBH that clearly and formally express their disagreement regarding the proposed Merger. It will be considered clear and formal when received in a period of 30 (thirty) days counted from the publication date of the minutes of the General Shareholders Meeting of TDBH that will deliberate about the Merger.
- 8.3. The accounting equity value of the shares of TDBH, based on the balance sheet as of December 31, 2005, for the purposes of the right of withdrawal corresponds to R\$0.56 (fifty six cents) per lot of 1,000 (one thousand) common or preferred shares of TDBH. The net equity value at market prices corresponds to R\$ 0.32 (thirty two cents) per lot of 1,000 (one thousand) common or preferred shares of TDBH.
- 8.4. Considering that the exchange ratio proposed in the terms of Clause 5.4, above, has more advantage for the non-controlling shareholders (and also for the controllers) of TDBH than the exchange ratio based on the net equity value at market prices, and considering that the accounting equity value of each group of 1,000 (one thousand) common or preferred share of TDBH is higher than the value based on the net equity at market prices, as explained in Clause 8.3, above, the value for the right of withdrawal available for the shareholders of TDBH that exercise such right will be the one calculated by the criteria of the accounting equity value, which represents R\$0.56 (fifty six cents) per lot of 1,000 (thousand) shares of TDBH.
- 8.5. The right of withdrawal of the shareholders of TDBH in the Merger process is limited to the shares that such shareholders own on March 09, 2006, and will not be exercised in relation to shares purchased at a later date, in the terms of paragraph 1 of article 137 of the Corporate Law.
- 8.6. The shareholders of TELESP will not have the right of withdrawal as a result of the Merger nor the Spin-Off, in the terms of the Corporate Law.
- 9. PROJECT TO MODIFY THE BYLAWS OF TELESP**
- 9.1. After deliberating about the Merger, the General Shareholders Meeting of TELESP will approve the modification of the heading of article 5 of the bylaws of TELESP, which will have the following wording: Art. 5 The subscribed capital stock, which is fully paid-in, is R\$6,575,197,959.21 (six billion, five hundred

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seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents), divided into 506,237,272 (five hundred six million, two hundred thirty seven thousand, two hundred seventy two) shares, of which 168,819,870 (one hundred sixty eight million, eight hundred nineteen thousand, eight hundred seventy) are common shares and 337,417,402 (three hundred thirty seven million, four hundred seventeen thousand, four hundred two) are preferred shares, all of them book-entry shares without par value . There will not be any modification of TELESP s bylaws as a result of the Spin-Off.

**10. GENERAL INSTRUCTIONS**

- 10.1. Right of Reconsideration: The Companies have the right to re-assess the Restructuring project here described in the hypothesis that the payment of the reimbursement of the shares resulting from the exercising of the right of withdrawal by shareholders of TDBH that have pronounced in that way endangers the financial stability of the company resulting of the Merger, in the terms of paragraph 3 of article 137 of the Corporate Law.
- 10.2. Dividends: The shareholders of T EMPRESAS, TELESP and TDBH will receive the dividends or interests on the company s net worth declared by their respective ordinary general shareholders meetings related to the fiscal year ended on December 31, 2005. After the Merger, the shareholders of TDBH that receive shares of TELESP will receive the dividends or interests on the company s net worth that are declared by TELESP starting from the date of the general shareholders meeting that approves the Merger, in equal conditions of those of the previous owners of TELESP, and TELESP will receive the dividends and interest on the company s net worth that are declared by T EMPRESAS starting from the date of the general shareholders meeting that approves the Merger.
- 10.3. Evaluation of the Restructuring by the Regulatory Agencies: Despite the fact that the approval of Anatel (the National Telecommunications Agency) is not required, the Restructuring will be presented before it for filing purposes. Since the Merger and Spin-Off involves companies belonging to the same economic group, the Restructuring is not subject to approval from the CADE (Anti-trust Agency).
- 10.4. Presentation of the Restructuring before the SEC: According to the legislation of the American capital market, the Restructuring will not be submitted for approval or filing before the Securities and Exchange Commission ( **SEC** ). This Contract

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is not a public offering document and does not represent an offer to sell or a request for an offer to purchase any securities nor a request of any vote or approval.

- 10.5. **Filing and Registration:** Once the Restructuring is approved by the shareholders of T EMPRESAS, TDBH and TELESP, it will be the task of the managements of TELESP and T EMPRESAS to promote the filing and publication of all the acts related to the Merger and Spin-Off, as well as to promote all necessary acts needed for the process of extinguishing TDBH and its succession by TELESP.
- 10.6. **Costs:** The costs of the Restructuring are estimated at approximately R\$ 3.5 million, including the costs related with the appraisal, auditing, legal counseling, publications and other expenses.
- 10.7. **Availability of Documents:** All the opinions, appraisals, and related documents to the Restructuring are enclosed to the present Contract and are part of it for all legal purposes. The documents related to the Restructuring will be available for the shareholders of TELESP and TDBH from March 13, 2006 on, from 09:00 to 17:00 at the companies' headquarters, located at the following addresses: (i) TELESP: Rua Martiniano de Carvalho 851, São Paulo, state of São Paulo; (ii) TDBH: Avenida Brigadeiro Faria Lima 1188, São Paulo, state of São Paulo. The access to the referred documents and information will be allowed to the shareholders of the respective companies that present an abstract of their respective shareholder position issued no earlier than 10 (ten) days in advance. Further information can be obtained by telephone (11) 3549-7200 with Mr. Daniel de Andrade Gomes.

São Paulo, March 09, 2006.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

Pedro Lucas Antón Lázaro

Director of Investor Relations

**TELEFÔNICA DATA BRASIL HOLDING S.A.**

Gilmar Roberto Pereira Camurra

Director of Investor Relations

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**TELEFÔNICA EMPRESAS S.A.**

Roberto José Maris de Medeiros

President

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**Exhibits D**

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**Telecomunicações de São Paulo S.A. - TELESP**

São Paulo, March 9<sup>th</sup> 2006

**STRICTLY CONFIDENTIAL**

To

**Agência Nacional de Telecomunicações (ANATEL),**

Superintendência de Serviços Públicos (SPB),

SAUS Quadra 06 Blocos C, E, F e H,

CEP 70070-940 - Brasília, DF.

Att.: Sr. **Gilberto Alves**, Superintendente de Serviços Públicos em exercício

C.C.: Sr. **Jarbas José Valente**, Superintendente de Serviços Privados

Ref.: **Societary Reorganization**

Dear Gentlemen,

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**, listed company with headquarters located at Rua Martiniano de Carvalho nº 851 in the City of São Paulo, State of São Paulo, Brazil, registered under CNPJ/MF # 02.558.157/0001-62 ( **TELESP** ), provider of Fixed Switched Telephone Service ( **STFC** ) and of Multimedia Communication Services ( **SCM** ); and

**TELEFÔNICA EMPRESAS S.A.**, with headquarters located at Av. Tamboré nºs 341 e 371 in the city of Barueri, State of São Paulo, Brazil, registered under CNPJ/MF # 04.027.547/0001-31 ( **TEMPRESAS** ) and, together with TELESP, the **Companies** ), also provider of Multimedia Communication Services ( **SCM** );

Come with great respect, through their undersigned power of attorneys, based on the established on articles 41 and 55, IX, of the Multimedia Communication Service Regulation, approved by Resolution #272, of August 9<sup>th</sup> of 2001 ( **SCM Regulation** ), of article 4<sup>th</sup> of Annex V to the SCM Regulation and of Clause 16.1, XXI, of the Concession Contracts signed between TELESP and ANATEL, submit to the knowledge of your Excellencies the operation of corporate restructuring without modification of control ( **Restructuring** ) that once materialized will result in greater operational, fiscal, management and financial efficiency, and consequently, in operational costs reductions for the companies.

Diretoria de Assuntos Jurídico-Regulatórios

Rua Martiniano de Carvalho, nº 851 - 3º Andar - São Paulo - Capital - CEP: 01321-001

Telephone: 55 11 3549-7071 - Fax: 55 11 3549-8747



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**SUMMARY OF THE REESTRUCTURING**

The restructuring project will be made of, initially, three steps as described bellow:

**Step 1 Cession of Telefônica Data do Brasil Ltda. Quotas:**

Step 1 constitutes of the cession and transfer, in March 8<sup>th</sup> of 2006, of the totality of quotas held by **TELEFÓNICA DATACORP, S.A** company constituted and existent under Spanish laws, with its headquarters at Gran Via, 28, City of Madrid, Spain with CIF nº A-82/196964, and registered under CNPJ/MF # 05.712.863/0001-05, in **TELEFÔNICA DATA DO BRASIL LTDA.**, with headquarters at Avenida Brigadeiro Faria Lima nº 1.188, 11º andar in the city of São Paulo, State of São Paulo registered under CNPJ/MF # 03.056.714/0001 ( **T DATA BRASIL** ), to **SP TELECOMUNICAÇÕES HOLDING LTDA.**, with headquarters at Rua Martiniano de Carvalho nº 851, 20º andar in the city of São Paulo, State of São Paulo registered under CNPJ/MF # 01.900.954/0001-13.

With the implementation of Step 1, the capital stock of T DATA BRASIL of R\$501.671.703,00 (five hundred and one million, six hundred seventy one thousand, seven hundred and three Brazilian Reais), divided into 501.671.703 (five hundred and one million, six hundred seventy one thousand, seven hundred and three) quotas, at the nominal value of R\$1,00 (one Brazilian Real) each, is distributed amongst its shareholder in the following manner:

(a) The shareholder SP TELECOMUNICAÇÕES HOLDING LTDA. has 501.671.702 (five hundred and one million, six hundred seventy one thousand, seven hundred and two) quotas, at the total value of R\$501.671.702,00 (five hundred and one million, six hundred seventy one thousand, seven hundred and two Brazilian Reais); and

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(b) The shareholder PEDRO RIVIERE TORRADO has 1 (one) quota, at the total value of R\$1,00 (one Brazilian Real).

Therefore, it has occurred a substitution of the indirect shareholder of T EMPRESAS, that, with the objective of keeping up-to-date its shareholder composition with ANATEL, and to comply with the legal regulations, come to communicate this alteration and commits to send to ANATEL a copy of the 8<sup>th</sup> Contractual Alteration of T DATA BRASIL, document that formalized the cession and transfer of its quotas, within 20 (twenty) running days from its registration at Junta Comercial do Estado de São Paulo, as outlined on article 41 of the SCM Regulation.

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**Step 2 Merger of Telefônica Data Brasil Holding S.A. into TELESP**

Step 2 is comprised of the merger, by TELESP, of **TELEFÔNICA DATA BRASIL HOLDING S.A.**, a listed company with headquarters at Avenida Brigadeiro Faria Lima nº 1.188, 11º andar in the city of São Paulo, State of São Paulo registered under CNPJ/MF # 04.295.166/0001-33 ( **TDBH** ), holding company whose main asset is its participation of 100% of the capital stock of T EMPRESAS ( **Merger** ).

Once the merger is approved by the General Shareholders Meeting of the involved companies, (i) TDBH will be extinct, (ii) TDBH shareholders will receive common or preferred shares or *American Depositary Shares* ( **ADS** ), depending on each case, issued by TELESP, (iii) TELESP will succeed TDBH in all of its rights and obligation, and (iv) T EMPRESAS will become a wholly owned subsidiary of TELESP.

As a consequence of Step 2 (Merger), the capital stock of TELESP will be increased in R\$597,124,147.33 (five hundred ninety seven million, one hundred twenty four thousand, one hundred forty seven Reais and thirty three cents), going from R\$5,978,073,811.88 (five billion, nine hundred seventy eight million, seventy three thousand, eight hundred eleven reais and eighty eight cents) to R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents).

As such, after deliberating about the Merger, the General Shareholders Meeting of TELESP shall approve the modification of the heading of article 5 of the bylaws of TELESP, which will have the following wording: *Art. 5 The subscribed capital stock, which is fully paid-in, is R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents), divided into 506,237,272 (five hundred six million, two hundred thirty seven thousand, two hundred seventy two) shares, of which 168,819,870 (one hundred sixty eight million, eight hundred nineteen thousand, eight hundred seventy) are common shares and 337,417,402 (three hundred thirty seven million, four hundred seventeen thousand, four hundred two) are preferred shares, all of them book-entry shares without par value . There will not be any modification of TELESP s bylaws as a result of the Spin-Off.*

In order to tend to the dispositions of Clause 16.1, XXL, of the Concession contracts signed between TELESP and ANATEL, TELESP previously submits to your knowledge the modification it intends to do on its bylaws relative to its capital stock composition, as stated above.

Notwithstanding, with the implementation of Step 2 (Merger), there will be the substitution of T EMPRESAS direct shareholder, which will now be TELESP in substitution to TDBH. With the objective of keeping up-to-date its shareholder composition with ANATEL, and to comply with the legal dispositions, T EMPRESAS commits to communicate that modification when it occurs.

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**STEP 3 Partial Spin-off of T EMPRESAS, with the merging of the spun-off part into TELESP**

Step 3, which will occur sequentially to Step 2, consists of the partial spin-off of T EMPRESAS, with the transfer to TELESP of all the assets and the activities of the SCM service of T EMPRESAS in the regions in which the service is currently being directly provided by TELESP ( **Spin-off** ), that is, sectors 31, 32 and 34 of Region III of Annex II of the General Concession Plan (Decree # 2.534, of April 21 1998).

Once the Spin-off is approved by the General Shareholder Meetings of the involved companies, there will be a capital reduction on the capital stock of T EMPRESAS, which will continue with the SCM activities in the regions which that service is no offered by TELESP, as well as the assets and activities of IT and data center.

With the objective of keeping up-to-date the shareholder composition of T EMPRESAS with ANATEL, and to comply with the legal dispositions, T EMPRESAS also commits to communicate that modification when it occurs as an effect of Step 3

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Once approved the Merger and Spin-off operations, TELESP and T EMPRESAS commit to send to ANATEL a copy of the minutes of its respective General Shareholder Meetings, as well as its new Bylaws.

Of all that has been shown, it is clear that there will be no control or concession transfer in the Restructuring Process described above, therefore, none of its Steps are subject to previous authorization from ANATEL.

At last, we clarify that (i) T EMPRESAS and TELESP are in regular compliance with FISTEL, (ii) on this date it has been signed the Contract and Justification of Merger of Telefônica Data Brasil Holding S.A. into Telecomunicações de São Paulo S.A. TELESP and the partial Spin-off of Telefônica Empresas S.A. by the directors of TDBH, T EMPRESAS e TELESP, and (iii) according to all terms of the applicable law, all documents relative to the restructuring were sent to the Comissão de Valores Mobiliários (CVM), *U.S. Securities Exchange Commission* (SEC) e Bolsa de Valores de São Paulo (BOVESPA). We urge you to confer a strictly confidential status to the restructuring until this letter and the Relevant Fact of the Restructuring are published, in accordance to the applicable law.

We remain at entire disposal of ANATEL to any further clarification that you gentlemen find necessary.

Sincerely,

**CAMILLA T. DE TOLEDO TÁPIAS**  
TELECOMUNICAÇÕES DE

**JOÃO PAULO ROSSI JULIO**  
TELEFÔNICA EMPRESAS S.A.

SÃO PAULO S.A. TELESP

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**Telecomunicações de São Paulo S.A. - TELESP**

São Paulo, March 9<sup>th</sup> 2006

**STRICTLY CONFIDENTIAL**

To

**Agência Nacional de Telecomunicações (ANATEL),**

Superintendência de Serviços Privados (SPV),

SAUS Quadra 06 Blocos C, E, F e H,

CEP 70070-940 - Brasília, DF.

Att.: Sr. **Jarbas José Valente**, Superintendente de Serviços Privados

C.C.: Sr. **Gilberto Alves**, Superintendente de Serviços Públicos em exercício

Ref.: **Societary Reorganization**

Dear Gentlemen,

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**, listed company with headquarters located at Rua Martiniano de Carvalho nº 851 in the City of São Paulo, State of São Paulo, Brazil, registered under CNPJ/MF # 02.558.157/0001-62 ( **TELESP** ), provider of Fixed Switched Telephone Service ( **STFC** ) and of Multimedia Communication Services ( **SCM** ); and

**TELEFÔNICA EMPRESAS S.A.**, with headquarters located at Av. Tamboré nºs 341 e 371 in the city of Barueri, State of São Paulo, Brazil, registered under CNPJ/MF # 04.027.547/0001-31 ( **TEMPRESAS** ) and, together with TELESP, the **Companies** ), also provider of Multimedia Communication Services ( **SCM** );

Come with great respect, through their undersigned power of attorneys, based on established on articles 41 and 55, IX, of the Multimedia Communication Service Regulation, approved by Resolution #272, of August 9<sup>th</sup> of 2001 ( **SCM Regulation** ), of article 4<sup>th</sup> of Annex V to the SCM Regulation and of Clause 16.1, XXI, of the Concession Contracts signed between TELESP and ANATEL, submit to the knowledge of your Excellencies the operation of corporate restructuring without modification of control ( **Restructuring** ) that once materialized will result in greater operational, fiscal, management and financial efficiency, and consequently, in operational costs reductions for the companies.

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Rua Martiniano de Carvalho, nº 851 - 3º Andar - São Paulo - Capital - CEP: 01321-001

Telephone: 55 11 3549-7071 - Fax: 55 11 3549-8747

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**SUMMARY OF THE RESTRUCTURING**

The restructuring project will be made of, initially, three steps as described below:

**Step 1 Cession of Telefônica Data do Brasil Ltda. Quotas:**

Step 1 constitutes of the cession and transfer, in March 8<sup>th</sup> of 2006, of the totality of quotas held by **TELEFÓNICA DATACORP, S.A** company constituted and existent under Spanish laws, with its headquarters at Gran Via, 28, City of Madrid, Spain with CIF nº A-82/196964, and registered under CNPJ/MF # 05.712.863/0001-05, in **TELEFÔNICA DATA DO BRASIL LTDA.**, with headquarters at Avenida Brigadeiro Faria Lima nº 1.188, 11º andar in the city of São Paulo, State of São Paulo registered under CNPJ/MF # 03.056.714/0001 ( **T DATA BRASIL** ), to **SP TELECOMUNICAÇÕES HOLDING LTDA.**, with headquarters at Rua Martiniano de Carvalho nº 851, 20º andar in the city of São Paulo, State of São Paulo registered under CNPJ/MF # 01.900.954/0001-13.

With the implementation of Step 1, the capital stock of T DATA BRASIL of R\$501.671.703,00 (five hundred and one million, six hundred seventy one thousand, seven hundred and three Brazilian Reais), divided into 501.671.703 (five hundred and one million, six hundred seventy one thousand, seven hundred and three) quotas, at the nominal value of R\$1,00 (one Brazilian Real) each, is distributed amongst its shareholder in the following manner:

(a) The shareholder SP TELECOMUNICAÇÕES HOLDING LTDA. has 501.671.702 (five hundred and one million, six hundred seventy one thousand, seven hundred and two) quotas, at the total value of R\$501.671.702,00 (five hundred and one million, six hundred seventy one thousand, seven hundred and two Brazilian Reais); and

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(b) The shareholder PEDRO RIVIERE TORRADO has 1 (one) quota, at the total value of R\$1,00 (one Brazilian Real).

Therefore, it has occurred a substitution of the indirect shareholder of T EMPRESAS, that, with the objective of keeping up-to-date its shareholder composition with ANATEL, and to comply with the legal regulations, come to communicate this alteration and commits to send to ANATEL a copy of the 8<sup>th</sup> Contractual Alteration of T DATA BRASIL, document that formalized the cession and transfer of its quotas, within 20 (twenty) running days from its registration at Junta Comercial do Estado de São Paulo, as outlined on article 41 of the SCM Regulation.

Diretoria de Assuntos Jurídico-Regulatórios

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Telefone: 55 11 3549-7071 - Fax: 55 11 3549-8747

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**Step 2 Merger of Telefônica Data Brasil Holding S.A. into TELESP**

Step 2 is comprised of the merger, by TELESP, of **TELEFÔNICA DATA BRASIL HOLDING S.A.**, a listed company with headquarters at Avenida Brigadeiro Faria Lima nº 1.188, 11º andar in the city of São Paulo, State of São Paulo registered under CNPJ/MF # 04.295.166/0001-33 ( **TDBH** ), holding company whose main asset is its participation of 100% of the capital stock of T EMPRESAS ( **Merger** ).

Once the merger is approved by the General Shareholders Meeting of the involved companies, (i) TDBH will be extinct, (ii) TDBH's shareholders will receive common or preferred shares, or *American Depositary Shares* ( **ADS** ), depending on each case, issued by TELESP, (iii) TELESP will succeed TDBH in all of its rights and obligations, and (iv) T EMPRESAS will become a wholly owned subsidiary of TELESP.

As a consequence of Step 2 (Merger), the capital stock of TELESP will be increased in R\$597,124,147.33 (five hundred ninety seven million, one hundred twenty four thousand, one hundred forty seven Reais and thirty three cents), going from R\$5,978,073,811.88 (five billion, nine hundred seventy eight million, seventy three thousand, eight hundred eleven reais and eighty eight cents) to R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents).

As such, after deliberating about the Merger, the General Shareholders Meeting of TELESP shall approve the modification of the heading of article 5 of the bylaws of TELESP, which will have the following wording: *Art. 5 The subscribed capital stock, which is fully paid-in, is R\$6,575,197,959.21 (six billion, five hundred seventy five million, one hundred ninety seven thousand, nine hundred fifty nine Reais and twenty one cents), divided into 506,237,272 (five hundred six million, two hundred thirty seven thousand, two hundred seventy two) shares, of which 168,819,870 (one hundred sixty eight million, eight hundred nineteen thousand, eight hundred seventy) are common shares and 337,417,402 (three hundred thirty seven million, four hundred seventeen thousand, four hundred two) are preferred shares, all of them book-entry shares without par value* . There will not be any modification of TELESP's bylaws as a result of the Spin-Off.

In order to tend to the dispositions of Clause 16.1, XXL, of the Concession contracts signed between TELESP and ANATEL, TELESP previously submits to your knowledge the modification it intends to do on its bylaws relative to its capital stock composition, as stated above.

Notwithstanding, with the implementation of Step 2 (Merger), there will be the substitution of T EMPRESAS direct shareholder, which will now be TELESP in substitution of TDBH. With the objective of keeping up-to-date its shareholder composition with ANATEL, and to comply with the legal dispositions, T EMPRESAS commits to communicate that modification when it occurs.

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**STEP 3 Partial Spin-off of T EMPRESAS, with the merging of the spun-off part into TELESP**

Step 3, which will occur sequentially to Step 2, consists of the partial spin-off of T EMPRESAS, with the transfer to TELESP of all the assets and the activities of the SCM service of T EMPRESAS in the regions in which the service is currently being directly provided by TELESP ( **Spin-off** ), that is, sectors 31, 32 and 34 of Region III of Annex II of the General Concession Plan (Decree # 2.534, of April 21 1998).

Once the Spin-off is approved by the General Shareholder Meetings of the involved companies, there will be a capital reduction on the capital stock of T EMPRESAS, which will continue with the SCM activities in the regions which that service is no offered by TELESP, as well as the assets and activities of IT and data center.

With the objective of keeping up-to-date the shareholder composition of T EMPRESAS with ANATEL, and to comply with the legal dispositions, T EMPRESAS also commits to communicate that modification when it occurs as an effect of Step 3.

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Once approved the Merger and Spin-off operations, TELESP and T EMPRESAS commit to send to ANATEL a copy of the minutes of their respective General Shareholders Meetings, as well as their new Bylaws.

Of all that has been shown, it is clear that there will be no control or concession transfer in the Restructuring Process described above, therefore, none of its Steps are subject to previous authorization from ANATEL.

At last, we clarify that (i) T EMPRESAS and TELESP are in regular compliance with FISTEL, (ii) on this date it has been signed the Contract and Justification of Merger of Telefônica Data Brasil Holding S.A. into Telecomunicações de São Paulo S.A. - TELESP and the partial Spin-off of Telefônica Empresas S.A. by the directors of TDBH, T EMPRESAS e TELESP, and (iii) according to all terms of the applicable law, all documents relative to the restructuring were sent to the Comissão de Valores Mobiliários (CVM), *U.S. Securities Exchange Commission* (SEC) e Bolsa de Valores de São Paulo (BOVESPA). We urge you to confer a strictly confidential status to the restructuring until this letter and the Relevant Fact of the Restructuring are published, in accordance to the applicable law.

We remain at entire disposal of ANATEL to any further clarification that you gentlemen find necessary.

Sincerely,

**CAMILLA T. DE TOLEDO TÁPIAS**  
TELECOMUNICAÇÕES DE

SÃO PAULO S.A. TELESP

**JOÃO PAULO ROSSI JULIO**  
TELEFÔNICA EMPRESAS S.A.

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