

TELESP HOLDING CO  
Form 20-F  
April 12, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-14475

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

(Exact name of Registrant as specified in its charter)

# Telecommunications of São Paulo Telesp

(Translation of Registrant's name into English)

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Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Rua Martiniano de Carvalho, 851 21º andar

01321-001 São Paulo, SP, Brasil

(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Preferred Shares, without par value	New York Stock Exchange*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing 1 share of Preferred Stock	New York Stock Exchange

\* Not for trading purposes, but only in connection with the registration on the New York Stock Exchange of American Depositary Shares representing those Preferred Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

[None]

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

[None]

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares as of December 31, 2005 was:

Title of Class	Number of Shares Outstanding
Shares of Common Stock	164,061,698
Shares of Preferred Stock	327,968,193

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

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Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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**INTRODUCTION**

References in this annual report to Telesp, we, our, us and the company are to Telecomunicações de São Paulo S.A. TELESP and its consolidated subsidiaries (unless the context otherwise requires). In addition, all references in this annual report to:

ADSs are to our American Depositary Shares, each representing 1 share of our non-voting preferred shares;

ANATEL are to *Agência Nacional de Telecomunicações* ANATEL, the National Telecommunications Agency of Brazil;

BOVESPA are to the *Bolsa de Valores de São Paulo*, or the São Paulo Stock Exchange;

Brazilian Central Bank or Central Bank are to the *Banco Central do Brasil*, the Central Bank of Brazil;

Brazilian Corporate Law are to the *Lei das Sociedades por Ações*, Law No. 6,404 of December 1976, as amended;

Brazilian government are to the federal government of the Federative Republic of Brazil;

CMN are to the *Conselho Monetário Nacional*, the Monetary Council of Brazil;

Commission or SEC are to the U.S. Securities and Exchange Commission;

Corporate Law Method is the accounting practice to be followed in the preparation of our financial statements for regulatory and statutory purposes prescribed by the Brazilian Corporate Law and accounting standards issued by the CVM and the Independent Auditors Institute of Brazil (*Instituto dos Auditores Independentes do Brasil* IBRACON);

CVM are to the *Comissão de Valores Mobiliários*, the Securities Commission of Brazil;

General Telecommunications Law are to *Lei Geral de Telecomunicações*, as amended, which regulates the telecommunications industry in Brazil;

JPY are to Japanese Yen;

real, reais or R\$ are to Brazilian reais, the official currency of Brazil;

SEC or the Commission is the Securities and Exchange Commission; and

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US\$, dollars or U.S. dollars are to United States dollars.

Unless otherwise specified, data relating to the Brazilian telecommunications industry included in this annual report were obtained from ANATEL.

The Glossary of Telecommunications Terms that begins on page 90 provides the definition of certain technical terms used in this annual report.

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**FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain statements included in this annual report, principally in Item 3.E Risk Factors, Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects, contain information that is forward looking, including, but not limited to:

statements concerning our operations and prospects;

the size of the Brazilian telecommunications market;

estimated demand forecasts;

our ability to secure and maintain telecommunications infrastructure licenses, rights-of-way and other regulatory approvals;

our strategic initiatives and plans for business growth;

industry conditions;

our funding needs and financing sources;

network completion and product development schedules;

expected characteristics of competing networks, products and services; and

other statements of management's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

Forward-looking statements may also be identified by words such as believe, expect, anticipate, project, intend, should, seek, estimate, similar expressions. Forward-looking information involves risks and uncertainties that could significantly affect expected results. The risks and uncertainties include, but are not limited to:

the short history of our operations as an independent, private-sector entity and the ongoing introduction of greater competition to the Brazilian telecommunications sector;

the cost and availability of financing;

uncertainties relating to political and economic conditions in Brazil as well as those of other emerging markets;

inflation and exchange rate risks;

the Brazilian government's telecommunications policy; and

the adverse determination of disputes under litigation.

We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.



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**PRESENTATION OF FINANCIAL INFORMATION**

Our consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003, have been prepared in accordance with the Corporate Law Method, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 33 to our financial statements appearing elsewhere in this annual report describes the principal differences between the Corporate Law Method and U.S. GAAP as they relate to us, and provides a reconciliation to U.S. GAAP of net income and shareholders' equity. These consolidated financial statements have been audited by Deloitte Touche Tohmatsu Auditores Independientes ( "Deloitte" ) (for the years ended December 31, 2003 and 2004) and Ernst & Young Auditores Independientes S.S. ( "E&Y" ) (for the year ended December 31, 2005).

We have made rounding adjustments to reach some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data**

Our consolidated financial statements included in this annual report on Form 20-F and the selected financial data presented for the periods described below have been prepared in accordance with the Corporate Law Method, which is the same basis of accounting used in our annual and interim financial statements published in Brazil, audited by Ernst & Young Auditores Independentes. For consistent presentation, we have used the Corporate Law Method for all periods described in this annual report on Form 20-F. See Note 2 to the consolidated financial statements.

The following tables present a summary of our selected financial data at the dates and for each of the periods indicated. You should read the following information together with our audited consolidated financial statements and the notes thereto included elsewhere in this annual report and with Item 5 Operating and Financial Review and Prospects.

	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions of <i>reais</i> , except for share and per share data)				
<b>Income Statement Data:</b>					
Corporate Law Method					
Net operating revenue	14,395	13,309	11,805	10,088	9,049
Cost of services	(7,717)	(7,496)	(6,715)	(5,770)	(4,896)
Gross profit	6,678	5,813	5,090	4,318	4,153
Operating expenses, net	(2,843)	(2,544)	(2,643)	(2,207)	(1,955)
Operating income before financial income (expense)	3,835	3,269	2,447	2,111	2,198
Financial expense, net	(460)	(404)	(630)	(755)	(336)
Operating income	3,375	2,865	1,817	1,356	1,862
Net non-operating income (expense)	38	40	50	(33)	(17)
Income before taxes	3,413	2,905	1,867	1,323	1,845
Income and social contribution taxes	(871)	(724)	(279)	(247)	(269)
Net income	2,542	2,181	1,588	1,076	1,576
Earnings per share in <i>reais</i>	5.17	0.0044	0.0032	0.0022	0.0032
Cash Dividends per share in <i>reais</i> , net of income tax					
Common Shares	6.89	5.63	6.90	1.78	1.83
Preferred Shares	7.58	6.20	7.60	1.96	1.83
<i>U.S. GAAP</i>					
Net operating revenue	19,870	18,330	16,219	13,759	13,240
Operating income	3,981	3,442	2,419	1,970	1,999
Net income	2,638	2,184	2,011	675	1,652

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Net income per share:

Common shares basic and diluted (1) (3)	5.02	4.05	3.62	1.25	3.35
Weighted average number of common shares outstanding basic and diluted	164,734,052	165,320,207	165,320,207	165,321,904	165,322,470
Preferred shares basic and diluted (2) (3)	5.52	4.61	4.31	1.43	3.35
Weighted average number of preferred shares outstanding basic and diluted	328,130,540	328,272,073	328,272,073	328,325,175	328,342,876

**2001**

(1) Net income per share in accordance with U.S. GAAP

Common shares Basic and diluted	
Before cumulative effect of a change in accounting principle	3.29
Cumulative effect of a change in accounting principle	0.06
U.S. GAAP net income	3.35

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	<b>2001</b>
(2) Net income per share in accordance with U.S. GAAP	
Preferred shares Basic and diluted	
Before cumulative effect of a change in accounting principle	3.29
Cumulative effect of a change in accounting principle	0.06
U.S. GAAP net income	3.35

(3) In accordance with U.S. GAAP, the reverse stock split is reflected from 2001 onward.

	2005	2004	December 31, 2003	2002	2001
	(in millions or reais, except per share data)				
<b>Balance Sheet Data:</b>					
Corporate Law Method					
Property, plant and equipment, net	12,358	13,369	14,735	16,223	17,515
Total assets	18,849	18,752	20,123	22,361	22,828
Loans and financing current portion	247	530	1,982	2,471	2,636
Loans and financing non-current portion	2,151	2,226	995	2,115	1,368
Shareholders equity	10,204	11,399	12,269	14,483	14,699
Capital stock	5,978	5,978	5,978	5,978	5,640
Number of shares outstanding (in thousands) (4)	492,030	493,592,279	493,592,279	493,592,279	493,665,346
<i>U.S. GAAP</i>					
Property, plant and equipment, net	12,726	13,700	15,063	16,749	18,191
Total assets	19,229	19,159	20,470	23,036	23,517
Loans and financing current portion	256	478	1,878	2,305	2,543
Loans and financing non-current portion	2,151	2,231	942	2,055	1,349
Shareholders equity	10,265	11,422	12,280	14,174	14,638

(4) On May 11, 2005, the shareholders approved a reverse stock split in the proportion of 1,000 (one thousand) shares to 1 (one) share of the same class. Had the reverse stock split occurred on December 31, 2001, shares outstanding would be 493,592 in 2004, 2003 and 2002 and 493,665 in 2001.

	2005	2004	December 31, 2003	2002	2001
	(million of reais except when indicated)				
<b>Cash Flow Data:</b>					
<b>Operating activities:</b>					
Net cash provided by operating activities	5,536	5,606	4,976	4,574	3,775
<b>Investing activities:</b>					
Net cash (used in) investing activities	(1,665)	(1,415)	(1,278)	(1,614)	(4,526)
<b>Financing activities:</b>					
Net cash provided by (used in) financing activities	(3,647)	(4,167)	(3,974)	(2,675)	860
Increase (decrease) in cash and cash equivalents	224	24	(276)	285	109
Cash and cash equivalents at beginning of year	239	215	491	206	97
Cash and cash equivalents at end of year	463	239	215	491	206

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*Exchange Rates*

The regulations governing the Brazilian foreign exchange market were changed on March 14, 2005. Prior to such date, there were two principal legal foreign exchange markets in Brazil: