CANADIAN IMPERIAL BANK OF COMMERCE /CAN/
Form 424B2
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The information in this preliminary Pricing Supplement is not complete and may be changed. This preliminary Pricing Supplement and the accompanying Prospectus Supplement and Prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated January 24, 2018

PRICING SUPPLEMENT No. PS-297 dated , 2018

(To Prospectus Supplement dated March 28, 2017

and Prospectus dated March 28, 2017)

Canadian Imperial Bank of Commerce
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Senior Global Medium-Term Notes (Structured Notes)
Capped Leveraged S&P 500® Index-Linked Notes due

The notes do not bear interest. The amount that you will be paid on your notes on the stated maturity date (expected to be the third scheduled business day after the determination date) is based on the performance of the S&P 500® Index (the underlier) as measured from the trade date to and including the determination date (expected to be between 23 and 26 months after the trade date). If the final underlier level on the determination date is greater than the initial underlier level (set on the trade date and may be higher or lower than the actual closing level of the underlier on that date), the return on your notes will be positive, subject to the maximum settlement amount (expected to be between $1,180.30 and $1,211.80 for each $1,000 face amount of your notes). **If the final underlier level is less than the initial underlier level, the return on your notes will be negative.**

To determine your payment at maturity, we will calculate the underlier return, which is the percentage increase or decrease in the final underlier level from the initial underlier level. On the stated maturity date, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

- if the underlier return is *positive* (i.e. the final underlier level is *greater than* the initial underlier level), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) 3.0 *times* (c) the underlier return, subject to the maximum settlement amount; or

- if the underlier return is *zero or negative* (i.e. the final underlier level is *equal to* the initial underlier level or is *less than* the initial underlier level), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) the underlier return *times* (b) $1,000.

The notes have complex features and investing in the notes involves risks not associated with an investment in conventional debt securities. See Additional Risk Factors Specific to Your Notes herein on page PRS-11.

Our estimated value of the notes on the trade date, based on our internal pricing models, is expected to be between $957.00 and $977.00 per note. The estimated value is expected to be less than the initial issue price of the notes. See The Bank s Estimated Value of the Notes in this Pricing Supplement.

	Initial Issue Price	Price to Public	Agent s Commission	Proceeds to Issuer
Per Note	$1,000	100%*	2.00%*	98.00%
Total	$	$	$	$

*The price to the public for certain investors will be between 98.00% and 100.00% of the face amount, reflecting a foregone agent s commission with respect to such notes. See Supplemental Plan of Distribution (Conflicts of Interest) herein.

The notes are unsecured obligations of Canadian Imperial Bank of Commerce and all payments on the notes are subject to the credit risk of Canadian Imperial Bank of Commerce. The notes will not constitute deposits insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other government agency or instrumentality of Canada, the United States or any other jurisdiction.

Neither the United States Securities and Exchange Commission (the SEC) nor any state or provincial securities commission has approved or disapproved of these securities or determined if this Pricing Supplement or the accompanying Product Supplement No. 6, accompanying General Terms Supplement No. 1, accompanying Prospectus Supplement and accompanying Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The issue price, agent s commission and net proceeds listed above relate to the notes we will sell initially. We may decide to sell additional notes after the date of this Pricing Supplement, at issue prices and with agent s commissions and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment will depend in part on the issue price you pay for your notes.

CIBC World Markets Corp. or one of our other affiliates may use this Pricing Supplement in a market-making transaction in a note after its initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this Pricing Supplement is being used in a market-making transaction.

We will deliver the notes in book-entry form through the facilities of The Depository Trust Company (DTC) on or about

, 2018 against payment in immediately available funds.

CIBC World Markets

Capped Leveraged S&P 500® Index-Linked Notes due

ABOUT THIS PRICING SUPPLEMENT

You should read this Pricing Supplement together with the Prospectus dated March 28, 2017 (the Prospectus), the Prospectus Supplement dated March 28, 2017 (the Prospectus Supplement), the General Terms Supplement No. 1, dated May 1, 2017 (the General Terms Supplement), and the Product Supplement No. 6 (the Product Supplement No. 6), dated May 1, 2017, each relating to our Senior Global Medium-Term Notes (Structured Notes), for additional information about the notes. Information in this Pricing Supplement supersedes information in the Product Supplement No. 6, the General Terms Supplement, the Prospectus Supplement and the Prospectus to the extent it is different from that information. Certain defined terms used but not defined herein have the meanings set forth in the Product Supplement No. 6, the General Terms Supplement, the Prospectus Supplement or the Prospectus.

You should rely only on the information contained in or incorporated by reference in this Pricing Supplement, the accompanying Product Supplement No. 6, the accompanying General Terms Supplement, the accompanying Prospectus Supplement and the accompanying Prospectus. This Pricing Supplement may be used only for the purpose for which it has been prepared. No one is authorized to give information other than that contained in this Pricing Supplement, the accompanying Product Supplement No. 6, the accompanying General Terms Supplement, the accompanying Prospectus Supplement and the accompanying Prospectus, and in the documents referred to in this Pricing Supplement, the Product Supplement No. 6, the General Terms Supplement, the Prospectus Supplement and the Prospectus and which are made available to the public. We have not, and CIBC World Markets Corp. (CIBCWM) has not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it.

We are not, and CIBCWM is not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in or incorporated by reference in this Pricing Supplement, the accompanying Product Supplement No. 6, the accompanying General Terms Supplement, the accompanying Prospectus Supplement or the accompanying Prospectus is accurate as of any date other than the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date. Neither this Pricing Supplement, nor the accompanying Product Supplement No. 6, nor the accompanying General Terms Supplement, nor the accompanying Prospectus Supplement, nor the accompanying Prospectus constitutes an offer, or an invitation on our behalf or on behalf of CIBCWM, to subscribe for and purchase any of the notes and may not be used for or in connection with an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

References to CIBC, the Issuer, the Bank, we, us and our in this Pricing Supplement are references to Canadian Imperial Ba Commerce and not to any of our subsidiaries, unless we state otherwise or the context otherwise requires.

You may access the Product Supplement No. 6, the General Terms Supplement, the Prospectus Supplement and the Prospectus on the SEC website www.sec.gov as follows (or if such address has changed, by reviewing our filing for the relevant date on the SEC website):

- Product Supplement No. 6, dated May 1, 2017: https://www.sec.gov/Archives/edgar/data/1045520/000110465917028390/a17-10322_19424b2.htm

- General Terms Supplement No. 1, dated May 1, 2017: https://www.sec.gov/Archives/edgar/data/1045520/000110465917028383/a17-10322_18424b2.htm

- Prospectus Supplement dated March 28, 2017 and Prospectus dated March 28, 2017 filed with the SEC on March 28, 2017: https://www.sec.gov/Archives/edgar/data/1045520/000110465917019619/a17-8647_1424b3.htm

Capped Leveraged S&P 500® Index-Linked Notes due

You should be willing to forgo:

- gains greater than a maximum settlement amount of between 118.030% and 121.180% of the face amount in exchange for 3.0x leveraged upside participation if the underlier return is positive.

- interest payments and be willing to risk losing your entire investment for the potential to earn 300.00% of any positive underlier return up to a maximum settlement amount of between 118.030% and 121.180% of the face amount.

Your maximum return on your notes will not be greater than between 18.030% and 21.180%, and you could lose all or a substantial portion of your investment.

At maturity, for each $1,000 face amount, the investor will receive (in each case as a percentage of the face amount):

- if the final underlier level is greater than 100.00% of the initial underlier level, 100.00% *plus* 300.00% times the underlier return, subject to a maximum settlement amount of between 118.030% and 121.180%; or

- if the final underlier level is equal to or less than 100.00% of the initial underlier level, 100.00% *minus* 1.00% for every 1.00% that the final underlier level has declined below the initial underlier level

If the final underlier level is less than the initial underlier level, the return on the notes will be negative and the investor could lose their entire investment in the notes.

Issuer:	Canadian Imperial Bank of Commerce
Underlier:	The S&P 500® Index (Bloomberg symbol, SPX Index)
Face Amount:	$ in the aggregate; each note will have a face amount equal to $1,000
Trade Date:	, 2018
Settlement Date:	Expected to be the fifth scheduled business day following the trade date
Determination Date:	Expected to be between 23 and 26 months following the trade date
Stated Maturity Date:	Expected to be the third scheduled business day following the determination date
Initial Underlier Level:	To be determined on the trade date
Final Underlier Level:	The closing level of the underlier on the determination date
Underlier Return:	The *quotient* of (i) the final underlier level *minus* the initial underlier level *divided by* (ii) the initial underlier level, expressed as a positive or negative percentage
Upside Participation Rate:	300.00%
Maximum Settlement Amount:	Expected to be between $1,180.30 and $1,211.80
Cap Level:	Expected to be between 106.01% and 107.06% of the initial underlier level
CUSIP/ISIN:	13605WJJ1 / US13605WJJ18

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Capped Leveraged S&P 500® Index-Linked Notes due

Hypothetical Final Underlier Level (as % of Initial Underlier Level)	Hypothetical Cash Settlement Amount (as % of Face Amount)
150.000%	118.030%
140.000%	118.030%
130.000%	118.030%
120.000%	118.030%
110.000%	118.030%
106.010%	**118.030 %**
105.000%	115.000%
103.000%	109.000%
101.000%	103.000%
100.000%	**100.000%**
95.000%	95.000%
90.000%	90.000%
75.000%	75.000%
50.000%	50.000%
25.000%	25.000%
0.000%	**0.000%**

* Assumes a cap level set at the bottom of the cap level range (between 106.01% and 107.06% of the initial underlier level)

Investing in the notes involves significant risks. Please read the section entitled Additional Risk Factors Specific to Your Notes in this Pricing Supplement as well as the risks and considerations described under Additional Risk Factors Specific to the Underlier-Linked Notes in the accompanying Product Supplement No. 6, under Additional Risk Factors Specific to the Notes in the accompanying General Terms Supplement, under Risk Factors in the accompanying Prospectus Supplement, and under Risk Factors in the accompanying Prospectus.

Capped Leveraged S&P 500® Index-Linked Notes due

SUMMARY INFORMATION

We refer to the notes we are offering by this Pricing Supplement as the offered notes or the notes . Each of the offered notes has the terms described below. The notes will be issued under the indenture, dated as of September 15, 2012, between the Bank and Deutsche Bank Trust Company Americas, as trustee, which we refer to herein as the indenture. This section is meant as a summary and should be read in conjunction with the section entitled General Terms of the Underlier-Linked Notes in the accompanying Product Supplement No. 6 and Supplemental Terms of the Notes in the accompanying General Terms Supplement. Please note that certain features, as noted below, described in the accompanying Product Supplement No. 6 and General Terms Supplement are not applicable to the notes. This Pricing Supplement supersedes any conflicting provisions of the accompanying Product Supplement No. 6 or the accompanying General Terms Supplement.

Key Terms

Issuer: Canadian Imperial Bank of Commerce

Underlier: the S&P 500® Index (Bloomberg symbol, SPX Index), as published by S&P Dow Jones Indices LLC (S&P)

Specified currency: U.S. dollars ($)

Terms to be specified in accordance with the accompanying Product Supplement No. 6:

- type of notes: notes linked to a single underlier
- exchange rates: not applicable

- averaging dates: not applicable
- redemption right or price dependent redemption right: not applicable
- cap level: yes, as described below
- buffer level: not applicable
- interest: not applicable

Face amount: each note will have a face amount of $1,000; $ in the aggregate for all the offered notes; the aggregate face amount of the offered notes may be increased if the Issuer, at its sole option, decides to sell an additional amount of the offered notes on a date subsequent to the date of this Pricing Supplement

Minimum Investment: $1,000 (one note)

Denominations: $1,000 and integral multiples of $1,000 in excess thereof

Purchase at amount other than face amount: the amount we will pay you on the stated maturity date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or a discount) to face amount and hold them to the stated maturity date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at face amount. Additionally, the cap level would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See Additional Risk Factors Specific to Your Notes If You Purchase Your Notes at a Premium to Face Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at Face Amount and the Impact of Certain Key Terms of the Notes Will Be Negatively Affected in this Pricing Supplement.

Cash settlement amount (on the stated maturity date): for each $1,000 face amount of your notes, we will pay you on the stated maturity date an amount in cash equal to:

- if the final underlier level is *greater than* or *equal to* the cap level, the maximum settlement amount;

- if the final underlier level is *greater than* the initial underlier level but *less than* the cap level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the upside participation rate *times* (c) the underlier return; or

- if the final underlier level is *equal to or less than* the initial underlier level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) the underlier return *times* (b) $1,000.

Capped Leveraged S&P 500® Index-Linked Notes due

Initial underlier level (set on the trade date and may be higher or lower than the actual closing level of the underlier on that date):

Final underlier level: the closing level of the underlier on the determination date, except in the limited circumstances described under Supplemental Terms of the Notes Consequences of a Market Disruption Event or a Non-Trading Day in the accompanying General Terms Supplement and subject to adjustment as provided under Supplemental Terms of the Notes Discontinuance or Modification of an Underlier in the accompanying General Terms Supplement

Underlier return: the *quotient* of (1) the final underlier level *minus* the initial underlier level *divided* by (2) the initial underlier level, expressed as a positive or negative percentage

Upside participation rate: 300.00%

Cap level (set on the trade date): expected to be between 106.01% and 107.06% of the initial underlier level

Maximum settlement amount (set on the trade date): expected to be between $1,180.30 and $1,211.80

Trade date: , 2018

Original issue date (settlement date) (set on the trade date): expected to be the fifth scheduled business day following the trade date

Determination date (set on the trade date): a specified date that is expected to be between 23 and 26 months following the trade date, subject to adjustment as described under Supplemental Terms of the Notes Determination Date in the accompanying General Terms Supplement

Stated maturity date (set on the trade date): a specified date that is expected to be the third scheduled business day following the determination date, subject to adjustment as described under Supplemental Terms of the

Notes Stated Maturity Date in the accompanying General Terms Supplement

No interest: the offered notes do not bear interest

No listing: the offered notes will not be listed on any securities exchange or interdealer quotation system

No redemption: the offered notes will not be subject to redemption right or price dependent redemption right

Closing level: as described under Supplemental Terms of the Notes Special Calculation Provisions Closing Level in the accompanying General Terms Supplement

Business day: as described under Supplemental Terms of the Notes Special Calculation Provisions Business Day in the accompanying General Terms Supplement

Trading day: as described under Supplemental Terms of the Notes Special Calculation Provisions Trading Day in the accompanying General Terms Supplement

Use of proceeds and hedging: as described under Use of Proceeds and Hedging in the accompanying Product Supplement No. 6

ERISA: as described under Certain U.S. Benefit Plan Investor Considerations in the accompanying Product Supplement No. 6

Calculation agent: Canadian Imperial Bank of Commerce. We may appoint a different calculation agent without your consent and without notifying you

CUSIP no.: 13605WJJ1

ISIN no.: US13605WJJ18

Status: The notes will constitute direct, unsubordinated and unsecured obligations of CIBC ranking equally with all other direct, unsecured and unsubordinated indebtedness of CIBC from time to time outstanding (except as otherwise prescribed by law). The notes will not constitute deposits insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other government agency or instrumentality of Canada, the United States or any other jurisdiction

Clearance and Settlement: We will issue the notes in the form of a fully registered global note registered in the name of the nominee of DTC. Beneficial interests in the notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Except in the limited circumstances described in the accompanying Prospectus, owners of beneficial interests in the notes will not be entitled to have notes registered in their names, will not receive or be entitled to receive notes in definitive form and will not be considered holders of notes under the indenture

Capped Leveraged S&P 500® Index-Linked Notes due

HYPOTHETICAL EXAMPLES

The following table and chart are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and merely are intended to illustrate the impact that the various hypothetical underlier levels on the determination date could have on the cash settlement amount at maturity assuming all other variables remain constant.

The examples below are based on a range of final underlier levels that are entirely hypothetical; the underlier level on any day throughout the life of the notes, including the final underlier level on the determination date, cannot be predicted. The underlier has been highly volatile in the past meaning that the underlier level has changed considerably in relatively short periods and its performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the face amount and held to the stated maturity date. If you sell your notes in a secondary market prior to the stated maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the table below, such as interest rates, the volatility of the underlier and the creditworthiness of CIBC. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by CIBC) will be less than the original issue price of your notes. For more information on the estimated value of your notes, see Additional Risk Factors Specific to Your Notes The Bank s Estimated Value of the Notes Will Be Lower than the Original Issue Price (Price to Public) of the Notes in this Pricing Supplement and The Bank s Estimated Value of the Notes in this Pricing Supplement. The information in the following hypothetical examples also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions	
Face amount	$1,000
Upside participation rate	300.00%
Cap level	106.01% of the initial underlier level
Maximum settlement amount	$1,180.30

- Neither a market disruption event nor a non-trading day occurs on the originally scheduled determination date
- No change in or affecting any of the underlier stocks or the method by which the underlier sponsor calculates the underlier
- Notes purchased on original issue date at the face amount and held to the stated maturity date

Moreover, we have not yet set the initial underlier level that will serve as the baseline for determining the underlier return and the cash settlement amount that we will pay on your notes, if any, at maturity. We will not do so until the trade date. As a result, the actual initial underlier level may differ substantially from the underlier level prior to the trade date and may be higher or lower than the actual closing level of the underlier on that date.

For these reasons, the actual performance of the underlier over the life of your notes, as well as the cash settlement amount payable at maturity, if any, may bear little relation to the hypothetical examples shown below or to the historical underlier levels shown elsewhere in this Pricing Supplement. For information about the historical levels of the underlier during recent periods, see The Underlier Historical Closing Levels of the Underlier below. Before investing in the offered notes, you should consult publicly available information to determine the levels of the underlier between the date of this Pricing Supplement and the date of your purchase of the offered notes.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the underlier stocks.

Capped Leveraged S&P 500® Index-Linked Notes due

The levels in the left column of the table below represent hypothetical final underlier levels and are expressed as percentages of the initial underlier level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final underlier level, and are expressed as percentages of the face amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical cash settlement amount of 100.000% means that the value of the cash payment that we would deliver for each $1,000 of the outstanding face amount of the offered notes on the stated maturity date would equal 100.000% of the face amount of a note, based on the corresponding hypothetical final underlier level and the assumptions noted above.

Hypothetical Final Underlier Level (as Percentage of Initial Underlier Level)	**Hypothetical Cash Settlement Amount (as Percentage of Face Amount)**
150.000%	118.030%
140.000%	118.030%
130.000%	118.030%
120.000%	118.030%
110.000%	118.030%
106.010%	**118.030%**
105.000%	115.000%
103.000%	109.000%
101.000%	103.000%
100.000%	**100.000%**
95.000%	95.000%
90.000%	90.000%
75.000%	75.000%
50.000%	50.000%
25.000%	25.000%
0.000%	**0.000%**

If, for example, the final underlier level were determined to be 25.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be 25.000% of the face amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date at the face amount and held them to the stated maturity date, you would lose 75.000% of your investment (if you purchased your notes at a premium to face amount you would lose a correspondingly higher percentage of your investment). If the final underlier level were determined to be 0.000% of the initial underlier level, you would lose your entire investment in the notes. In addition, if the final underlier level were determined to be 150.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be capped at the maximum settlement amount, or 118.030% of each $1,000 face amount of your notes, as shown in the table above. As a result, if you held your notes to the stated maturity date, you would not benefit from any increase in the final underlier level of greater than 106.010% of the initial underlier level.

The following chart shows a graphical illustration of the hypothetical cash settlement amounts that we would pay on your notes on the stated maturity date, if the final underlier level were any of the hypothetical levels shown on the horizontal axis. The hypothetical cash settlement amounts in the chart are expressed as percentages of the face amount of your notes and the hypothetical final underlier levels are expressed as percentages of the initial underlier level. The chart shows that any hypothetical final underlier level of less than 100.000% would result in a hypothetical cash settlement amount of less than 100.000% of the face amount of your notes (the section below the 100.000% marker on the vertical axis) and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical final underlier level of greater than or equal to 106.010% (the section right of the 106.010% marker on the horizontal axis) would result in a capped return on your investment.

Capped Leveraged S&P 500® Index-Linked Notes due

The cash settlement amounts shown above are entirely hypothetical; they are based on market prices for the underlier stocks that may not be achieved on the determination date and on assumptions that may prove to be erroneous. The actual market value of your notes on the stated maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical cash settlement amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical cash settlement amounts on notes held to the stated maturity date in the examples above assume you purchased your notes at their face amount and have not been adjusted to reflect the actual issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the face amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read Additional Risk Factors Specific to the Underlier-Linked Notes The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors in the accompanying Product Supplement No. 6.

Payments on the notes are economically equivalent to the amounts that would be paid on a combination of other instruments. For example, payments on the notes are economically equivalent to a combination of an interest-bearing bond bought by the holder and one or more options entered into between the holder and us (with one or more implicit option premiums paid over time). The discussion in this paragraph does not modify or affect the terms of the notes or the U.S. federal income tax treatment of the notes, as described elsewhere in this Pricing Supplement.

Capped Leveraged S&P 500® Index-Linked Notes due

We cannot predict the actual final underlier level or what the market value of your notes will be on any particular trading day, nor can we predict the relationship between the underlier level and the market value of your notes at any time prior to the stated maturity date. The actual amount that you will receive, if any, at maturity and the rate of return on the offered notes will depend on the actual initial underlier level, the cap level and the maximum settlement amount, which we will set on the trade date, and the actual final underlier level determined by the calculation agent as described above. Moreover, the assumptions on which the hypothetical returns are based may turn out to be inaccurate. Consequently, the amount of cash to be paid in respect of your notes, if any, on the stated maturity date may be very different from the information reflected in the table and chart above.

Capped Leveraged S&P 500® Index-Linked Notes due

ADDITIONAL RISK FACTORS SPECIFIC TO YOUR NOTES

An investment in your notes is subject to the risks described below, as well as the risks and considerations described under Risk Factors in the accompanying Prospectus, under Risk Factors in the accompanying Prospectus Supplement, under Additional Risk Factors Specific to the Notes in the accompanying General Terms Supplement, and under Additional Risk Factors Specific to the Underlier-Linked Notes in the accompanying Product Supplement No. 6. You should carefully review these risks and considerations as well as the terms of the notes described herein and in the accompanying Prospectus, the accompanying Prospectus Supplement, the accompanying General Terms Supplement and the accompanying Product Supplement No. 6. Your notes are a riskier investment than ordinary debt securities. Also, your notes are not equivalent to investing directly in the underlier stocks, i.e., the stocks comprising the underlier to which your notes are linked. You should carefully consider whether the offered notes are suited to your particular circumstances.

The Notes Are Subject to the Credit Risk of the Bank

Although the return on the notes will be based on the performance of the underlier, the payment of any amount due on the notes is subject to the credit risk of the Bank, as issuer of the notes. The notes are our unsecured obligations. As further described in the accompanying Prospectus and Prospectus Supplement, the notes will rank on par with all of the other unsecured and unsubordinated debt obligations of the Bank, except such obligations as may be preferred by operation of law. Investors are dependent on our ability to pay all amounts due on the notes, and therefore investors are subject to our credit risk and to changes in the market s view of our creditworthiness. See Description of Senior Debt Securities Ranking on page 2 of the accompanying Prospectus.

The Amount Payable on Your Notes Is Not Linked to the Level of the Underlier at Any Time Other than the Determination Date

The final underlier level will be based on the closing level of the underlier on the determination date (subject to adjustment as described elsewhere in this Pricing Supplement). Therefore, if the closing level of the underlier dropped precipitously on the determination date, the cash settlement amount for your notes may be significantly less than it would have been had the cash settlement amount been linked to the closing level of the underlier prior to such drop in the level of the underlier. Although the actual level of the underlier on the stated maturity date or at other times during the life of your notes may be higher than the final underlier level, you will not benefit from the closing level of the underlier at any time other than on the determination date.

You May Lose Your Entire Investment in the Notes

You may lose your entire investment in the notes. The cash payment on your notes, if any, on the stated maturity date will be based on the performance of the S&P 500® Index as measured from the initial underlier level set on the trade date (which could be higher or lower than the actual closing level of the underlier on that date) to the closing level on the determination date. If the final underlier level is *less than* the initial underlier level, you will lose, for each $1,000 of the face amount of your notes, an amount equal to the *product* of (i) the underlier return *times* (ii) $1,000. Thus, you may lose your entire investment in the notes, which would include any premium to face amount you paid when you purchased the notes.

Also, the market price of your notes prior to the stated maturity date may be significantly lower than the purchase price you pay for your notes. Consequently, if you sell your notes before the stated maturity date, you may receive significantly less than the amount of your investment in the notes.

Your Notes Do Not Bear Interest

You will not receive any interest payments on your notes. As a result, even if the cash settlement amount payable for your notes on the stated maturity date exceeds the face amount of your notes, the overall return you earn on your notes may be less than you would have earned by investing in a non-index-linked debt security of comparable maturity that bears interest at a prevailing market rate.

The Potential for the Value of Your Notes to Increase Will Be Limited by the Maximum Settlement Amount

Your ability to participate in any change in the value of the underlier over the life of your notes will be limited because of the cap level. The maximum settlement amount will limit the cash settlement amount you may receive for each of your notes at maturity, no matter how much the level of the underlier may rise beyond the cap level over the life of your notes. Accordingly, the amount payable for each of your notes may be significantly less than it would have been had you invested directly in the underlier.

Capped Leveraged S&P 500® Index-Linked Notes due

The Notes Will Not Be Listed on Any Securities Exchange and We Do Not Expect A Trading Market For the Notes to Develop

The notes will not be listed or displayed on any securities exchange or any automated quotation system. Although CIBCWM and/or its affiliates may purchase the notes from holders, they are not obligated to do so and are not required to make a market for the notes. There can be no assurance that a secondary market will develop for the notes. Because we do not expect that any market makers will participate in a secondary market for the notes, the price at which you may be able to sell your notes is likely to depend on the price, if any, at which CIBCWM and/or its affiliates are willing to buy your notes.

If a secondary market does exist, it may be limited. Accordingly, there may be a limited number of buyers if you decide to sell your notes prior to the stated maturity date. This may affect the price you receive upon such sale. Consequently, you should be willing to hold the notes to the stated maturity date.

The Historical Performance of the Underlier Should Not Be Taken as an Indication of Its Future Performance

The final level of the underlier will determine the amount to be paid on the notes at maturity. The historical performance of the underlier does not necessarily give an indication of its future performance. As a result, it is impossible to predict whether the level of the underlier will rise or fall during the term of the notes. The level of the underlier will be influenced by complex and interrelated political, economic, financial and other factors.

You Have No Shareholder Rights or Rights to Receive Any Underlier Stock

Investing in the notes will not make you a holder of any of the underlier stocks. Neither you nor any other holder or owner of the notes will have any rights with respect to the underlier stocks, including any voting rights, any right to receive dividends or other distributions, any rights to make a claim against the underlier stocks or any other rights of a holder of the underlier stocks. Your notes will be paid in cash and you will have no right to receive delivery of any underlier stocks.

We May Sell an Additional Aggregate Face Amount of the Notes at a Different Issue Price

At our sole option, we may decide to sell an additional aggregate face amount of the notes subsequent to the date of this Pricing Supplement. The issue price of the notes in the subsequent sale may differ substantially (higher or lower) from the original issue price you paid as provided on the cover of this Pricing Supplement.

If You Purchase Your Notes at a Premium to Face Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at Face Amount and the Impact of Certain Key Terms of the Notes Will Be Negatively Affected

The cash settlement amount will not be adjusted based on the issue price you pay for the notes. If you purchase notes at a price that differs from the face amount of the notes, then the return on your investment in such notes held to the stated maturity date will differ from, and may be substantially less than, the return on notes purchased at face amount. If you purchase your notes at a premium to face amount and hold them to the stated maturity date, the return on your investment in the notes will be lower than it would have been had you purchased the notes at face amount or a discount to face amount. In addition, the impact of the cap level on the return on your investment will depend upon the price you pay for your notes relative to face amount. For example, if you purchase your notes at a premium to face amount, the cap level will only permit a lower positive return on your investment in the notes than would have been the case for notes purchased at face amount or a discount to face amount.

There Are Potential Conflicts of Interest Between You and the Calculation Agent

The calculation agent will, among other things, determine the cash settlement amount payable at maturity of the notes. We will serve as the calculation agent. We may appoint a different calculation agent without your consent and without notifying you. The calculation agent will exercise its judgment when performing its functions. For example, the calculation agent may have to determine whether a market disruption event affecting the underlier has occurred. This determination may, in turn, depend on the calculation agent s judgment as to whether the event has materially interfered with our ability or the ability of one of our affiliates or a similarly situated party to unwind our hedge positions. Since this determination by the calculation agent will affect the payment at maturity on the notes, the calculation agent may have a conflict of interest if it needs to make a determination of this kind. See General Terms of the Underlier-Linked Notes Role of Calculation Agent in the accompanying Product Supplement No. 6.

Capped Leveraged S&P 500® Index-Linked Notes due

The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price Is Likely to Adversely Affect Secondary Market Prices

Assuming no change in market conditions or any other relevant factors, the price, if any, at which CIBCWM or any other party is willing to purchase the notes at any time in secondary market transactions will likely be significantly lower than the original issue price, since secondary market prices are likely to exclude underwriting commissions paid with respect to the notes and the cost of hedging our obligations under the notes that are included in the original issue price. The cost of hedging includes the projected profit that we, our affiliates or any third-party who may conduct hedging activities related to the notes, including any dealer in the notes, may realize in consideration for assuming the risks inherent in managing the hedging transactions. These secondary market prices are also likely to be reduced by the costs of unwinding the related hedging transactions. In addition, any secondary market prices may differ from values determined by pricing models used by CIBCWM as a result of dealer discounts, mark-ups or other transaction costs. Furthermore, if the dealer from which you purchase notes is to conduct trading and hedging activities for us in connection with the notes, that dealer may profit in connection with such trading and hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the notes to you. You should be aware that the potential to earn a profit in connection with hedging activities may create a further incentive for the dealer to sell the notes to you, in addition to the compensation they would receive for the sale of the notes.

The Bank s Estimated Value of the Notes Will Be Lower than the Original Issue Price (Price to Public) of the Notes

The Bank s estimated value is only an estimate using several factors. The original issue price of the notes will exceed the Bank s estimated value because costs associated with selling and structuring the notes, as well as hedging the notes, are included in the original issue price of the notes. See The Bank s Estimated Value of the Notes in this Pricing Supplement.

The Bank s Estimated Value Does Not Represent Future Values of the Notes and May Differ from Others Estimates

The Bank s estimated value of the notes is determined by reference to the Bank s internal pricing models when the terms of the notes are set. This estimated value is based on market conditions and other relevant factors existing at that time and the Bank s assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions could provide valuations for the notes that are greater than or less than the Bank s estimated value. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the notes could change significantly based on, among other things, changes in market conditions, our creditworthiness, interest rate movements and other relevant factors, which may impact the price, if any, at which CIBCWM or any other person would be willing to buy notes from you in secondary market transactions. See The Bank s Estimated Value of the Notes in this Pricing Supplement.

The Bank s Estimated Value Is Not Determined by Reference to Credit Spreads for Our Conventional Fixed-Rate Debt

The internal funding rate used in the determination of the Bank s estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. If the Bank were to use the interest rate implied by our conventional fixed-rate credit spreads, we would expect the economic terms of the notes to be more favorable to you. Consequently, our use of an internal funding rate would have an adverse effect on the terms of the notes and any secondary market prices of the notes. See The Bank s Estimated Value of the Notes in this Pricing Supplement.

We Cannot Control Actions By Any of the Unaffiliated Companies Whose Securities Are Included in the Underlier

Actions by any company whose securities are included in the underlier may have an adverse effect on the price of its security, the final underlier level and the value of the notes. These companies will not be involved in the offering of the notes and will have no obligations with respect to the notes, including any obligation to take our or your interests into consideration for any reason. These companies will not receive any of the proceeds of the offering of the notes and will not be responsible for, and will not have participated in, the determination of the timing of, prices for, or quantities of, the notes to be issued. These companies will not be involved with the administration, marketing or trading of the notes and will have no obligations with respect to the cash settlement amount to be paid to you at maturity.

Capped Leveraged S&P 500® Index-Linked Notes due

We and Our Respective Affiliates Have No Affiliation with the Underlier Sponsor and Have Not Independently Verified Its Public Disclosure of Information

We and our respective affiliates are not affiliated in any way with the underlier sponsor and have no ability to control or predict its actions, including any errors in or discontinuation of disclosure regarding the methods or policies relating to the calculation of the underlier. We have derived the information about the underlier sponsor and the underlier contained herein from publicly available information, without independent verification. You, as an investor in the notes, should make your own investigation into the underlier and the underlier sponsor. The underlier sponsor is not involved in the offering of the notes made hereby in any way and has no obligation to consider your interest as an owner of notes in taking any actions that might affect the value of the notes.

The U.S. Federal Tax Consequences of An Investment in the Notes Are Unclear

There is no direct legal authority regarding the proper U.S. federal tax treatment of the notes, and we do not plan to request a ruling from the U.S. Internal Revenue Service (the IRS). Consequently, significant aspects of the tax treatment of the notes are uncertain, and the IRS or a court might not agree with the treatment of the notes as prepaid cash-settled derivative contracts. If the IRS were successful in asserting an alternative treatment of the notes, the tax consequences of the ownership and disposition of the notes might be materially and adversely affected. The U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of prepaid forward contracts and similar instruments. See Supplemental Discussion of U.S. Federal Income Tax Consequences in the accompanying Product Supplement No. 6. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect. Both U.S. and non-U.S. persons considering an investment in the notes should review carefully the section of the accompanying Product Supplement No. 6 entitled Supplemental Discussion of U.S. Federal Income Tax Consequences and consult their tax advisers regarding the U.S. federal tax consequences of an investment in the notes (including possible alternative treatments and the issues presented by the notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

There Can Be No Assurance that the Canadian Federal Income Tax Consequences of an Investment in the Notes Will Not Change in the Future

There can be no assurance that Canadian federal income tax laws, the judicial interpretation thereof, or the administrative policies and assessing practices of the Canada Revenue Agency will not be changed in a manner that adversely affects investors. For a discussion of the Canadian federal income tax consequences of investing in the notes, please read the section of this Pricing Supplement entitled Certain Canadian Federal Income Tax Considerations as well as the section entitled Material Income Tax Consequences Canadian Taxation in the accompanying Prospectus. You should consult your tax advisor with respect to your own particular situation.

Capped Leveraged S&P 500® Index-Linked Notes due

THE UNDERLIER

The S&P 500® Index (the underlier) includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The underlier is calculated, maintained and published by S&P Dow Jones Indices LLC (S&P).

As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the underlier. Constituents of the underlier prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the underlier. If a constituent company of the underlier reorganizes into a multiple share class line structure, that company will remain in the underlier at the discretion of the S&P Index Committee in order to minimize turnover. Also as of July 31, 2017, the criteria employed by S&P for purposes of making additions to the underlier were changed as follows:

- with respect to the U.S. company criterion, (i) the IEX was added as an eligible exchange for the primary listing of the relevant company s common stock and (ii) the former corporate governance structure consistent with U.S. practice requirement was removed; and

- with respect to constituents of the S&P MidCap 400® Index and the S&P SmallCap 600® Index that are being considered for addition to the underlier, the financial viability, public float and/or liquidity eligibility criteria no longer need to be met if the S&P Index Committee decides that such an addition will enhance the representativeness of the underlier as a market benchmark.

As of December 29, 2017, the 500 companies included in the underlier were divided into eleven Global Industry Classification Sectors. The Global Industry Classification Sectors include (with the approximate percentage currently included in such sectors indicated in parentheses): Information Technology (23.8%), Financials (14.8%), Health Care (13.8%), Consumer Discretionary (12.2%), Industrials (10.3%), Consumer Staples (8.2%), Energy (6.1%), Materials (3.0%), Utilities (2.9%), Real Estate (2.9%) and Telecommunication Services (2.1%). Sector designations are determined by the underlier sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices. S&P and MSCI, Inc. have announced that the Global Industry Classification Sector structure is expected to be updated after the close of business on September 28, 2018. Among other things, the update is expected to broaden the current Telecommunication Services sector and rename it the Communication Services sector. The renamed sector is expected to include the existing telecommunication companies, as well as companies selected from the Consumer Discretionary sector currently classified under the Media industry group and the Internet & Direct Marketing Retail sub-industry, along with select companies currently classified in the Information Technology sector. Further, companies that operate online marketplaces for consumer products and services are expected to be included under the Internet & Direct Marketing sub-industry of the Consumer Discretionary sector, regardless of whether they hold inventory.

The above information supplements the description of the underlier found in the accompanying General Terms Supplement. This information was derived from information prepared by the underlier sponsor, however, the percentages we have listed above are approximate and may not match the information available on the underlier sponsor s website due to subsequent corporation actions or other activity relating to a particular stock. For more details about the underlier, the underlier sponsor and license agreement between the underlier sponsor and the Issuer, see The Underliers S&P 500® Index in the accompanying General Terms Supplement.

License Agreement

We and S&P have entered into a non-transferable, non-exclusive license agreement providing for the sublicense to us, in exchange for a fee, of the right to use the S&P 500® Index in connection with the issuance of the notes.

The S&P 500® Index is a product of S&P Dow Jones Indices LLC (SPDJI), and has been licensed for use by CIBC. Standard & Poor s®, S&P® and S&P 500® are registered trademarks of Standard & Poor s Financial Services LLC; Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by CIBC.

Capped Leveraged S&P 500® Index-Linked Notes due

The notes are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, Standard & Poor s Financial Services LLC, or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in the notes nor do they have any liability for any errors, omissions, or interruptions of the S&P 500® Index.

Historical Closing Levels of the Underlier

The closing level of the underlier has fluctuated in the past and may, in the future, experience significant fluctuations. Any historical upward or downward trend in the closing level of the underlier during the period shown below is not an indication that the underlier is more or less likely to increase or decrease at any time during the life of your notes.

You should not take the historical levels of the underlier as an indication of the future performance of the underlier. We cannot give you any assurance that the future performance of the underlier or the underlier stocks will result in your receiving an amount greater than the outstanding face amount of your notes on the stated maturity date.

Neither we nor any of our affiliates make any representation to you as to the performance of the underlier. Before investing in the offered notes, you should consult publicly available information to determine the levels of the underlier between the date of this Pricing Supplement and the date of your purchase of the offered notes. The actual performance of the underlier over the life of the offered notes, as well as the cash settlement amount, may bear little relation to the historical closing levels shown below.

The graph below shows the daily historical closing levels of the underlier from January 23, 2008 through January 23, 2018. We obtained the closing levels in the graph below from Bloomberg Financial Services, without independent verification.

PRS-15

Capped Leveraged S&P 500® Index-Linked Notes due

THE BANK S ESTIMATED VALUE OF THE NOTES

The Bank s estimated value of the notes set forth on the cover of this Pricing Supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the notes, valued using our internal funding rate for structured debt described below, and (2) the derivative or derivatives underlying the economic terms of the notes. The Bank s estimated value does not represent a minimum price at which CIBCWM or any other person would be willing to buy your notes in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the Bank s estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The discount is based on, among other things, our view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for our conventional fixed-rate debt. For additional information, see Additional Risk Factors Specific to Your Notes The Bank s Estimated Value Is Not Determined by Reference to Credit Spreads for Our Conventional Fixed-Rate Debt in this Pricing Supplement. The value of the derivative or derivatives underlying the economic terms of the notes is derived from the Bank s or a third party hedge provider s internal pricing models. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the Bank s estimated value of the notes is determined when the terms of the notes are set based on market conditions and other relevant factors and assumptions existing at that time. See Additional Risk Factors Specific to Your Notes The Bank s Estimated Value Does Not Represent Future Values of the Notes and May Differ from Others Estimates in this Pricing Supplement.

The Bank s estimated value of the notes will be lower than the original issue price of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions paid to the Bank and other affiliated or unaffiliated dealers, the projected profits that our hedge counterparties, which may include our affiliates, expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. We or one or more of our affiliates will retain any profits realized in hedging our obligations under the notes. See Additional Risk Factors Specific to Your Notes The Bank s Estimated Value of the Notes Will Be Lower Than the Original Issue Price (Price to Public) of the Notes in this Pricing Supplement.

Capped Leveraged S&P 500® Index-Linked Notes due

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

Pursuant to the terms of a distribution agreement, the Bank expects to agree to sell to CIBCWM, and CIBCWM expects to agree to purchase from the Bank, the aggregate face amount of the offered notes specified on the front cover of this Pricing Supplement. CIBCWM proposes initially to offer the notes to the public at the price to public set forth on the cover page of this Pricing Supplement, and to certain unaffiliated securities dealers at such price less a concession not in excess of 2.00% of the face amount. The price to the public for notes purchased by certain fee-based advisory accounts will be between 98.00% and 100.00% of the face amount, which reflects a foregone agent s commission with respect to such notes (i.e., the agent s commission specified on the cover of this Pricing Supplement with respect to such notes is 0.00%).

The Bank owns, directly or indirectly, all of the outstanding equity securities of CIBCWM. In accordance with FINRA Rule 5121, CIBCWM may not make sales in this offering to any of its discretionary accounts without the prior written approval of the customer.

We expect to deliver the notes against payment therefor in New York, New York on , 2018, which is expected to be the fifth scheduled business day following the date of this Pricing Supplement and of the pricing of the notes. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required, by virtue of the fact that the notes are expected to settle in five business days (T + 5), to specify alternative settlement arrangements to prevent a failed settlement.

The Bank may use this Pricing Supplement in the initial sale of the notes. In addition, CIBCWM or another of the Bank s affiliates may use this Pricing Supplement in market-making transactions in any notes after their initial sale. Unless CIBCWM or we inform you otherwise in the confirmation of sale, this Pricing Supplement is being used by CIBCWM in a market-making transaction.

While CIBCWM may make markets in the notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. The price that it makes available from time to time after the issue date at which it would be willing to repurchase the notes will generally reflect its estimate of their value. That estimated value will be based upon a variety of factors, including then prevailing market conditions, our creditworthiness and transaction costs. However, for a period of approximately three months after the trade date, the price at which CIBCWM may repurchase the notes is expected to be higher than their estimated value at that time. This is because, at the beginning of this period, that price will not include certain costs that were included in the original issue price, particularly our hedging costs and profits. As the period continues, these costs are expected to be gradually included in the price that CIBCWM would be willing to pay, and the difference between that price and CIBCWM s estimate of the value of the notes will decrease over time until the end of this period. After this period, if CIBCWM continues to make a market in the notes, the prices that it would pay for them are expected to reflect its estimated value, as well as customary bid-ask spreads for similar trades. In addition, the value of the notes shown on your account statement may not be identical to the price at which CIBCWM would be willing to purchase the notes at that time, and could be lower than CIBCWM s price. See the section titled Supplemental Plan of Distribution Conflicts of Interest in the accompanying Prospectus Supplement.

The price at which you purchase the notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the notes.

Any notes which are the subject of the offering contemplated by this Pricing Supplement, the accompanying Product Supplement No. 6, accompanying General Terms Supplement No. 1, accompanying Prospectus Supplement and accompanying Prospectus may not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the EEA). Consequently no key information document required by Regulation (EU) No 1286/2014

Capped Leveraged S&P 500® Index-Linked Notes due

(the PRIIPs Regulation) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation. For the purposes of this provision:

(a) the expression retail investor means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or

(ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC; and

(b) the expression an offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes.

Capped Leveraged S&P 500® Index-Linked Notes due

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a brief summary of the material U.S. federal income tax considerations relating to an investment in the notes. The following summary is not complete and is both qualified and supplemented by the discussion entitled Supplemental Discussion of U.S. Federal Income Tax Consequences in the accompanying Product Supplement No. 6, which you should carefully review prior to investing in the notes.

The U.S. federal income tax considerations of your investment in the notes are uncertain. No statutory, judicial or administrative authority directly discusses how the notes should be treated for U.S. federal income tax purposes. In the opinion of our tax counsel, Mayer Brown LLP, it would generally be reasonable to treat the notes as prepaid cash-settled derivative contracts. Pursuant to the terms of the notes, you agree to treat the notes in this manner for all U.S. federal income tax purposes. If this treatment is respected, you should generally recognize capital gain or loss upon the sale, exchange or payment upon maturity in an amount equal to the difference between the amount you receive in such transaction and the amount that you paid for your notes. Such gain or loss should generally be treated as long-term capital gain or loss if you have held your notes for more than one year.

The expected characterization of the notes is not binding on the IRS or the courts. It is possible that the IRS would seek to characterize the notes in a manner that results in tax consequences to you that are different from those described above or in the accompanying Product Supplement No. 6. Such alternate treatments could include a requirement that a holder accrue ordinary income over the life of the notes or treat all gain or loss at maturity as ordinary gain or loss. For a more detailed discussion of certain alternative characterizations with respect to the notes and certain other considerations with respect to an investment in the notes, you should consider the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences of Product Supplement No. 6. We are not responsible for any adverse consequences that you may experience as a result of any alternative characterization of the notes for U.S. federal income tax or other tax purposes.

U.S. tax rules treat certain financial products issued to non-U.S. holders in 2017 or thereafter as giving rise to withholdable dividend equivalent payments when the financial product provides a payment or credit in respect of dividend payments on certain U.S. underliers. These rules do not apply if the financial product references a qualified index and does not contain short positions on more than 5 percent of the components within the index. Additionally, Treasury Regulations exclude financial products issued prior to 2019 that are not delta-one with respect to underlying securities that could pay withholdable dividend equivalent payments. In the opinion of Mayer Brown LLP, these rules should not apply to the notes.

Capped Leveraged S&P 500® Index-Linked Notes due

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, our Canadian tax counsel, the following summary describes the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the Canadian Tax Act) generally applicable at the date hereof to a purchaser who acquires beneficial ownership of a note pursuant to this Pricing Supplement and who for the purposes of the Canadian Tax Act and the regulations thereto and at all relevant times: (a) is neither resident nor deemed to be resident in Canada; (b) deals at arm s length with CIBC and any transferee resident (or deemed to be resident) in Canada to whom the purchaser disposes of the note; (c) does not use or hold and is not deemed to use or hold the note in, or in the course of, carrying on a business in Canada; (d) is entitled to receive all payments (including any interest and principal) made on the note, and (e) is not a, and deals at arm s length with any, specified shareholder of CIBC for purposes of the thin capitalization rules in the Canadian Tax Act (a Non-Resident Holder). A specified shareholder for these purposes generally includes a person who (either alone or together with persons with whom that person is not dealing at arm s length for the purposes of the Canadian Tax Act) owns or has the right to acquire or control or is otherwise deemed to own 25% or more of CIBC s shares determined on a votes or fair market value basis. Special rules which apply to non-resident insurers carrying on business in Canada and elsewhere are not discussed in this summary.

This summary is supplemental to and should be read together with the description of material Canadian federal income tax considerations relevant to a Non-Resident Holder owning notes under Material Income Tax Consequences Canadian Taxation in the accompanying Prospectus and a Non-Resident Holder should carefully read that description as well.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Non-Resident Holder. Non-Resident Holders are advised to consult with their own tax advisors with respect to their particular circumstances.

Based on Canadian tax counsel s understanding of the Canada Revenue Agency s administrative policies and having regard to the terms of the notes, interest payable on the notes should not be considered to be participating debt interest as defined in the Canadian Tax Act and accordingly, a Non-Resident Holder should not be subject to Canadian non-resident withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by CIBC on a note as, on account of or in lieu of payment of, or in satisfaction of, interest.

Non-Resident Holders should consult their own tax advisors regarding the consequences to them of a disposition of the notes to a person with whom they are not dealing at arm s length for purposes of the Canadian Tax Act.

Capped Leveraged S&P 500® Index-Linked Notes due

We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this Pricing Supplement, the accompanying Product Supplement No.6, the accompanying General Terms Supplement, the accompanying Prospectus Supplement or the accompanying Prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This Pricing Supplement, the accompanying Product Supplement No. 6, the accompanying General Terms Supplement, the accompanying Prospectus Supplement and the accompanying Prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Pricing Supplement, the accompanying Product Supplement No. 6, the accompanying General Terms Supplement, the accompanying Prospectus Supplement and the accompanying Prospectus is current only as of the respective dates of such documents.

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Pricing Supplement

Prospectus dated March 28, 2017

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Canadian Imperial Bank of Commerce

Senior Global Medium-Term Notes (Structured Notes)

Capped Leveraged S&P 500® Index-Linked Notes due

CIBC World Markets

16.501.567 14,026,485

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005
(In thousands of reais)

14. Property, Plant and Equipment, Net (Continued)

	Consolidated
	2006

	Annual depreciation rate%	Cost	Accumulated depreciation	Net balance	Cost
Property, plant and equipment		**39,471,399**	**(29,085,089)**	**10,386,310**	37,714,098
Switching and transmission equipment	12.50 to 20.00	**16,574,992**	**(13,589,154)**	**2,985,838**	15,893,532
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	**12,174,146**	**(9,154,475)**	**3,019,671**	11,569,647
Transmission equipment - modems	20.00	**709,915**	**(533,127)**	**176,788**	597,184
Underground and undersea cables, poles and towers	5.00 to 6.67	**416,911**	**(232,427)**	**184,484**	407,157
Subscriber, public and booth equipment	12.50	**2,107,014**	**(1,399,038)**	**707,976**	1,951,370
IT equipment	20.00	**575,836**	**(468,959)**	**106,877**	519,396
Buildings and underground cables	4.00	**6,513,350**	**(3,607,751)**	**2,905,599**	6,429,416
Vehicles	20.00	**61,308**	**(36,036)**	**25,272**	56,154
Land	-	**254,005**	**-**	**254,005**	253,802
Other	4.00 to 20.00	**83,922**	**(64,122)**	**19,800**	36,440
Property, plant and equipment in progress	-	**362,253**	**-**	**362,253**	317,246
Total		**39,833,652**	**(29,085,089)**	**10,748,563**	38,031,344
Average annual depreciation rates - %		**10.11**			10.23
Assets fully depreciated		**16.541.640**			14,031,817

15. Intangible Assets, Net

	Company				
	2006				
	Annual depreciation rate %	**Cost**	**Accumulated depreciation**	**Net balance**	**Cost**

Trademarks and patents	10.00	**1,511**	**(1,511)**	**-**	1,470
Software	20.00	**1,819,982**	**(1,016,214)**	**803,768**	1,498,955
Other	20.00	**155,393**	**(104,851)**	**50,542**	94,721
Total		**1,976,886**	**(1,122,576)**	**854,310**	1,595,146
Average annual depreciation rates %		**19.68**			19.43
Assets fully depreciated		**467.560**			222,141

TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)
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15. Intangible Assets, Net (Continued)

	Consolidated					
		2006			2005	
	Annual depreciation rate%	**Cost**	**Accumulated depreciation**	**Net balance**	**Cost**	**Accumulated depreciation**
Trademarks and patents	10.00	**1,517**	**(1,511)**	**6**	1,476	(1,470)
Software	20.00	**1,928,952**	**(1,084,052)**	**844,900**	1,578,412	(777,758)
Other	20.00	**166,334**	**(108,327)**	**58,007**	105,576	(80,128)
Total		**2,096,803**	**(1,193,890)**	**902,913**	1,685,464	(859,356)
Average annual depreciation rates %		**19.67**			19.45	
Assets fully depreciated		**471.117**			222,519	

16. Deferred Charges

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

	Company		Consolidated	
	2006	2005	2006	2005
Pre-operating expenses (a)	**3,719**	14,877	**8,306**	20,416
Cost	**55,788**	55,788	**65,279**	65,279
Accumulated amortization	**(52,069)**	(40,911)	**(56,973)**	(44,863)
Goodwill on acquisition of the IP network (b)	**43,537**	50,718	**43,537**	50,718
Cost	**72,561**	72,561	**72,561**	72,561
Accumulated amortization	**(29,024)**	(21,843)	**(29,024)**	(21,843)
Spanish and Figueira goodwill (merged from TDBH) (c)	**248,311**	-	**248,311**	-
Cost	**301,276**	-	**301,276**	-
Accumulated amortization	**(52,965)**	-	**(52,965)**	-
Other	**-**	-	**6,132**	7,447
Cost	**-**	-	**12,059**	12,059
Accumulated amortization	**-**	-	**(5,927)**	(4,612)
	295,567	65,595	**306,286**	78,581

(a) Pre-operating expenses in the Company refer to costs incurred in the pre-operating stage of long-distance services; amortization began in May 2002, over a period of 60 months. Pre-operating expenses in subsidiaries are being amortized over 120 months.

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

(c) The goodwill resulting from acquisition of Telefonica Data Brasil Holding S.A. (TDBH) refers to the corporate restructuring that took place in July 2001, with the spin-off of Figueira. According to the Company business plans, such goodwill is recoverable in future operations, within a maximum period 60 (sixty) months from the takeover date in July 2006.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005
(In thousands of reais)

17. Loans and Financing

Consolidated				Balance in 2006	
	Currency	**Annual interest rate**	**Maturity**	**Current**	**Long-term**
Mediocrédito	US$	1.75%	2014	**6,777**	**41,798**
Loans in local currency	R$	130% of CDI	In 2007	**1,041**	**-**
Loans in foreign currency (*)			Up to 2009	**306,208**	**467,820**
Total				**314,026**	**509,618**

Consolidated				Balance in 2005	
	Currency	**Annual interest rate**	**Maturity**	**Current**	**Long-term**
Mediocrédito	US$	1.75%	2014	7,471	52,802
Loans in local currency	R$	6% + 3.75% spread	Up to 2006	1,898	-
Loans in foreign currency (*)			Up to 2009	215,642	598,051
Total				225,011	650,853

(*) Loans in foreign currency are as follows:

Consolidated	Currency	Interest rate		Principal	Interest
Resolution 2770	JPY	0.28% to 5,78%		**214,909**	**209**
Resolution 2770	USD	4.80%		**267,561**	**22,140**
Untied Loan JBIC	JPY	Libor + 1.25%		**267,178**	**2,031**

				749,648	**24,380**

Consolidated	Currency	Interest rate		Principal	Interest	Bal
Resolution 2770	USD	5.70% to 6.90%		105,523	9,451	
Resolution 2770	USD	4.80%		292,928	9,983	
Untied Loan JBIC	JPY	Libor + 1.25%		393,520	2,288	
				791,971	21,722	

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

17. Loans and Financing (Continued)

The loan from Japan Bank for International Cooperation - JBIC includes restrictive covenants related to the maintenance of certain financial indices, are attended until then.

Consolidated long-term debt maturities

Year	Amounts
2008	385,191
2009	95,490
2010	6,431
Thereafter	22,506
Total	509,618

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

18. Debentures

	Company and Consolidated			Balance in 2006		
	Currency	**Annual interest rate**	**Maturity**	**Current**	**Long-term**	**Total**
Debentures	R$	103.50% of CDI rate	Up to 2007	**1,514,514**	-	**1,514,514**
Total				**1,514,514**	-	**1,514,514**

	Company and Consolidated			Balance in 2005		
	Currency	**Annual interest rate**	**Maturity**	**Current**	**Long-term**	**Total**
Debentures	R$	103.50% of CDI rate	Up to 2007	21,744	1,500,000	1,521,744
Total				21,744	1,500,000	1,521,744

On September 3, 2004, the Company announced a Securities Distribution Program (“Program”) and, under the Program, the first issuance of Telesp debentures (“Offering”).

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18. Debentures (Continued)

The Offering consisted of the issuance of 150,000 simple nonconvertible unsecured debentures (“Debentures”), with a face value of R$10 (ten thousand reais), in the total amount of R$1,500,000 (one billion, five hundred million reais), of a single series, maturing on September 1, 2010 (six years). The debentures bear interest with quarterly payments, equivalent to 103.5% of the DI (interbank deposit) average daily rate calculated and published by the CETIP (Clearing House for the Custody and

Financial Settlement of Securities).

The adjustment to the interest rate of debentures is estimated for September 1, 2007. The Company conservatively considers such date in the maturity schedules.

19. Taxes Payable

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Taxes on income				
Income tax	**60,467**	21,681	**63,692**	21,350
Social contribution tax	**15,265**	1,837	**16,188**	1,411
Deferred taxes				
Income tax	**62,575**	62,907	**62,575**	62,907
Social contribution tax	**22,344**	22,645	**22,344**	22,645
Indirect taxes				
ICMS (state VAT)	**696,268**	670,490	**717,406**	676,834
PIS and COFINS (taxes on revenue) (a)	**67,133**	329,005	**73,293**	333,479
Other (b)	**36,300**	34,585	**46,870**	37,076
Total	**960,352**	1,143,150	**1,002,368**	1,155,702
Current	**914,399**	835,022	**956,415**	847,574
Noncurrent	**45,953**	308,128	**45,953**	308,128

Tax liabilities, net of escrow deposits, questioned in court are recorded under Taxes payable, as provided for in CVM Resolution No. 489/2005.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

19. Taxes Payable (Continued)

(a) The Company filed a lawsuit challenging the extension of the COFINS (Social Contribution Tax on Gross Revenue for Social Security Financing until February 2004) and PIS (Social Contribution Tax on Gross Revenue for Social Integration Program until November 2002) tax basis, with the inclusion of financial revenues, securitization and changes in foreign exchange rate, which totaled R$274,277 at

September 30, 2006 (R$260,536 at December 31, 2005), of which R$123,287 refers to monetary restatement and interest. However, a judicially determined favorable decision was handed down on October 20, 2006. Consequently, the Company carried out the reversal of the amounts accrued, R$257,623 of which concerned reversal of reserve for contingencies and R$16,654 referring to monetary restatement for 2006.

(b) The account Other includes the Contribution to the Fund for Universal Access to Telecommunications Services (FUST) payable of R$66,203 in December 2006, net of escrow deposits of R$53,099.

20. Payroll and Related Charges

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Salaries and fees	**21,234**	19,722	**22,493**	22,385
Payroll charges	**81,480**	68,234	**89,053**	71,313
Accrued benefits	**18,551**	5,166	**18,929**	5,221
Employee profit sharing	**65,355**	62,505	**71,758**	63,242
Total	**186,620**	155,627	**202,233**	162,161

21. Dividends and Interest on Shareholders Equity

	Company/Consolidated	
	2006	**2005**
Interest on shareholders equity	**266,897**	473,912
Telefónica Internacional S.A.	**67,627**	216,403
SP Telecomunicações Holding Ltda.	**20,685**	67,342
Telefônica Data do Brasil Ltda.	**1,537**	-
Minority shareholders	**177,048**	190,167
Dividends	**386,325**	429,444
Minority shareholders	**386,325**	429,444
Total	**653,222**	903,356

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

21. Dividends and Interest on Shareholders Equity (Continued)

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

22. Reserves, net

The Company, as an entity and also as the successor to the merged companies, and its subsidiaries are involved in labor, tax and civil lawsuits filed with different courts. The Companys management, based on the opinion of its legal counsel, recognized reserves for those cases in which an unfavorable outcome is considered probable. The table below shows the breakdown of reserves by nature and activities during 2006:

	Nature			
Consolidated	**Labor**	**Tax**	**Civil**	**Total**
Balances as of 12/31/2005	343,530	243,468	56,569	643,567
Additions	51,065	22,902	69,458	143,425
Write-offs	(49,621)	(19,641)	(35,418)	(104,680)
Monetary restatement	66,804	38,454	34,963	140,221
Merged amounts - Telefonica Empresas	3,248	-	120	3,368
Balances as of 12/31/2006	415,026	285,183	125,692	825,901
Escrow deposits	(81,475)	(56,853)	(10,194)	(148,522)
Net balances as of 12/31/2006	333,551	228,330	115,498	677,379

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. Reserves, Net (Continued)

22.1. Labor contingencies and reserves

The Company has various reserves related to labor claims, amounting to R$415,026, consolidated, to cover probable losses. The amounts involved and respective risk levels are as follows:

		Amount involved		
	Risk	**Telesp**	**A. Telecom**	**Total**
Remote		2,288,071	6,061	2,294,132
Possible		123,876	-	123,876
Probable		414,797	229	415,026
Total		2,826,744	6,290	2,833,034

These labor contingencies and reserves involve a number of lawsuits, mainly related to salary differences, salary parity, overtime, employment relationship of employees of outsourced companies and hazardous duty premium, among others.

The Company made escrow deposits in the amount of R$81,475 for the reserves mentioned above.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. Reserves, Net (Continued)

22.2. Tax contingencies and reserves

		Amount involved		
	Risk	**Telesp**	**A. Telecom**	**Total**
Remote		1,972,601	1,300	1,973,901
Possible		2,857,867	9,981	2,867,848
Probable		285,183	-	285,183
Total		5,115,651	11,281	5,126,932

Based on the assessment of the Company□s legal counsel and management, a reserve for tax contingencies amounting to R$285,183 was recorded on December 31, 2006. The principal tax contingencies, assessed as remote, possible and probable risk, are as follows:

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

a) Collection of Workers□ Compensation Insurance (SAT) and charging of joint liability for payment of social security contributions allegedly not made by contractors, in the approximate amount of R$310.844. Based on a partially unfavorable court decision, management decided to record the amount of R$102.402 relating to the portion of the total amount for which the likelihood of loss is probable. A judicial deposit in the amount of R$533 was made.

b) Social security contribution on amounts paid for compensation of salary losses resulting from economic plans (□Plano Verão□ and □Plano Bresser□), in the approximate amount of R$137,144. Based on higher court decisions and an unfavorable court decision in a similar case involving another company from the Group, the Company□s management assessed the amount of R$94,452 as probable loss, setting up reserve for such amount.

c) Notice demanding social security contributions, SAT (Workers□ Compensation Insurance) and amounts for third parties (National Institute for Agrarian Reform and Colonization - INCRA and Brazilian Mini and Small Business Support Agency - SEBRAE) on the payment of various salary amounts for the period from January 1999 to December 2000, in the amount of approximately R$57,984, considered as possible risk. These lawsuits are in the 1st lower court and at the last administrative level, respectively. No reserve was recorded based on the risk classification of this matter.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. Reserves, Net (Continued)

22.2. Tax contingencies and reserves (Continued)

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

d) Notice demanding social security contributions for joint liability in 1993, in the amount of approximately R$187,055, for which the risk is considered possible. This process is at second administrative level. No reserve was made based on the risk classification of this matter.

e) Legal proceedings imposing fines of R$161,982 for payment of dividends when the Company had allegedly a debt to the INSS. No reserve was made for the balance, as the likelihood of loss is deemed possible. This process is at 2nd administrative level.

f) On December 20, 2005 notices were drawn concerning the period from May 1995 to December 1998 demanding the payment of social security contribution amounts, through reconstruction of the tax base and considering the existence of joint liability between the Company, general service providers and civil construction companies. The amounts of R$236,474, which refers to the use of inadequate criteria for calculation of the reconstructed tax base, and of R$ 178,432, corresponding to the wrong definition of civil construction for reconstruction, as will be shown by means of technical reports requested to Engineering Institutes, were assessed as of remote risk of loss by the legal counsel. The amount of R$791,021 is classified as of possible risk due to the existing judicial arguments that support the procedure adopted by the Company and the removal of the joint liability. The process is at the first administrative stage. No reserve was made based on the risk classification of this matter.

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

g) Tax assessments notices on October 31 and December 13, 2001, related to ICMS (state VAT) allegedly due on international long-distance calls, amounting to approximately R$28,301 for November and December 1996, to R$208,907 from January 1997 through March 1998, and to R$187,656 for April 1998 and December 1999, at the second administrative stage, assessed as possible risk. No reserve was recorded based on the risk classification of these matters.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. Reserves, Net (Continued)

22.2 Tax contingencies and reserves (Continued)

h) Tax assessment notice on July 2, 2001 demanding the difference in ICMS paid without late-payment fine, amounting to R$6,182, assessed as possible risk. The claim is at the higher court and, considering the risk classification, no reserve was set up.

i) Tax assessment notice related to untimely used credits in the period from January to April 2002, in the amount of R$31,444, for which the risk is considered possible. The claim is at the 2nd administrative stage. No reserve was recorded based on the risk classification of this matter.

j) Tax assessment notices related to the non-reversal of ICMS credits in proportion to tax-exempt and non-taxed sales and services in the period from January 1999 to June 2000 and July 2000 to December 2003, in addition to an ICMS credit unduly taken in March 1999. The total amount involved is R$111,405. The risk is considered possible by legal counsel. The claims are at the second and first administrative stages, respectively. No reserve was recorded based on the risk classification of this matter.

k) Notifications of around R$8,283 regarding the former CETERP´s loss of the ICMS tax benefit established by State Decree No. 48237/03, due to underpayment for an error in the calculation of the debt, assessed as possible risk. The claim is at the 2nd administrative stage. No reserve was recorded based on the risk classification of this matter.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. Reserves, Net (Continued)

22.2 Tax contingencies and reserves (Continued)

- Litigation at the Federal and Municipal Levels:

l) FINSOCIAL, currently COFINS, was a tax on gross operating revenues, originally established at a rate of 0.5% and gradually and subsequently raised to 2.0%. Such rate increases were judicially challenged with success by several companies, which resulted in tax credits from overpayments. These credits were offset by CTBC (company merged into the Company in November 1999) against current amounts of COFINS due. Claiming that those offsets made by CTBC were improper, the Federal Government made an assessment in the amount of R$18,727, considered as probable loss. The claim is at the higher court.

A reserve was recorded in this amount, based on the risk classification of this matter.

m) Tax collection claim demanding differences regarding income tax, based on DCTFs (Declaration of Federal Tax Credits and Debits) for the first half of 1999, amounting to approximately R$5,494, assessed as possible risk. These claims are at the 1st administrative stage and no reserve was recorded based on the risk classification.

n) At the municipal level, the Company has contingencies related to IPTU (municipal real property tax), ISS (municipal service tax), fine and interest in the amount of R$4,905 which have all been accrued due to the existence of favorable and unfavorable decisions regarding this matter.

The Company made escrow deposits in the amount of R$1,888 for such questionings.

o) The Company filed an annulment action with a view to obtaining a court order that fully annuls tax credits resulting from tax assessment notices drawn up by the municipality of São Paulo, alleging differences in payment of the ISS, and charging late payment fine of 20% not paid, in the amount of R$19,024. A reserve was not set up for this contingency, based on the legal advisors opinion of a possible unfavorable outcome.

The claim is at trial court.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. Reserves, Net (Continued)

22.2 Tax contingencies and reserves (Continued)

p) On December 15, 2005, ANATEL issued Pronouncement No. 1 (subsequently renumbered to Pronouncement No. 7), whereby it confirmed the understanding that interconnection expenses are not excluded from FUST, thus changing the previous position which provided for such exclusion. The Pronouncement is applied retroactively to January 2001.

Thus, through ABRAFIX (Brazilian Association of Fixed Telephony Companies), on January 9, 2006, the Company filed for a writ of mandamus with a view to ensuring the possibility of excluding interconnection expenses from the FUST calculation base. The proceeding is at trial court. The contingency risk was assessed as possible by the Company´s legal advisors. The amount involved is of R$120,479. No reserve was recorded based on the risk classification of this matter.

q) Tax assessment notice drawn up by the IRS demanding payment of Corporate Income Tax (IRPJ), which was offset in the 2002 Corporate Income Tax Return (DIPJ) against Withholding Income Tax (IRRF) by Public Agencies for the rendering of services during calendar year 2001.

The suit is at the 1st administrative stage. The risk was classified as probable, and as such, a reserve was set up in the amount of R$1,330.

There are other contingencies that have also been accrued, in the amount of R$63,367, for which the risk is assessed by management as probable.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

22. **Reserves, Net** (Continued)

22.3 Civil contingencies and reserves

		Amount involved		
	Risk	**Telesp**	**A. Telecom**	**Total**
Remote		1,403,821	11,390	1,415,211
Possible		930,110	128	930,238
Probable		125,664	28	125,692

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

Total	2,459,595	11,546	2,471,141

The contingencies, mostly assessed as possible risk, involve various matters: unacknowledged title to telephone line, indemnity for material and personal damages, among others, in the amount of approximately R$451,034.

In addition, we describe below the most significant civil reserves and contingencies, including their risk assessment:

- The Company is involved in civil class actions related to the Community Telephone Plan (PCT), where the telephone expansion plan buyers who did not receive shares in return for their financial investments seek an indemnity, in the municipalities of Diadema, São Caetano do Sul, São Bernardo do Campo and Ribeirão Pires, involving a total amount of approximately R$291.205. The risks involved were assessed as possible by legal counsel. The claims are at the higher court.

- Class action moved by the Association of the Participants of Sistel in the State of São Paulo - ASTEL against the Company, Fundação Sistel de Seguridade Social and others, questioning subjects related to the Plan of Medical Assistance for Retirees - PAMA, considering in synthesis: (i) prohibition of the collection of contribution of the retirees included in the PAMA; (ii) the registration in the PAMA of the retirees and assisted people whose registrations were suspended for insolvency; (iii) reevaluation of the economic necessities of the PAMA; (iv) restoration of the basis of incidence of the contributions on the total and gross amount of the payroll of all the employees of the company; (v) reaccreditation of all the hospitals, clinics, laboratories and doctors disaccredited by Sistel and (vi) review of the accounting distribution of shareholders´ equity. Company Management, based on the opinion of its legal counsel, assessed this suit as a possible risk, and the respective amount involved is estimated to be R$187,999. Based on the risk classification, no reserve was recorded.

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22. Reserves, Net (Continued)

22.3 *Civil contingencies and reserves* (Continued)

- On June 9, 2000, WCR do Brasil Serviços Ltda. filed a collection suit against the Company, in which it claims the supposed difference between amounts received by Telesp related to use of the 0900 Service and the amounts which were transferred to

WCR. The updated amount claimed in the suit is R$59.929. On October 1, 2004, a ruling was handed down by the 13th Civil Court of São Paulo - Capital, considering the suit to be groundful.

On December 14, 2004, an appeal was lodged against this ruling, which was distributed to the 26th Panel of Judges of the Capital. On May 26, 2006, a ruling was handed down on the appeal considering it to be partially groundful, maintaining the text of the decision. This case involves a probable unfavorable outcome, as such, a reserve was set up.

23. Other Liabilities

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Consignments on behalf of third parties	**179,481**	194,405	**169,792**	182,622
Collateral for deposits	**1,858**	1,848	**1,858**	1,848
Amounts charged to users	**107,903**	102,298	**96,025**	89,712
Retentions	**68,501**	88,922	**70,684**	89,725
Other	**1,219**	1,337	**1,225**	1,337
Liabilities with related parties	**46,078**	97,543	**25,494**	76,048
Advances from customers	**55,388**	58,868	**55,388**	58,868
Amounts to be refunded to subscribers	**60,731**	41,212	**61,667**	39,874
Concession renewal fee (*)	**121,684**	-	**121,684**	-
Accounts payable sale of share fractions (**)	**115,585**	99,860	**115,585**	99,860
Other	**49,525**	33,872	**58,215**	44,163
Total	**628,472**	525,760	**607,825**	501,435
Current	**581,779**	482,703	**558,414**	455,974
Noncurrent	**46,693**	43,057	**49,411**	45,461

(*) The amount due referring to the concession renewal fee will be paid by April 2007. Based on the accrual method, the above amount refers to 2006 only (Note 4.k).

(**)

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

24. Shareholders Equity

a) Capital

Paid-up capital is of R$6,575,198 at December 31, 2006 and of R$5,978,074 at December 31, 2005. Subscribed and paid-up capital is represented by shares without par value, as follows:

Common shares	168,819,870
Preferred shares	337,417,402
Total	506,237,272
Common shares in treasury	(210,578)
Preferred shares in treasury	(185,213)
Total outstanding shares as of 12/31/2006	505,841,481
Book value per outstanding share in R$	20.98

The Company is authorized to increase its capital up to the limit of 700,000,000 (seven hundred million) shares, common or preferred. The capital increase and consequent issue of new shares are to be approved by the Board of Directors, with observance of the authorized capital limit.

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

Preferred shares are nonvoting but have priority in the reimbursement of capital and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Companys bylaws and clause II, paragraph 1, article 17, of Law No. 6404/76, with wording of Law No. 10303/01.

At the Special General Meeting held on March 9, 2006, the shareholders approved the cancellation of 1,562,387 treasury shares issued by the Company, of which 1,258,508 are common shares and 303,879, preferred, resulting from the share reverse split process in 2005.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

24. Shareholders Equity (Continued)

a) Capital (Continued)

On July 28, 2006 there was a capital increase of R$597,124 to include the shareholders from the takeover of Telefônica Data Brasil Holding S.A. (see Note 2.b). The following shares were issued:

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

b) Capital reserves

Share premium

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

Donations and subsidies for investment

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

Tax incentives

These are represented by tax incentive investments.

Treasury shares

Treasury shares result from the merged process of TDBH by Telesp, through which 17,207 common shares and 60 preferred shares of Telesp were acquired during the dissenting period of the former TDBH, for R$0.56 per lot of thousand shares. In the auction of fractions, the Company acquired 193,371 common and 185,153 preferred shares, for R$41.25 per common and R$48.68 per preferred share, allowing the necessary liquidity to pay shareholders. Total acquisitions resulted in 210,578 common and 185,213 preferred shares, amounting to R$17,719. Average acquisition cost was of R$44.77. At December 31, 2006, the market value of treasury shares was R$20,151.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

24. Shareholders Equity (Continued)

c) Income reserves

Legal reserve

According to article 193 of Law No. 6404/76, the Company chose not to set up the legal reserve, as such balance added to the capital reserve balance exceeded capital by 30%, as provided for in paragraph 1 of the referred to article.

d) Retained earnings

Retained earnings at December 31, 2005 were fully allocated to the statement of dividends on May 23, 2006. The balance at December 31, 2006 of R$705,631 refers to remaining income for 2006, the allocation of which will be decided in Shareholders meeting, as established by Law No. 10303/01. Management proposes that the remaining balance in the Retained earnings account be used for future modernization and/or expansion of the telecommunications system. This amount is part of the Capital Budget.

e) Dividends

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

Dividends are calculated in accordance with the Company´s by-laws and with the Brazilian Corporation Law. Below you will find the calculation of dividends and interest on shareholders equity for 2006 and 2005:

	2006	2005

Minimum mandatory dividends calculated based on adjusted net income		
Net income for the year	**2,816,151**	2,541,947
Allocation to legal reserve	**-**	-
Adjusted net income	**2,816,151**	2,541,947
Minimum mandatory dividends – 25% of adjusted net income	**704,038**	635,487
Interest on shareholders’ equity, net of income tax on minimum dividends	**663,000**	833,000
Interim/supplementary dividends	**2,349,604**	2,790,000
Total declared and/or paid dividends	**3,012,604**	3,623,000

TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

24. Shareholders’ Equity (Continued) e) Dividends (Continued)

	2006			2005		
Amounts in R$ per share	**Gross**		**Net**	**Gross**		**N**
Interest on shareholders’ equity - common	**1.445197**		**1.228417**	1.865213		1.5
Interest on shareholders’ equity – preferred	**1.589717**		**1.351259**	2.051734		1.7

	2006		
Amounts in R$ per share	**Common**		**Pref**
Interest on shareholders’ equity – net of income tax	**1.228417**		**1.35**
Interim dividends declared in May 2006	**2.166018**		**2.38**
Interim dividends declared in November 2006	**2.186948**		**2.40**
	5.581383		**6.13**

2005

Amounts in R$ per share					Common		Pref
Interest on shareholders equity net of income tax					1.585431		1.7
Interim dividends declared in April 2005					2.849439		3.1
Interim dividends declared in September 2005					2.457954		2.7
					6.892824		7.5

f) Interest on shareholders equity

As proposed by management in December 2006 and 2005, interest on shareholders equity fully attributed to mandatory minimum dividends was credited, pursuant to Article 9 of Law No. 9249/95, net of withholding income tax.

The proposed interest on shareholders equity was determined as follows:

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

24. Shareholders Equity (Continued)

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

g) Payment of dividends and interest on shareholders equity

On May 23, 2006, the Board of Directors meeting approved the distribution of interim dividends in the amount of R$1,169,604 based on retained earnings as of December 31, 2005 and first quarter of 2006, distributed as follows: R$1,136,784 to shareholders included in the Company records at the end of May 23rd, 2006, and R$32,820 to common and preferred Company shareholders on occasion of the updating of Telesp records reflecting the issue of new shares to the former TDBH shareholders, at the end of August 29th, 2006, and interest on shareholders equity of R$290,000 (R$246,500 net of withholding income tax), referring to 2006, distributed as follows: R$281,862 (R$239,583 net of withholding income tax) to shareholders included in the Company records at the end of May 23rd, 2006, and R$8,137 (R$6,917 net of withholding income tax) to common and preferred Company shareholders on occasion of the updating of Telesp records reflecting the issue of new shares to the former TDBH shareholders, at the end of August 29th, 2006. Dividends and interest on shareholders equity were paid as from June 26, 2006 and September 22, 2006, respectively.

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

On December 18, 2006, the Board of Directors, following the General Shareholders´ Meeting, approved the credit of interest on shareholders equity referring to the financial year 2006, in the amount of R$120,000 (R$102,000 net of withholding income tax). The payment will be made on a date to be decided in the General Shareholders´ Meeting.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

24. Shareholders Equity (Continued)

h) Unclaimed dividends

Dividends and interest on shareholders equity unclaimed by shareholders within three years from the beginning of payment, are expired and reversed to retained earnings, in conformity with article 287, item II, sub-item a of Law No. 6404 dated December 15, 1976.

25. Net Operating Revenue

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Subscription	**5,689,614**	5,691,717	**5,689,614**	5,691,344
Activation fees	**119,349**	97,681	**119,349**	97,681
Local service	**3,150,542**	3,224,180	**3,242,825**	3,247,830
LDN Domestic long-distance	**2,939,650**	3,199,494	**3,017,396**	3,226,437
Intraregional (i)	**2,035,263**	2,025,556	**2,090,177**	2,042,046
Interregional (i)	**904,387**	1,173,938	**927,219**	1,184,391
LDI International long-distance (i)	**154,569**	168,166	**152,656**	171,270
Network usage services	**4,148,873**	4,190,572	**4,243,390**	4,220,250
Interconnection services (i)	**534,825**	753,801	**534,825**	753,801
Public telephones	**584,924**	443,166	**584,924**	443,166
Data transmission	**1,904,352**	1,321,189	**2,020,445**	1,313,020
Network access (i)	**397,809**	415,196	**397,469**	415,196
Other	**571,090**	563,138	**793,870**	770,925
Gross operating revenue	**20,195,597**	20,068,302	**20,796,763**	20,350,920
Taxes on gross revenue	**(5,346,272)**	(5,275,524)	**(5,530,866)**	(5,371,979)
ICMS (State VAT)	**(4,568,107)**	(4,508,532)	**(4,698,108)**	(4,574,420)
PIS and COFINS (taxes on revenue)	**(749,575)**	(740,919)	**(795,426)**	(767,494)
ISS (Municipal service tax)	**(28,590)**	(26,073)	**(37,332)**	(30,041)
IPI (Federal VAT)	**-**	-	**-**	(24)
Discounts	**(603,260)**	(576,889)	**(622,876)**	(583,840)
Net operating revenue	**14,246,065**	14,215,889	**14,643,021**	14,395,101

(i) For the better presentation of Operating Revenue to the market and regulatory agency, ANATEL, the Company made reclassifications to the amounts as of December 2005. The main reclassifications were made to the items LDN Intraregional and interregional, LDI, Interconnections services and network access.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

25. Net Operating Revenue (Continued)

Tariff adjustments affecting recorded revenue

On July 10 and 14, 2006, through Official Announcements No. 59517 and 59665, ANATEL approved tariff adjustment percentages for fixed-switch telephone service (STFC), based on the criteria established in the local and domestic long-distance concession agreements, effective July 14, 2006 for the Basic Local Plan, and July 20, 2006 for the Basic Domestic Long-Distance Plan. Average decreases were as follows:

Basic Local Plan: (-0.38%)

Basic Domestic Long-Distance Plan: (-2.73%)

On January 1, 2006, the new interconnection rules became effective, according to the renewal of the Concession Agreements of the Basic Local Plan and Basic Domestic Long-Distance Plan, shown below:

- Network usage free for local interconnection (TU-RL) is limited to 50% of the local minute value, resulting in a tariff reduction of (-22.3%), effective January 1, 2006.

On June 30, 2005, through Official Announcements No. 51300 and 51301, ANATEL approved tariff adjustment percentages for fixed-switch telephone service (STFC), based on the criteria established in the local and domestic long-distance concession agreements, effective July 3, 2005. Average increases were as follows:

Local: 7.27% Long distance: 2.94%

Network usage fee for local interconnection - TU-RL: (-13.32%) Network usage fee for long distance interconnection - TU-RIU: 2.94%

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

26. Cost of Services Provided

	Company		Consolidated	
	2006	2005	**2006**	2005
Depreciation and amortization	**(2,323,543)**	(2,380,380)	**(2,351,376)**	(2,396,179)
Personnel	**(204,580)**	(201,674)	**(231,371)**	(207,997)
Materials	**(41,614)**	(48,559)	**(42,841)**	(49,249)
Network interconnection	**(3,525,216)**	(3,566,615)	**(3,554,364)**	(3,578,977)
Outside services	**(1,104,569)**	(1,126,081)	**(1,171,748)**	(1,198,734)
Other	**(362,535)**	(277,296)	**(428,810)**	(285,587)
Total	**(7,562,057)**	(7,600,605)	**(7,780,510)**	(7,716,723)

27. Selling Expenses

	Company		Consolidated	
	2006	2005	**2006**	2005
Depreciation and amortization	**(13,892)**	(7,862)	**(14,628)**	(7,862)
Personnel	**(285,994)**	(239,068)	**(299,835)**	(246,910)
Materials	**(92,051)**	(71,715)	**(92,269)**	(71,851)
Outside services	**(1,015,984)**	(1,013,353)	**(1,055,174)**	(1,016,120)
Allowance for doubtful accounts	**(401,072)**	(405,130)	**(412,997)**	(415,273)
Other	**(48,686)**	(51,972)	**(49,536)**	(52,361)
Total	**(1,857,679)**	(1,789,100)	**(1,924,439)**	(1,810,377)

December 31, 2006 and 2005
(In thousands of reais)

28. General and Administrative Expenses

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Depreciation and amortization	**(263,559)**	(257,783)	**(275,550)**	(271,095)
Personnel	**(199,586)**	(135,440)	**(226,244)**	(153,904)
Materials	**(12,245)**	(7,780)	**(12,899)**	(8,225)
Outside services	**(423,536)**	(411,736)	**(444,227)**	(426,838)
Other	**(20,962)**	(1,519)	**(23,703)**	(3,858)
Total	**(919,888)**	(814,258)	**(982,623)**	(863,920)

29. Financial Income (Expenses)

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Financial income	**528,232**	717,402	**538,108**	722,191
Income from short-term investments	**121,590**	100,595	**127,860**	106,774
Gains on derivative transactions	**224,798**	222,870	**225,162**	222,870
Interest receivable	**43,844**	72,797	**44,441**	67,395
Monetary/exchange variations receivable	**133,110**	315,636	**133,421**	319,044
Other	**4,890**	5,504	**7,224**	6,108
Financial expenses	**(1,638,467)**	(2,148,557)	**(1,649,163)**	(2,162,523)
Interest on shareholders equity (Note 24.f)	**(780,000)**	(980,000)	**(780,000)**	(980,000)
Interest payable	**(369,144)**	(418,473)	**(376,429)**	(425,357)
Losses on derivative transactions	**(390,761)**	(632,315)	**(391,499)**	(637,591)
Expenses on financial transactions	**(84,350)**	(85,871)	**(87,011)**	(87,555)
Monetary/exchange variations payable	**(14,212)**	(31,898)	**(14,224)**	(32,020)

Total	**(1,110,235)**	(1,431,155)	**(1,111,055)**	(1,440,332)

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP
NOTES TO THE FINANCIAL STATEMENTS
(Continued)
December 31, 2006 and 2005
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30. Other Operating Income (Expenses), Net

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Income	**841,330**	395,792	**839,924**	401,756
Technical and administrative services	**54,056**	43,527	**50,371**	40,643
Income from supplies	**43,319**	29,842	**43,319**	29,842
Dividends	**10,998**	10,351	**14,033**	12,675
Fines on telecommunication services	**116,116**	114,625	**116,236**	114,625
Recovered expenses	**171,173**	83,043	**166,529**	88,921
Reversal of labor, tax and civil reserves (*)	**335,744**	45,267	**336,343**	45,450
Reversal of reserve for post-retirement benefit plan	**-**	3,877	**-**	3,964
Rent of infrastructure	**53,129**	52,312	**53,129**	52,312
Other	**56,795**	12,948	**59,964**	13,324
Expenses	**(554,349)**	(546,939)	**(564,717)**	(552,181)
Write-offs and adjustments to realizable value of supplies	**(4,562)**	(7,164)	**(4,569)**	(7,518)
Goodwill amortization	**(34,481)**	(41,355)	**(34,481)**	(41,355)
Donations and sponsorships	**(13,493)**	(14,567)	**(13,526)**	(14,634)
Taxes (except IR and CSLL)	**(255,595)**	(220,572)	**(251,760)**	(220,464)
Labor, tax and civil reserves	**(141,696)**	(98,588)	**(141,716)**	(98,632)
Reserve for post-retirement benefit plan	**(29,967)**	-	**(30,060)**	-
Other	**(74,555)**	(164,693)	**(88,605)**	(169,578)
Total	**286,981**	(151,147)	**275,207**	(150,425)

(*) Amounts include reversal of reserves for PIS and COFINS, commented in Note 19.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005
(In thousands of reais)

31. Nonoperating Income, Net

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Income	**46,707**	72,209	**47,372**	73,807
Proceeds from sale of property, plant and equipment and investments	**16,709**	28,379	**16,783**	29,322
Unidentified revenue	**23,812**	32,776	**23,846**	32,838
Fines	**6,186**	11,054	**6,743**	11,647
Expenses	**(23,683)**	(34,899)	**(23,749)**	(36,008)
Cost of sale of property, plant and equipment and investments	**(22,359)**	(34,799)	**(22,425)**	(35,908)
Other	**(1,324)**	(100)	**(1,324)**	(100)
Total	**23,024**	37,310	**23,623**	37,799

32. Income and Social Contribution Taxes

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

Reconciliation of tax expenses and standard rates

Reconciliation of the reported tax charges and the amounts calculated by applying 34% (income tax of 25% and social contribution tax of 9%) in 2006 and 2005 is shown in the table below:

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO THE FINANCIAL STATEMENTS
(Continued)
December 31, 2006 and
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(In thousands of reais)

32. Income and Social Contribution Taxes
(Continued)

	Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Income before taxes	**3,119,841**	2,434,448	**3,144,258**	2,433,294
Social contribution tax				
Social contribution tax expense	**(280,786)**	(219,100)	**(282,983)**	(218,997)
Permanent differences:				
Equity in subsidiaries	**1,227**	(2,924)	**93**	(1,605)
Unclaimed interest on shareholders equity	**(2,542)**	(6,557)	**(2,542)**	(6,557)
Nondeductible expenses, gifts, incentives and dividends received	**(6,748)**	(4,119)	**(9,890)**	(5,251)
Social contribution tax expense in the statement of income	**(288,849)**	(232,700)	**(295,322)**	(232,410)
Income tax				
Income tax expense	**(779,960)**	(608,612)	**(786,064)**	(608,324)
Permanent differences:				
Equity	**3,408**	(8,121)	**259**	(4,457)
Unclaimed interest on shareholders equity	**(7,062)**	(18,215)	**(7,062)**	(18,215)
Nondeductible expenses, gifts, incentives and dividends received	**(18,721)**	(11,417)	**(27,412)**	(14,505)
Other items				
Incentives (cultural, meals and transportation)	**7,494**	6,564	**7,494**	6,564

Income tax expense in the statement of income	**(794,841)**	(639,801)	**(812,785)**	(638,937)
Total (IRPJ + CSLL)	**(1,083,690)**	(872,501)	**(1,108,107)**	(871,347)

The components of deferred income and social contribution tax assets and liabilities on temporary differences are shown in Notes 7 and 19, respectively.

Current income and social contribution taxes correspond to R$1,096,478 as of December 31, 2006.

TELECOMUNICAÇÕES DE SÃO

NOTES TO THE FINANCIAL

December 31, 20

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33. Transactions with Related Parties

The principal balances with related parties are as follows:

Consolidated	Atento Brasil S.A.	VIVO	Tiws Brasil Ltda.	Telefônica S.A.	Cia. Telecomunicaciones de Chile Transmisiones Regionales S.A.	Telefónica Argentina S.A.	Tel Esp S
ASSETS							
Current assets							
Trade accounts receivable	11,742	135,988	2,167	-	561	1,123	
Other recoverable amounts	-	-	-	-	-	-	
Other assets	3,718	2,615	90	1,676	173	496	

Noncurrent assets							
Other	-	-	643	16	-	-	
Total assets	**15,460**	**138,603**	**2,900**	**1,692**	**734**	**1,619**	**4**
LIABILITIES							
Current liabilities							
Trade accounts payable	34,439	173,466	7,517	-	521	428	
Interest on shareholders´ equity	-	-	-	1	-	-	
Consignments on behalf of third parties	-	-	-	-	-	-	
Loans with related parties	-	-	-	-	-	-	
Other	401	1	2,270	1,716	-	-	
Noncurrent liabilities							
Other	-	-	13	-	-	-	
Total liabilities	**34,840**	**173,467**	**9,800**	**1,717**	**521**	**428**	**4**
STATEMENT OF INCOME							
Revenue	**18,946**	**184,171**	**2,361**	**125**	**540**	**2,300**	**3**
Telecommunications services	17,005	146,532	2,337	-	540	2,300	
Financial income	-	-	-	125	-	-	
Other operating revenue	1,941	37,639	24	-	-	-	
Costs and expenses	**(297,932)**	**(1,624,096)**	**(3,938)**	**-**	**(533)**	**(1,698)**	**(3**
Cost of services provided	(55,865)	(1,589,762)	(3,938)	-	(533)	(1,698)	(3
Selling	(233,372)	(33,350)	-	-	-	-	
General and administrative	(8,695)	(984)	-	-	-	-	
Other operating expenses	-	-	-	-	-	-	

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. — TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

33. Transactions with Related Parties (Continued)

Trade accounts receivable include receivables for telecommunications services, principally Vivo S.A., Atento Brasil S.A., Terra Networks Brasil S.A. and Telefónica de España S.A., particularly for long-distance services.

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

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

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

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

33. Transactions with Related Parties (Continued)

Cost of services provided refers mainly to interconnection and traffic services (mobile terminal) expenses, provided by Vivo S.A. and subsidiaries, call center management services provided by Atento Brasil S.A., and internet IP Network traffic services provided by Telefônica Empresas S.A. (result until the spin-off date, see Note 3).

Selling expenses refer mainly to data transmission services and commissions on voice and data communication services by Telefônica Empresas S.A. (result until the spin-off date, see Note 3), marketing services by Atento Brasil S.A., internet services by Terra Networks Brasil S.A., and commissions paid to cellular telephone operators with Vivo S.A.

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

34. Post-Retirement Benefit Plans

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

In December 2004, the entity Visão Prev Sociedade de Previdência Complementar was formed to manage the Visão and PBS Telesp plans, which were transferred from Sistel to the new entity. Visão Prev was authorized to start operating through Official Letter No. 123, of October 7, 2004 by the Social Security and Supplementary Benefits Office. The transfer of assets and liabilities of the plans was made on February 18, 2005.

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34. Post-Retirement Benefit Plans (Continued)

The process of transfer of the Telesp Visão and Telesp PBS plans was approved by the Social Security and Supplementary Benefits Office through publication of Official Letters No. 49/DEPAT/SPC and 50/DEPAT/SPC, dated January 12, 2005, respectively.

The transfer of plans did not result in any charge to the plan participants, because the wording of the regulations and all rights of the participants were maintained. Sistel will continue to manage the PBS-A (assisted) and PAMA plans, and Telesp will continue to sponsor these plans jointly with other Sistels sponsors.

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

December 31, 2006 and 2005 (In thousands of reais)

In view of the favorable results from Telesps PBS Plan, exceptionally in 2006 no contributions were made for Past Service.

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

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34. Post-Retirement Benefit Plans (Continued)

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

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

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

Telefonica Empresas S.A. individually sponsors a defined contribution plan similar to that of the Company, the Visão Telefônica Empresas Benefit Plan. Total contributions to this plan from August to December 2006 amounted to R$506.

The actuarial valuation of the plans was made in December 2006 and 2005 based on the employees data as of September 2006 and November 2005, respectively, and the projected unit credit method was adopted. Actuarial gains or losses for each year were immediately recognized in each of the periods. The plans assets relate to November 30, 2006 and 2005. For multiemployer plans (PAMA and PSB-A), apportionment of the plan assets was made based on the sponsoring entitys actuarial liabilities in relation to the plans total actuarial liabilities.

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

Plan	**2006**	**2005**

PBS / Visão Telesp / CTB	**23,326**	21,857
PAMA	**51,604**	23,106
Total Company	**74,930**	44,963
Liabilities - Visão Assist	**93**	-
Total Consolidated	**75,023**	44,963

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

34. Post-Retirement Benefit Plans (Continued) a) Reconciliation of assets and liabilities

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

	2005			
	PBS/Visão-Telesp/CTB	**PAMA (i)**	**PBS-A (i) (ii)**	**Visão Assist**
Total actuarial liabilities	108,323	77,961	831,651	195
Fair value of assets	109,948	54,855	1,077,350	341

Liabilities (assets), net	(1,625)	23,106	(245,699)	(146)
Unrecorded surplus	23,482	-	245,699	146
Liabilities recorded in the balance sheet	21,857	23,106	-	-

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

(ii) Despite the surplus of PBS-A as of December 31, 2006 and 2005, no asset was recognized by the sponsor in view of the legal impossibility of reimbursement of such surplus, in addition to the fact that this is a noncontributory plan, which does not enable reduction of the sponsor´s contributions in the future.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. — TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

34. Post-Retirement Benefit Plans (Continued) b) Total expenses recognized in income

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

	2005			
	PBS /Visão Telesp/CTB	**PAMA**		**Visão — Assist**
Current service cost	120	41		32
Interest cost	8,875	8,321		26
Expected return on plan assets	(7,718)	(8,979)		(22)

Employee contributions	(229)	-		-
	1,048	(617)		36

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

34. Post-Retirement Benefit Plans (Continued) c) Change in net actuarial liabilities (assets)

	PBS /Visão Telesp/CTB	PAMA	Visão Assist	Visão TEmpresas
Liabilities, net 12/31/2004	25,734	18,917	87	-
Expenses for 2005	1,783	(617)	36	-
Companies´ contributions in 2005	(6,579)	(20)	(35)	-
Recognition of (gains) losses in the year	919	4,826	(234)	-
Actuarial liabilities (assets), net 12/31/2005	21,857	23,106	(146)	-
Expenses for 2006	(925)	1,770	8	43
Contributions from companies in 2006	(5,609)	(31)	(49)	(341)
Recognition of (gains) losses in the year	(8,035)	26,759	280	(1,222)
Business Combination consolidation of TEmpresas	-	-	-	(2,586)
Actuarial liabilities (assets), net 12/31/2006	7,288	51,604	93	(4,106)
Unrecorded surplus	16,038	-	-	4,106
Liabilities recorded in the balance sheet	23,326	51,604	93	-

d) Change in actuarial liabilities

	PBS /Visão-Telesp/CTB	PAMA	PBS-A	Visão Assist	Visão TEmpresas

Actuarial liabilities – 12/31/2004	114,700	75,388	768,752	257	-
Cost of current service	3,232	41	-	32	-
Interest on actuarial liabilities	12,099	8,321	83,007	27	
Benefits paid during the year	(9,313)	(5,845)	(68,604)	-	-
Actuarial (gains) losses in the year	(12,395)	56	48,496	(121)	-
Actuarial liabilities - 12/31/2005	108,323	77,961	831,651	195	-
Cost of current service	2,582	-	-	35	510
Interest on actuarial liabilities	11,588	8,616	89,947	20	263
Benefits paid during the year	(9,172)	(5,293)	(71,556)	-	-
Actuarial (gains) losses in the year	3,055	29,851	32,228	227	(574)
Business Combination – consolidation of TEmpresas	-	-	-	-	2,529
Migration between plans	1,673	-	-	-	(1,673)
Actuarial liabilities - 12/31/2006	118,049	111,135	882,270	477	1,055

TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

34. **Post-Retirement Benefit Plans** (Continued) e) Change in plan assets

	PBS /Visão-Telesp/CTB	**PAMA**	**PBS-A**	**Visão Assist**	**Visão TEmpresas**
Fair value of plan assets at 12/31/2004	98,606	56,471	999,710	170	-
Benefits paid in the year	(9,314)	(5,845)	(68,604)	-	-
Sponsor´s contributions in the year	6,767	20	-	36	-
Return on plan assets in the year	13,141	4,209	146,244	22	-
Gains/(losses) on assets	748	-	-	113	-
Fair value of plan assets at 12/31/2004	109,948	54,855	1,077,350	341	-
Benefits paid in the year	(9,172)	(5,293)	(71,556)	-	-
Sponsor´s contributions in the year	5,736	32	-	48	716
Return on plan assets in the year	14,942	9,937	299,413	51	359

Business Combination – TEmpresas consolidation	-	-	-	-	5,115
Gains/(losses) on assets	12,787	-	-	(56)	(1,029)
Fair value of plan assets at 12/31/2006	134,241	59,531	1,305,207	384	5,161

f) Expenses estimated for 2007

	PBS /Visão Telesp/CTB	PAMA	Visão – Assist	Visão – TEmpresas
Cost of current service	3,349	-	86	248
Interest cost	11,472	11,159	45	98
Expected return on assets	(15,323)	(6,087)	(45)	(604)
Employee contributions	(191)	-	(1)	(20)
Total expenses (reversals) for 2007	(693)	5,072	85	(278)

TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

34. Post-Retirement Benefit Plans (Continued) g) Actuarial assumptions

	2006		
	PBS/Visão Telesp/Visão Assist/CTB	**PAMA**	**PBS-**
Rate used for present value discount of actuarial liabilities	**10.24% p.a.**	**10.24% p.a.**	**10.24%**
Expected return rate on plan assets	**12.50% p.a. for plans managed by Sistel and 12.75% p.a. (PBS-Telesp) and 11.66% p.a. (other) for plans managed by Visão Prev**	**10.61% p.a.**	**13.18%**
Future salary increase rate	**6.08% p.a.**	**6.08% p.a.**	**6.08% p**
Long-term inflation rate	**4.00% p.a.**	**4.00% p.a.**	**4.00% p**

Medical cost increase rate	**Not applicable**	**7.12%p.a.**	**Not appli**
Increase in use of medical services for each additional year of age	**Not applicable**	**4.00% p.a.**	**Not appli**
Benefit growth rate	**4.00% p.a.**	**4.00% p.a.**	**4.00% p**
Capacity factor salaries	**98.00%**	**Not applicable**	**Not appli**
Capacity factor benefits	**98.00%**	**Not applicable**	**Not appli**
Mortality table	**AT-83 segregated by sex**	**AT-83 segregated by sex**	**AT-83 segr by se**
Disability mortality table	**IAPB-57**	**Not applicable l**	**Not appli**
Disability table	**Mercer Disability**	**Mercer Disability**	**Not appli**
Turnover table	**0.15/ (employment time + 1) from 50 years on - zero**	**Not applicable**	**Not appli**
Retirement age	**Age at which participants are first entitled to one of the benefits**	**Age at which social security retirement is eligible**	**Not appli**
% of active married participants on retirement date	**95.00%**	**Not applicable**	**Not appli**
Age difference between participants and spouses	**Wives are 4 years younger than husbands**	**Not applicable**	**Not appli**
Number of active participants and dependents	**-**	**-**	**-**
Number of assisted participants/beneficiaries	**-**	**3,400**	**5,31**
Number of active participants of PBS-Telesp / CTB plan	**51**	**-**	**-**
Number of retired participants of PBS-Telesp / CTB plan	**326**	**-**	**-**
Number of dependent groups of retirees of PBS-Telesp / CTB plan	**29**	**-**	**-**
Number of active participants of Visão Telesp plan (including self-sponsored)	**6,810**	**-**	**-**
Number of active participants of Visão Assist plan	**136**	**-**	**-**
Number of active participants of Visão Telefonica Empresas plan	**293**	**-**	**-**

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

34. Post-Retirement Benefit Plans (Continued) g) Actuarial assumptions (Continued)

	2005		
	PBS/Visão Telesp/Visão Assist/CTB	**PAMA**	**PBS-A**

Rate used for present value discount of actuarial liabilities	11.30% p.a.	11.30% p.a.	11.30% p.a.
Expected return rate on plan assets	13.98% p.a.	12.88% p.a.	12.53% p.a.
Future salary increase rate	7.10% p.a.	7.10% p.a.	7.10% p.a.
Long-term inflation rate	5.00% p.a.	5.00% p.a.	5.00% p.a.
Medical cost increase rate	Not applicable	8.15%p.a.	Not applicable
Increase in use of medical services for each additional year of age	Not applicable	4.00% p.a.	Not applicable
Benefit growth rate	5.00% p.a.	5.00% p.a.	5.00% p.a.
Capacity factor salaries	98.00%	Not applicable	Not applicable
Capacity factor benefits	98.00%	Not applicable	Not applicable
Mortality table	UP 94 forward 2 year - segregated by sex	UP 94 forward 2 year - segregated by sex	UP 94 forward 2 year segregated by sex
Disability mortality table	IAPB-57	Not applicable	Not applicable
Disability table	Mercer Disability	Mercer Disability	Not applicable
Turnover table	0.15/ (employment time + 1) from 50 years on - zero	Not applicable	Not applicable
Retirement age	Age at which participants are first entitled to one of the benefits	Age at which social security retirement is eligible	Not applicable
% of active married participants on retirement date	95.00%	Not applicable	Not applicable
Age difference between participants and spouses	Wives 4 years younger than husbands	Not applicable	Not applicable
Number of active participants and dependents	-	-	-
Number of assisted participants/beneficiaries	-	3,282	5,334
Number of active participants of PBS-Telesp / CTB plan	44	-	-
Number of retired participants of PBS-Telesp / CTB plan	350	-	-
Number of dependent groups of retirees of PBS-Telesp / CTB plan	23	-	-
Number of active participants of Visão Telesp plan (including self-sponsored)	6,798	-	-
Number of active participants of Visão Assist plan	77	-	-

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

35. Insurance (Unaudited)

The Company and its subsidiaries polices, as well as that of the Telefónica Group, includes the maintenance of insurance coverage for all assets and liabilities involving significant amounts and high risks based on managements judgment and following Telefónica S.A.s corporate program guidelines. In this context, Telecomunicações de São Paulo S.A. Telesp complies with the Brazilian legislation for contracting insurance coverage.

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

The major insurances contracted by the Company are shown below:

Type	Insurance coverage
Operational risks (with loss of profits)	US$7,752,527 thousand
Optional civil responsability - vehicles	R$1,000
ANATEL guarantee insurance	R$5,178

36. Financial Instruments

In compliance with the terms of CVM Instruction No. 235/95, the Company and its subsidiaries made a valuation of their financial assets and liabilities in relation to market values, based on available information and appropriate valuation methodologies. However, the interpretation of market information, as well as the selection of methodologies, requires considerable judgment and reasonable estimates in order to produce adequate realizable values. As a result, the estimates presented do not necessarily indicate the amounts which might be realized in the current market. The use of different market approaches and/or methodologies for the estimates may have a significant effect on the estimated realizable values.

Carrying and market values of financial instruments as of December 31, 2006 and 2005 are as follows:

	Consolidated			
	2006		2005	
	Book value	Market value	Book value	Market value
Loans and financing	**(2,338,158)**	**(2,334,184)**	(2,397,608)	(2,404,200)
Derivatives	**(316,318)**	**(278,957)**	(294,255)	(224,681)
Cash and cash equivalents	**213,036**	**213,036**	463,456	463,456
	(2,441,440)	**(2,400,105)**	(2,228,407)	(2,165,425)

36. Financial Instruments (Continued)

The Company has a total direct and indirect interest of 0.95% in Portugal Telecom, valued by the cost method. The investment, at market value, is based on the last quotation of December 2006 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to 9,84 (8,55 in December 2005):

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

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

a) Exchange rate risk

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

36. Financial Instruments (Continued)

a) Exchange rate risk (Continued)

The Company's indebtedness and the result of loan, financing and purchase commitment liabilities denominated in foreign currency are significantly affected by the foreign exchange rate risk. As of

December 31 2006, 35.18% (36.45% on December 31, 2005) of the debt was denominated in foreign currency (U.S. dollar and yen); 99.88% (99.37% on December 31, 2005) of this debt was covered by asset positions on currency hedge transactions (swaps for CDI). Gains or losses on these operations are recorded in income. As of December 31, 2006, these transactions generated a net consolidated loss of R$164,227. As of December 31, 2006, the Company recorded a liability of R$316,318 to reflect the existing temporary loss. As these concern coverage operations, part of the net consolidated negative result of R$ R$164,227 with derivatives is offset against exchange variation gains with debts, in the amount of R$70,749.

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

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

In view of the complexity of the process and insignificance of results, the Company decided not to renew the coverage of non-financial liabilities denominated in foreign currency. However, the exposure will continue to be monitored, and the Company may take out new coverages should the exposure become significant or be defined by the Company as material.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

36. Financial Instruments (Continued)

a) Exchange rate risk (Continued)

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

For purposes of accounting practices adopted in Brazil, hedge operations (swap) are valued on the accrual basis, considering the related contractual provisions.

b) Interest rate risk

This risk arises from the possibility that the Company may incur losses due to internal and external interest rate fluctuations, negatively affecting financial charges and, consequently, its indebtedness.

As of December 31, 2006, the Company had R$822,603 (R$873,966 as of December 31, 2005) of loans and financing in foreign currency, of which R$553,394 (R$478,158 as of December 31, 2005) was at fixed interest rates and R$269,209 (R$395,808 as of December 31, 2005) was at variable interest rates (Libor). To prevent against the exchange risk and variable interest rates on these foreign currency debts (Libor), the Company has hedge transactions in order to peg these debts to local currency, at floating rates indexed to the CDI (Interbank Deposit Certificate), in a way that the Company's financial result is affected by the CDI variation. The balance of loans and financing also includes debentures issued in 2004 with interest based on the variation of the CDI of R$1,514,514 (R$1,521,744 as of December 31, 2005), as described in Note 18. On the other hand, the Company invests its excess cash (temporary cash investments) of R$173,165 (R$424,459 as of December 31, 2005), mainly in short-term instruments, based on the CDI variation, which also reduces this risk. The book values of these instruments approximate market values, since they may be redeemed in the short term.

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36. Financial Instruments (Continued)

b) Interest rate risk (Continued)

As of December 31, 2006, the Company carried out swap operations CDI x fixed to partially cover the internal interest rate fluctuations. Covered operations mature in January 2007 and 2008 and the amounts contracted total R$739,781 and R$168,535, respectively. Such derivative operations generated a negative consolidated net result of R$2,110, and this temporary loss was recorded in statements of income and in liabilities to reduce the temporary loss of derivatives.

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

c) Debt acceleration risk

As of December 31, 2006, the Companys loan and financing agreements contain restrictive covenants, typically applicable to such agreements, relating to cash generation, indebtedness ratios and other. These restrictive covenants, which could accelerate the collectibility of liabilities, have been fully complied with by the Company.

d) Credit risk

This risk arises from the possibility that the Company may incur losses due to the difficulty of receiving amounts billed to its customers. The credit risk on accounts receivable is dispersed. The Company constantly monitors the level of accounts receivable and limits the risk of past-due accounts, interrupting access to telephone lines in case the customer bill has been overdue for more than 30 days. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

As of December 31, 2006, the Companys customer portfolio had no subscribers whose receivables were individually higher than 1% of the total trade accounts receivable.

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2006 and 2005 (In thousands of reais)

37. Capital Expense Commitments (Unaudited)

The Company submitted the Capital Budget for 2007, in the amount of R$1,845,129 (consolidated), to the appreciation of its Board of Directors, for subsequent approval in the General Shareholders Meeting, according to article 196 of Law No. 6404/76. Sources of funds will include the Company´s cash and financing.

38. Management Compensation

The management compensation paid by the Company to its Board of Directors and officers amounted to approximately R$22,300 (R$23,600 in 2005). Of this amount, R$15,400 (R$16,100 in 2005) correspond to salaries and benefits, and R$6,900 (R$7,500 in 2005) to bonus.

39. Additional Information

a) On October 27, 2006, Decree No. 47817 was published in the Official Gazette of the Municipality of São Paulo, regulating Law No. 14023/05, which establishes that all aerial cabling in the city of São Paulo be buried and to comply with the Law. The Company is analyzing the effects of the referred to regulation in order to study its impacts.

b) On January 15, 2007, Telesp and Windsor Investimentos Imobiliários Ltda., wholly- owned subsidiary of Tecnisa S.A., entered into a Private Agreement of Sale and Purchase of Property, concerning the building owned by Telesp, located at Avenida Marquês de São Vicente, nº 2353, corner with Avenida Nícolas Boer, nº 301, Barra Funda District, São Paulo-SP, with a total area of 251,380.81 m², for the total amount of R$ 134,555, to be paid by Windsor to Telesp by April 15, 2007, occasion when the related Public Deed of Sale and Purchase will be written up. The residual value as of December 31, 2006 is of approximately R$46,000.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT
December 31, 2006 and 2005

1. Board of Directors Message

Eight years passed since the privatization, the company obtained great achievements, and amongst the most important we distinguish the social inclusion, allowing the less favored part of the population to have access to the telephony and internet services, basic items for the personal and familiar progress in the Information Era.

Alternative plans as the Economy Line, the Control Line and more recently the Minutes Plans are examples of offers that attend specific necessities of the different segments of the market, giving the user options even more adapted to their profile in the access to the fixed telephony.

In the beginning of 1998, in the State of São Paulo, only 8% of the class D families had fixed telephone. In accordance with the last available data, the telephonic line is present in approximately 50% of the homes. In class C, this democratization of the service also happened. Eight years ago, 35% of the homes had telephone and, currently, the telephonic line is present in more than 80% of the families. In the State of São Paulo, the total number of fixed telephones of the Society passed from 6.4 million in the end of 1998, to 12.1 million in the end of 2006, with a net 100% digital.

The number of public telephones in São Paulo State cities increased significantly, passing from 180 thousand in 1998 to current 250 thousand - what represents a density of 6.8 public telephones per group of a thousand inhabitants, index greater than the one found in metropolises of countries as United States, France, Germany and Spain. In the State of São Paulo, we installed approximately 1.5 thousand telephones for hearing impaired.

As a result of the universalization efforts, the telephonic density in the state of São Paulo reaches 30 lines per 100 inhabitants, a similar index to the ones registered in Portugal and Spain.

Once achieved the universalization goals set by ANATEL, in 2001 when the Company became the first fixed-line telephone operator to achieve them, the key words started to be technological convergence and profitability of the investments.

Relating to the technological convergence, and according to the spirit of being always a pioneer in the innovative products offered and attending better the community telecommunications necessities, the Company has dedicated since 2001 great efforts to the expansion of the internet connection services in broadband and dialup connections (approximately 2 million customers have access to the internet through Telesps network).

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

1. Board of Directors Message (Continued)

Recently, the Company has searched solutions to offer alternatives in video and TV to its subscribers, either through partnerships or directly, but always in compliance with the regulation and the objective of better attending the customers and its needs.

During the year of 2006, the Company reached the mark of 12,113,031 lines in service and a productivity of 1,670 lines per employee (considering fixed lines in service plus ADSL lines), an efficiency parameter that, once more, is situated amongst the best ones in the world.

The digital services, which contain intelligent facilities such as calls identification, simultaneous attendance, calls transference, mail box, and others, reached in 2006 6.0 million subscribers and a total of 18.2 million individual facilities.

Today the broadband data connection services through ADSL technology, commercialized under the brand "Speedy", is a national leader with 1,606,685 subscribers, what makes TELESP a detainer of an average of 39.7 users per a thousand inhabitants in the State of São Paulo, superior to the ones registered in other Latin American countries. In this broadband internet service, the telephone operators dispute the market with the cable TV companies and alternative solutions through radio waves.

The internet access connections was also extended due to investments of approximately R$413 millions in expansion and improvement of IP Network (Internet Protocol) and broadband projects, which allow users to have internet access in most of São Paulo State cities without paying an interurban call to the internet providers in the biggest cities.

The Companys investments regarding modernization, expansion, quality and maintenance of the network in 2006 amounted to R$1,721.4 millions, which proves the commitment of Telefónica Group with the future in Brazil.

During the year of 2006, the Company paid to the Federal, State and Municipal Governments a consolidateda amount of R$7.270 billions in taxes and contributions. The Company paid R$138.6 millions for the FUST (Fund for Universal Access to Telecommunications Services), and R$64.6 million for the FUNTTEL (Fund for Telecommunications Technological Development).

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

1. Board of Directors Message (Continued)

During the year of 2006, the Company declared dividends and interest on shareholders equity (JSCP) in the gross total amount of R$ 5.80 for a thousand ordinary shares and R$ 6.38 for a thousand preferred shares, referring to this exercise. Such amounts are proportional to the Companys finance-economic solid condition, even though it could be considered modest comparing to the investments made by the

Company since the privatization.

The Company's indebtedness can be considered low for its size, of which 35.2% of its loans were negotiated in foreign currency. The financial administration efficient policies and cambial covering reduced the net financial expenses.

In relation to the profitability, even with all the expended efforts, the investment return rate in the sector is lower than the Company's cost of capital.

The Company has 8,215 direct employees, and more than 40 thousand that are indirectly hired.

Telefónica Group is aware of its social and environmental responsibility, and to co-ordinate the efforts of its companies in this way, of which TELESP is part, on March 1999, it was instituted the Telefónica Foundation.

Among the diverse initiatives, it could be distinguished the following programs: EducaRede, open and free portal for students and teachers from public schools, Pró Menino, which promotes the defense of Child and the Adolescent Rights, and the volunteering program that tries to supply the poor communities necessities.

Concerned about the society's welfare, TELESP created on November 2006 the Environment Committee that has an objective of preserving the environment in all processes incorporated to its business.

2. Economic Context

During 2006 the Brazilian economy fundaments referring to the external sector has experimented additional advances. The trade balance presented again a record result, reaching the amount of USS 46.1 billion. The international reserves increased USS 32 billion, getting to an amount of US$85,8 billion in the end of 2006, also a historical record. Due to these facts, there were important improvements in the external solution indicators, which help the continuous decrease of risk-Brazil rate during the year.

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2. Economic Context (Continued)

In fact, risk-Brazil rate measured for Embi+ decreased from 311 to 192 points throughout 2006, the lowest level since the beginning of the series initiated in 1994.

With these trade balance and international reserves records, also the decrease of the risk- country rate, the Real currency continued its valuation trajectory already observed since 2004. The average exchange rate in 2006 was R$/USS 2.18, against R$/USS 2.43 in 2005. It means, the Brazilian currency was valued in 10.3% in nominal terms. Among others effect, this movement of national currency valuation presented important consequences in the inflation to the consumer. For the first time since the beginning of the inflation project goals, the IPCA (inflation index) accumulated in the year reached 3.14% in 2006, below than the 4.5% goal established by the Central Bank of Brazil.

This favorable inflation evolution made possible to the Central Bank of Brazil the continuation of the reduction of the basic interest rate initiated in the second semester of 2004. The Selic rate was reduced in 475 points, reaching 13.25% in the end of the year. As a result, the internal demand showed dynamism signals. In the work market, the salaries presented a 6.7% increase. Moreover, it also fits to distinguish the stimulation given to the credit expansion, whose participation in the GDP (Gross Domestic Product) jumped from 31.2% in the end of 2005 to 34.3% in the end of 2006.

The services sector was benefited in this scenario of economic growth. The expansion of wages and credit, combined with the appreciation of the Brazilian Real currency in relation to the American dollar, resulted in increased power of Brazilian consumers to purchase, affecting positively the capacity of our consumers to acquire the telecommunications services.

The benefit of the increasing internal demand becomes even higher because of the evolution profile of the country income distribution. In accordance to IBGE (Brazilian Institute of Geography and Statistics), the income distribution for domiciles presents an improvement for the seventh consecutive year, a positive factor considering the elasticity of the demand for telephony in the less favorable part of the population.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

3. Regulatory Environment

On December 31, 2005, the Concession Contract STFC (Commuted Fix Telephone Service) expired and, on December 22, 2005, it was extended for more 20 years.

The contract foresees periodic reviews every five years - being the dates foreseen for those reviews: December 31, 2010, December 31, 2015 and December 31, 2020. The new contract, besides establishing new conditions, universalization and quality goals, has onerous character, which means that every two years, during the twenty years of the contract, the concessionaires will have to pay a renewal tax equivalent to 2% of the STFC income of the year previous to the payment, net of taxes and social contributions.

The new contract, valid since January 1, 2006, establishes new conditions, being the main ones:

- Alteration in the mechanics of tariffs readjustment. It passes to be applied the IST (Sector Index of the Telecommunications) that is composed by diverse economic indexes, instead of the IGP-DI (General Price Index). The readjustment occurred on July 2006 still considered the two indices, weighed for the period (last 7 months of IGP-DI of 2005 and 5 first months of IST of 2006). The tariffs readjustment homologated on July 2006 was -0.38% for local calls and -2.73% for long distance calls. The tariff readjustment will continue to occur in an annual basis, which means, the next one is foreseen for July 2007, already entirely indexed to the IST;

- Introduction to the productivity factor simplified (Factor X) in tariffs calculation, in substitution to the used index of 1% of annual productivity in the previous contract.

  The way to calculate the new productivity factor establishes that the profit productivity is divided between the operator and the user, in the ratio of 50% for each one. It was considered information from 2004 and 2005 for the calculation of Factor X in 2006; and

- Launching on July 1, 2006 of AICE (Individual Access Special Class) prepaid service special for population with low income. The main characteristics of the AICE are reduced monthly subscription fees (when compared with the classic line signature), and the absence of free minutes package, being all calls prepaid, through credits acquired in prepaid cards.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

3. Regulatory Environment (Continued)

The 2006 year also foresaw an alteration in the way of charging the local calls, changing to minutes, instead of pulses. This process demanded investment and preparation from the Company so that the migration occurs until the end of July. However, this alteration was delayed by Anatel and will have to happen during the first semester of 2007, having July 31 as the limit date for the total migration of the subscribers.

Summarizing, the 2006 year was marked by the adequacy of the Company to the new conditions of concession contract, remaining, however for 2007 the alteration in the way of charging on the local calls (sometimes known as migration from pulse to minute).

4. Corporate Structure

4.1 Corporate Structure

TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

MANAGEMENT REPORT (Continued)

December 31, 2006 and 2005

4. Corporate Structure (Continued)

4.2 Corporate Reorganization

On March 9, 2006, Telesp and Telefônica Data Brasil Holding S.A. (TDBH), both under the Telefónica Group control, announced a proposal to restructure the Multimedia Communications Service ("SCM") activities of Telefônica Empresas S.A. and Telesp. The operation included the following stages:

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

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

In July 28, 2006, the Company's restructuring process was finished. The Company merged the net assets of Telefônica Data Brasil Holding S.A. – TDBH, based on book value as of December 31, 2005, according to valuation report prepared by a specialized company, including the financial flows occurred until July 31, 2006.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. – TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

4. Corporate Structure (Continued)

4.3 Ownership Position

In 2006, the controlling group's ownership composition has changed minimally, as result of Telefónica Data Brasil Holding S.A. ("TDBH") merger by Telesp.

By the end of 2006, Telefónica Internacional S.A. – TISA owned 34.87% of common shares and 80.53% of preferred shares and SP Telecomunicações Holding Ltda, 49.19% of common shares and 7.11% of preferred shares. Telefónica Data do Brasil Ltda kept 1.52% of common shares and 1.50% of preferred shares of the Company.

A. TELESP

	Common	Preferred	Total
Controlling Group	144,462,997	300,749,850	445,212,847
%	**85.57%**	**89.13%**	**87.95%**
Others	24,146,295	36,482,339	60,628,634
%	**14.30%**	**10.81%**	**11.98%**
Treasury[1]	210,578	185,213	395,791
%	**0.12%**	**0.05%**	**0.08%**
Total stocks amount	**168,819,870**	**337,417,402**	**506,237,272**

1 Treasury shares from TDBH merger process.

5. Operating Performance

5.1 Commercial Strategies

In the past few years, fixed wire terminals plant has achieved a high level, becoming twice as big as it was in 1998 (beginning of concession). Maturity signs, however, can already be observed on Premium and Traditional segments. Aiming to keep fixed wire telephony attractiveness, the market has been developing segmented access offers, especially for lower income segments, which has been widely adopted by Telesp in specific market niche offers, as Linha da Economia and Linha Controle, for example (as well as Jovem, Limite, Economia Família and Linha Lazer accesses).

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5. Operating Performance (Continued)

5.1 Commercial Strategies (Continued)

Voice traffic values defense, by Telesp, has been successful by enlarging the Minutes Packages, including Speedy discounts (thus deepening relationship with clients). In Long Distance market, the establishment of fairly competitive fees has sustained the position of the Company's already consolidated "Super-15" brand, despite the increasingly incited competition from alternative communication solutions, especially from VoIP.

Besides traditional telephony, Telesp has increased its focus and activities to other markets, especially those with higher expansion potential, as the broadband and the data communication sectors.

In broadband, Speedy stands as leader, despite the increasingly incited competition observed last year. Initiatives developed during the year, as the technical upgrade of a significant part of Speedy's plant and dual package offers (voice and broadband package) have contributed to the leadership maintenance.

For the residential segment, Telesp has continually extended available services on its terminal, a contribution to disconnection fee reduction on digital and line services.

Another outcome in 2006 was Telefónica Group's ingression on TV market, through partnerships to offer channel packages via DTH (direct-to-home) and the strategic partnership to TVA. These partnerships intend to make triple-play offers possible, attending the new demands for more complete and integrated service and increasing satisfaction of an important share of our clients.

In data market, Telesp has presented fairly satisfying results, shown by the recent 100% occupation of Data-center and the highest historic index on client's satisfaction. Telefónica Empresas S.A.'s merger by Telesp, referring to Multimedia Communications Service ("SCM") activities, has contributed for a competitive positioning improvement in this market, through voice and data integrated offers, and for national coverage.

On the corporative segment intense competition has been taking place, as a result of companies in the data market consolidation. Telesp stands in this segment as a complete telecommunication solutions provider (data, wire line, mobile and Internet), pursuing to strengthen its position and increase the satisfaction of these demanding costumers through offers even more integrated to their needs.

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5. Operating Performance (Continued)

5.2 Interconnection and Network

Due to interconnection public offer, occurred in the previous year, interconnection agreements signed with all telecommunication providers were renegotiated in 2006, aiming to attend the definitions established by the regulatory agency and also Telesp's strategic intents, by reducing interconnection costs. Additionally, new agreements were established, due to the ingression of 7 (seven) new Commuted Fixed Telephony Service and Specialized Mobile Service providers in the market.

Competition on long distance service was extended because of implantation of 8 (eight) new providers selection codes (CSP Provider Selection Code), which summed a total of 21 (twenty-one) actual CSPs in the State of São Paulo.

The interconnection public offer was brought up to date attending to the results of negotiations with providers, the changes on provided services, and the regulation disposals. Procedures for reduction of stated periods for the new requests of interconnection attendance has been elaborated, as well as quality level monitoring and achieving on interconnections providing, highlighting the availability rate of 99.8%.

Regarding products and solutions stands out the creation of a prepaid long distance call guiding service (completeness of network) and the wholesale clients requests national attendance, via satellite. As to the postpaid local and long distance call guiding service, 20 new agreements were negotiated.

The first contract establishing quality levels on co-billing services was signed. By implanting cadastral data exchange, the direct billing automatic system to other companies clients was activated.

This year, long distance interconnection network with wireless providers was finally implemented on high traffic regions, allowing the correct billing of call from these providers clients.

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MANAGEMENT REPORT (Continued)
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MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

5.4 ISO 9001 Certification

TELESP conquered the NBR ISO 9001:2000 Global Certification with the following target:

- Management and Execution of the process of Commercialization, Installation, Functioning, Invoicing, Attendance and Technician Support for the activities related to the service rendering of Voice for the segment of Public Telephony and Voice, Data and Broadband (Speedy) and for Residential and Business segments;

- Management and Execution of Net Projects for the activities related to the rendering of services of Voice for the Segment of Public Telephony and Voice, Data and Broad Band (Speedy), and for Residential and Business segments; and

- Management of Attendance Rendered by Customer Relation Center with Telefônica Empresas SA customers related to Voice and Data services in the State of São Paulo (except Data-Center).

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

5. Operating Performance (Continued)

5.4 ISO 9001 Certification (Continued)

This certification represents the recognition of the Companys effort and the certainty that Telesp is moving towards the Integrated Model of Quality Management.

This is the biggest NBR ISO 9001:2000 Certification in Brazil, and involved 7500 employees and 500 sites.

5.5 Perspectives

The technological convergence is one of the most influential factors in the development of the telecommunications market today, which have fomented discussions in the technological field and the legal, regulatory and marketing fields. However, the drawn scene is still uncertain, involving complex questions, such as the convergence of telephony services and television (video). Ahead of this scenario, the action intensification aiming to bring a more convergent and present positioning to TELESP starts to be fundamental to the construction of a more complete service portfolio, for voice and data. These actions go through a higher integration between operations - in special integrating fixed and mobile voice - and for the development of segmented offers, for residential and corporate customers.

The broadband is considered a fundamental handspike for the development of products and convergent services. Going beyond simple access to available contents in the internet, today it has supported new models of business - as VoIP, e-commerce and Triple-play - and Telesp had the leading role in the direction of these market movements. Amongst the initiatives in this way, we distinguish the VOD project (video on demand), that uses IP platform for transmission of video files into digital format, already in the testing phase.

The current scene also presents questions related to the reduction of infrastructure through new technologies, and even possible disentail between infrastructure and service. At this way, an acceleration of geographic expansion out of fixed operators original concession areas is expected. This increase of competitiveness is already occurring, mainly through the mobile market and long distance calls, and it tends to also intensify in the local fixed operation. Telesp has followed this trend, and has the strategy to get the chances beyond its initial performance areas and continue to be the leader in region-3.

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5. Operating Performance (Continued)

5.5 Perspectives (Continued)

Also, the strong growth of the wireless business occurred in the last years is showing signals of deceleration and competitiveness increase. Due to that, it is expected that the wireless operators pass each time to search new sources of revenue beyond this growth, and the fixed line telephony business will be one of the main targets.

6. Financial Performance

6.1 Net and Gross Operating Revenue

In 2006, the Society settled gross operational revenue consolidated of R$20.796,8 millions, a growth of 2,2% as of the same period of 2005. The net operating revenue totalized R$14.643,0 milhões (R$14.395,1 thousands in 2005). The tariffs realignment that occurred on July 2005, increase of communication revenues between companies, growth of "Speedy" service and the increase of public telephony services contributed for this performance

6.2 Operating Profit before Net Finance Expenses

The operating profit before the net finance expenses presented a 10.3% increase from R$3,835.8 million in 2005 to R$4,231.7 million in 2006. The main contribution for this increase is the growth of the operational activities of the data-communication services and public telephony. Other operating revenues are also highlighted, in special the effect of the reversal of the PIS (Social Contribution Tax on Gross Revenue for Social Integration Program) and COFINS (Social Contribution Tax on Gross Revenue for Social Security Financing) liability after favorable decision of the Supreme Federal Court.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)

December 31, 2006 and 2005

6. **Financial Performance** (Continued)

6.3 EBITDA

The consolidated EBITDA (Earnings Before Taxes, Depreciation and Amortization) reached R$6,907.7 million, 5.4% higher than the amount registered in 2005. The EBITDA margin was 47.2%.

In millions of Reais	**2006**	**2005**
Operating Income before net Financial Expenses (*)	4,231.7	3,835.8
Depreciation and Amortization Expenses		
Services Rendered Costs (Note 26)	2,351.3	2,396.2
Selling Expenses (Note 27)	14.6	7.9
General and Administrative Expense (Note 28)	275.6	271.0
Goodwill Amortization (Note 30)	34.5	41.4
EBITDA	**6,907.7**	**6,552.3**
EBITDA edge		
a) EBITDA	6,907.7	6,552.3
b) Net Operating Revenue(*)	14,643.0	14,395.1
a) / b)	**47.2**	**45.5**

(*) See statements of income.

6.4 Financial Results

	2006	**2005**
Loans and Financing (Note 17)	823.6	875.9
Debentures (Note 18)	1,514.5	1,521.7
Total	2,338.1	2,397.6
Temporary loss in derivative operations (*)	316.3	294.3
Net indebtedness	2,654.4	2,691.9

(*) See balance sheets

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005
6. **Financial Performance** (Continued)

6.4 Financial Results (Continued)

The Company ended up the exercise of 2006 with a debt of R$2,338.1 million (R$2.397,6 million in 2005) or 22.0% of the equity (22.5% in 2005). The resources received are 35.2% in foreign currency.

In the comparative degree of 2006 to 2005, the financial result, excluded the interest on shareholders equity, increased by R$129.2 million, although still presenting a negative amount, influenced by loan payments in foreign currency during the year and by the dollar reduction, which impacted the exchange rate variation.

The Company pledges constant efforts to take reasonable decisions, by means of the current market conjuncture, to protect its debts of eventual cambial loss effects.

6.5 Net Profit

The net profit presented a positive evolution of 10.8%, moving from R$2,541.9 million in 2005 to R$2,816.2 million in 2006, influenced basically by the growth of the net operating revenues. The net margin was 19.2%.

In millions of Reais	**2006**	**2005**
a) Net Profit of 2006 (*)	2,816.2	2,541.9
b) Net Operating revenue (*)	14,643.0	14,395.1
a) / b)	**19.2%**	**17.7%**

(*) See statements of income.

The Company invested in 2006, R$1.72 billion in the expansion program and modernization of telecommunications services, including investments related to the expansion of broadband structure and to new value added services.

During the year, the Companys investments program had the objective to reach the highest quality standards and availability to our customers, without losing the focus in the growth of the corporative profitability and in the Companys competitive preparation.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

6. Financial Performance (Continued)

6.6 Investments (Continued)

In order to satisfy an increasingly requiring demand, new products and services had been launched, including investments to attend the Government of the State of São Paulos demand, and the internet business was prioritized, mainly related to the consolidation of the Group leadership in the broadband market, which service structure grew 33.0% in the year. In addition, it□s important to show the investments in the network critical points, which resulted in a significant reduction in defects and in the maintenance costs, as well as the investments used in the modernization of the systems of Customers Attention, Business Infrastructure, Billing and Collecting (ATIS).

The Company prepares to act in an incited competition market, through the supply of products, which value for the customer increases continuously, and inside the viability rules related to its invested capital and the regulatory landmark.

We presented below the investments amounts consolidated in the last year, on December 31, 2006:

	R$ Million	**%**
Management (General Support) (*)	329.3	19.1
Switch Equipment	31.3	1.8
Transmission Equipment	122.9	7.1
Infra-structure	60.8	3.5
External Network Equipment	382.1	22.2
Data Communication	307.2	17.8
Subscribers Equipments	297.7	17.3
Long Distance	35.2	2.0
Others	154.9	9.0
Total of Exploration Investments	1,721.4	100.0

(*)Including systems of support, energy equipment and those destined to the general support.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

MANAGEMENT REPORT (Continued)

December 31, 2006 and 2005

7. Capital Markets

Telesp has common shares (ON) and preferred shares (PN) negotiated in the BOVESPA (SÃO PAULO STOCK EXCHANGE) with symbols TLPP3 and TLPP4, respectively. The ADRs, level II of Telesp, are negotiated under symbol TSP on New York Stock Exchange (NYSE).

BOVESPA closed the year of 2006 with a new historical record (44,747 points), consequence of the rules improvement that conduct the market, of the country□s economy stability and of the favorable external environment.

The market of share offering, that presented a volume of R$31.2 billion, presented the greatest growth: 120.5% in relation to R$14.1 billion registered throughout 2005. The Stock Exchange had 26 IPOs. In the total, including the secondary shares issuance, there were 42 companies that appealed to the stock market.

In 2006, Telesps common and preferred shares (adjusted for dividends) value increase 47% and 32%, respectively. The ON daily average negotiated volume was R$1.226 million while the PNs totalized R$4.439 millions.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

7. Capital Markets (Continued)

TELESPs ADR value had a 44% increase, amounting to USS25.53 in the end of the year. The daily negotiated average volume was equivalent to USS2.025 millions.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)

December 31, 2006 and 2005

8. Shareholders Remuneration Policy

TELESP does not have a formal policy of revenue payment. The Company respects what was established by the Law nº 6,404/76 to pay at least 25% of its adjusted net profits for the period. Historically, TELESP has paid an amount above what is required by the law. In 2006, the Company presented a pay out of 111%.

The sum of the unitary gross amount of dividends and interest on shareholders equity (JSCP) declared in 2006 was R$5.80 for each common share and R$6.38 for each preferred share.

Distribution of paid values in 2006:

Common Shares

Year	Type	Shareholding Position	Date of beginning payment	Gross Value (R$/share)	Net Value (R$/share)
2005	JSCP	12/30/2005	06/26/2006	0.72404851457	0.61544123739
2006	Dividends	05/23/2006	06/26/2006	2.16601751841	2.16601751841
2006	JSCP	05/23/2006	06/26/2006	0.53705791049	0.45649922392
2006	Dividends	11/13/2006	12/11/2006	2.18694810876	2.18694810876
2006	JSCP	11/13/2006	12/11/2006	0.68573796631	0.58287727136

Preferred Shares

Year	Type	Shareholding Position	Date of beginning payment	Gross Value (R$/share)	Net Value (R$/share)
2005	JSCP	12/30/2005	06/26/2006	0.79645336603	0.67698536112
2006	Dividends	05/23/2006	06/26/2006	2.38261927025	2.38261927025
2006	JSCP	05/23/2006	06/26/2006	0.59076370154	0.50214914631
2006	Dividends	11/13/2006	12/11/2006	2.40564291964	2.40564291964
2006	JSCP	11/13/2006	12/11/2006	0.75431176294	0.64116499850

9. Corporate Governance

With the purpose to promote a good corporate governance, to increase the quality of the information disclosures and to reduce the investors uncertainties, TELESP has worked on the creation and implantation of internal norms and politics to make the policies very clear and objective. The Company believes that these actions will benefit the shareholders, current and future investors, as well as the market in general. Among the actions that the company has implemented, we distinguish:

- Creation and implantation of normative and internal policies:

  - Disclosure of Act and Relevant Fact Policies, according to CVM Instruction 358;
  - Normative on register, communication and control of finance-accounting information;
  - Normative on the pre-approval of services to be contracted from the external auditors;
  - Internal Regulation of Conduct in Matters Related to Securities;
  - Norms and conducts for financiers (code of ethics);
  - Norms and conducts for employees (code of ethics); and
  - Normative on communication of information to the markets.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

9. Corporate Governance (Continued)

- The creation of Board of Directors Committees:

  - Service Quality and Commercial Attention Committee;
  - Audit and Control Committee; and
  - Corporate Governance Committee

- Annual Disclosure of Corporative Governance Inform, that contains information referring to the main practicals of corporative governance adopted by the Company, also its shareholding structure, characteristics, composition and the administration agencies abilities, obligations and administrators responsibility.

- Establishment, for the Auditing and Control Committee, of procedures for the reception and treatment of related denunciations related to the accounting subjects and auditing (whistleblower channel); and

- The annual global remuneration of the administrators is approved by the shareholders in general meeting, as foreseen for the Brazilian law. The individualization of this remuneration to the members of the administration is carried through by the Board of Directors through its Corporate Governance Committee.

TELESP internal rules related to the conduct to be adopted in order to prevent eventual practical of "insider trading" are defined in intern normative, in special in its Internal Regulation of Conduct in Matters Related to Securities. The Executive Direction, the members of the Board of Directors and any other employee exposed to the sensible information are subject to restrictions imposed from such regulation. This intern normative defines periods of negotiation blackout, and establishes rules to prevent and/or to deal with conflict of interest situations.

9.1 Investor Relations

In order to obtain correct valuation of its shares, Company□s adopts practices aiming to clarify its policies to investors.

The Company provides investors□ most demanded information at its web page (www.telefonica.com.br/investidores/), as well as an IR team attending by phone or by individual meetings, at the Company, to clarify doubts. Moreover, notices, relevant facts and accounting statements are kept at these regulation commissions: CVM (Brazilian Securities Commission), in Brazil, and SEC (Security Exchange Commission) in the USA.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. □ TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

9. Corporate Governance (Continued)

9.2 Board of Directors

The Company Board of Directors is formed, at least, by 5 (five) members, up to the maximum of 15 (fifteen) members, mandating for 3 years, with reelection allowed. There are only shareholders in this Board, one of then elected by the preferred shares votes, in a separated voting. The others are elected by common shares votes.

Ordinary meetings are held once every three months. Special meetings are held when necessary, by means of the president□s invocation. The Board of Directors□ decisions are taken by majority on votes, when the majority of the executing Board is present.

The president not only has his common vote but also the quality vote, in the case of a draw. He also represents this Board when invocating, presiding and nominating the secretary in the Shareholders General Meetings, as well as invocating and presiding the own Board of Directors Meetings.

9.3 Executive Board

The Executive Board represents the Company actively and passively, being therefore responsible for managing social business by the necessary or convenient practices. Executive Board members are elected by the Board of Directors for a three-year long mandate, with reelection allowed.

According to the social statement, there shall be 3 (three) members, at least, to 12 (twelve) members, maximum, shareholders or not, residing in the country, to be elected by the Board of Directors.

9.4 Financial Code of Conduct (ethics code)

An ethics code regulates conduct of executives towards financial and accounting information, registration and control and confidential privileged information access.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

9. Corporate Governance (Continued)

9.5 Employees Code of Conduct (ethics code)

Employees Code of Conduct reflects the Company values and principles, which are to guide its conduct as well as of the people who are part of it. It is also to inspire working procedures demanding contact with clients, shareholders, employees, suppliers and general public. Telesps employees must be aware of each of their decisions and acts, especially regarding their professional activity, as effects on the Companys reputation.

9.6 Fiscal Committee

In Telesp this committee is permanent. Fiscal Committee members are elected on the Shareholders General Meeting, for a one-year mandate, with reelection allowed. As defined by law, preferred shares owners have the right to elect two members for the committee: an effective and a substitute, in a separate voting, without participation of the Parent Company preferred shares voting.

In accordance to legal disposal, besides reimbursement of expenses generated by the function execution, Fiscal Committee members are granted remuneration, defined by the Shareholders General Meeting that elected them. The remuneration of each member can not be less than 10% of the average remuneration of each director, profit sharing apart.

9.7 Audit and Control Committee

Created on December 2002, as an auxiliary committee, connected to the Board of Directors, is provided an own regulation, approved by this board.

Members are chosen periodically among Board of Directors members which are not Executive Board members; being their mandate as long as theirs mandates while members of the Board of Directors.

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9. Corporate Governance (Continued)

9.7 Audit and Control Committee (Continued)

Not prejudicing any of the Board of Directors functions, Audit and Control Committees role is to inform and/or recommend the Board regarding:

- External audit designation, contract conditions, professional mandate reach, and contract revocation or extension, if that is the case;
- The Companys accounts analysis, especially for compliance to legal requirements and generally accepted accounting principles;
- External and Internal audit results, as well as managements providences towards audit recommendations;
- Prove internal control systems adequacy and integrity;
- Attend external audit contract, for clear and precise opinion on annual accounts and audit report; and
- Receive information regarding detected relevant deficiencies of control systems and financial conditions, from intern audit.

9.8 Independent Auditors

In compliance with the terms of CVM Instruction 381, of January, 14, 2003, and Official Memorandum CVM/SNC/SEP 01/2006, of February, 22, 2006, Telesp and its subsidiaries inform that the Companys policy towards independent auditors, regarding services provision not related to external audit, are based on principles that preserve the auditors independence. These principles estate that no auditor can audit his/her own work, execute executive functions, stand for the client or provide any other service prohibited by current rules, preserving independence of work carried out by audit service providers.

During financial year 2006, the Company paid its independent auditors, ***Ernst & Young Auditores Independente SS***, the total amount of R$2.771 thousand, for audit and audit related services.

There were no payments to the firm above indicated, related to services that are not external audit, observed during this period.

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MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

10. Human Resources

Aware of peoples importance to achievement of Companys goals, Telesp has been intensifying personnel development and capacitating programs.

Not a surprise the Company has been three times pointed as one of the best places to work in Brazil. For the second year in a row, Telesp has been among the best 150 workplaces for *Exame-Você S/A* (analysis conducted by Institute of Administration Foundation of the São Paulo University) and the best 50 workplaces for women.

Telesp has also been among the 100 companies elected by Great Place to Work Institute and *Época* magazine. Great Place to Work, along with IDG (Computerworld) publisher developed a study concerning the best workplaces in IT & Telecom industry, including hardware, software, IT as well as telecom companies. The study identified Telesp among the best 10. Great Place to Work, along with *Melhor*, Brazilian Human Resources Associations magazine, has brought to light Telesps Corporative Educational Program.

10.1 Interaction

In 2006, the Company launched *Portal de RH* (HR Portal), gathering all employees interest information, using uncomplicated language and attractive looks, all of it in a single place.

Every working day of the year, no exceptions, Telesps employees receive the Bom Dia Telefónica email (Good Morning Telefónica), with the main news regarding the company.

On the second half of 2006, Telesp has launched a communication channel exclusively to executives, the Gente Executivo (Executive People), containing strategic information as well as information to be held to the teams.

10.2 Salaries

Telesp adopts a modern, flexible and transparent remuneration policy, in order to attract and retain talents in a highly competitive market, also stimulating and recognizing professionals individual performance, according to goals and results achieved. Based on the Remuneração Total (Total remuneration) concept, the companys remuneration strategy target is to pay salaries according to average in a selected market, achieving higher amounts by variable remuneration programs and a wide benefits package.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
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10. Human Resources (Continued)

10.2 Salaries (Continued)

- In 2006, over 1.1 thousand professionals of Telesp were promoted;
- 2,741 employees received an average readjustment of 5.87%; and
- 10% of executive board are ascending employees, from which, other 24 achieved new levels in their careers.

10.3 Development Programs

Strongly investing in personnel capacity and development programs, Telesp has obtained the following results for 2006:

- 145 employees in auto financed MBA courses;
- 19,534 presences for 125,098 hours of actual training;
- Over 8,200 participants on e-learning programs, up to a sum of 25,365 hours of training; and
- R$6 millions invested on capacity and development and R$2,130 millions for technologic capacity.

10.4 Benefits

In 2006, Telesp invested R$98 million on benefits to employees.

- R$34 million were invested on PLAMTEL, one of the best health insurance available. It covers not only health assistance established by law but also other health care areas;

- Telesp also invests R$34 millions on special food benefits. The beneficiary can split the total amount received between meal and groceries;
- The company provides a retirement plan to employees, as for each R$1 of employee contribution, Telesp contributes with the same amount;
- Permanent discounts on Speedy broadband and Digital TV services;
- R$2 million on life insurance to employees;
- Day-care benefit, reaching 292 parents currently;

10. Human Resources (Continued)

10.4 Benefits (Continued)

- Through Telesp, 350 employees have bought cars on the Companys auctions;
- R$3 million were invested on commute benefits;
- There are also benefit agreements with entities related to the telecom industry and to Telesp, as: ABET (Telecommunication Employees Beneficent Association) and Coopertel (Telefónica Groups Employees Credit Cooperative).

10.5 Employees Profile

Age range distribution

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

11. Social Responsibility

Telesp understands the importance of providing society with social, educational and cultural projects. Therefore, it has been increasing its compromise to stimulate and invest on employees and support needed communities.

11.1 Telefónica Foundation

Through Telefónica Foundations projects, Telesp privileges social inclusion of less favored population, as well as social compromise. Listed below, there are some of the works developed by the Foundation:

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MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

11. Social Responsibility (Continued)

11.1 Telefónica Foundation (Continued)

- **EducaRede** promotes internet as a pedagogic tool. In 2006, Coisas Boas Da Minha Terra project, carried through in a partnership with State Educational Agency, won the 3rd Mário Covas prize, in the category of information and communication technology use. Besides, over 1.5 thousand education professionals have debated digital inclusion on EducaRede Latin American Congress;

- **Pró-Menino** promotes the Child and Adolescent Rights defense, focusing school as a priority. Pró-Menino is formed by the Pró-Menino Portal, which carried through the second Causos do ECA contest in 2006, the Jovens em Conflito com a Lei, that acts with youth in fulfillment of partner-educative measures, the Redes de Atenção à Criança e ao Adolescente and the Combate ao Trabalho Infantil, starting to support projects in five cities in 2007: Bauru, Ourinho, Saints, São Paulo and Sumaré;

- **Memória Telefónica**, which pursues preservation and public availability of telecommunications history. In 2006 it has published the book São Paulo Pelo Telefone - images of the first half of the 20th century;

- **Telefónica Volunteers** support employees who engage or are willing to involve on volunteering. Amongst the actions carried out in 2006, Volunteers Day had great prominence, with the presence of over 780 employees in Jardim Ângela working at Santos Mártires Society. Two areas of the institution had been revitalized, meanwhile societys children recreation and lectures for the community had been held. The action took place also in the cities of Bauru, Campinas, Ribeirão Preto, São José do Rio Preto, Santos and Rio de Janeiro. The Child Incentive Campaign has counted on participation of over 597 employees, who donated 1% of their income tax to the Gaia de Guarulhos Project that monthly takes care of 260 social risked youngsters. For each R$1 donated by employees, Telesp donated other R$1.

  The collected amount of money was directed to the project for headquarter acquisition and for its activities accomplishment.

11.2 Sponsorships

Telesps support to the most different projects of the society has allowed some cultural projects on classic music, literature and plastic arts to be taken to community. There had been a total of about 40 great sponsorships that altogether reached 3.3 million people. Among these, we list:

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
December 31, 2006 and 2005

11. Social Responsibility (Continued)

11.2 Sponsorships (Continued)

- The Exposição Concreta '56 - a raiz da forma at MAM (Modern Art Museum of São Paulo). Visitation totalized 56.028 people, a record of public, who could appreciate masterpieces of the periods main artists;

- Bachiana Chamber Orchestra presentations with maestro João Carlos Martins at six cities in São Paulo State countryside, had allowed democratization of access to culture in public squares and full theaters;

- The Nemirovsky Foundations Quantity exhibition - O

Olhar do Colecionador -, for example, gathered Di Cavalcanti, Brecheret, Tarsila do Amaral, Ismael Nery and Rego Monteiro. Over 100 national and international modernists masterpieces, among paintings, sculptures and paper art. The expositions entrance was free;

- Financing ITAs (Aeronautics Technological Institute) team travel to the 10th Robotic World Championship, in Germany. The team achieved, amongst 40 countries, the 7th place in the category *Rescue Simulation Virtual Robots* (12th in

  Rescue Simulation Agents and 25th in *Soccer Simulation* 3D).

12. Environment

Telesp respects environment as an essential part of its corporative responsibility, developing various actions thus aiming the reduction or elimination of negative ambient impacts, cooping with economic, social and cultural progress of the society.

Telesp has subscribed the World Pact of United Nations, which emphasizes three environment directed principles: prevention, wide responsibility and development without disrespect to environment.

Amongst Telesps initiatives for environment preservation, we can list:

- **Alternative energy source acquisition (PCHs - Small Hydroelectric Centers and Biomass Mill Energia Limpa);**
- **Energy and water management center implementation, centralizing administration of these resources and seeking optimization and efficiency in their use;**
- **Awareness programs on operational man power education, regarding rational use of electricity and water, by means of internal lectures, workshops, etc;**

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

MANAGEMENT REPORT (Continued)
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12. Environment (Continued)

- Modification on emergency electricity generators installations (fed with diesel oil), by implanting ecological tanks and leaking detection;
- Acoustic treatment system implantation for emergency generators and air conditioning systems noise reduction;
- Along with Montreals Protocol regarding the plan of

extinguishing Ozone layer damaging gases;

- Lead-acid stationary batteries discard, at end of useful life, directly to manufacturers, in agreement to Conama Resolution;

Telesp runs a solid Natural Resources exploitation program, especially on water and energy. Companys practices allow energy providers to improve their structure, for a minor need for equipments.

ENVIRONMENT COMITEE

Concerned about Environment preservation, Telesp created an Environment Management Committee on November 21, 2006. Through the Committee, in association to Occupational Safety and Health, an Environment Management policy was elaborated, soon to be spread to the whole Company.

This initiative shall permit continuous work conditions improvement, preserving environment through all business processes. Resources availability to develop activities preventing environment pollution will make this possible.

Environment Management System implantation expects:

- Environmental Risks Reduction;
- Benefits for Telesp, clients, employees, society and Environment;
- Companys valuation;
- New markets entering;
- Reduced penalties risk by public force;
- Trustworthy on products sustainability;
- Wider environmental awareness;
- Resources use rationalization;
- Pollutants reduction and control;
- Harmonization of activities towards environment;
- Among others.

MANAGEMENT REPORT (Continued)

December 31, 2006 and 2005

13. Thanks Notes

The Company's Administration is grateful for its shareholders, clients, suppliers, financial institutions and other related entities support and reliance. It is especially grateful to its employees for the undertaken devotion and effort, who allowed the Company to achieve the presented results.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	TELESP HOLDING COMPANY
Date: April 4, 2007	By: /s/ Daniel de Andrade Gomes
	Name: Daniel de Andrade Gomes
	Title: Investor Relations Director