

TELESP PARTICIPACOES SA

Form 6-K

July 18, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

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

For the month of July, 2005

Commission File Number: 001-14475

TELESP HOLDING COMPANY

(Translation of registrant's name into English)

Rua Martiniano de Carvalho, 851 21° andar

São Paulo, S.P.

Federative Republic of Brazil

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(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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

Yes No

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

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TELESP HOLDING COMPANY

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Item

1. Press Release entitled *Telecomunicações de São Paulo S.A. - Telesp: Interim Financial Statements for the Quarter Ended March 31, 2005 and Independent Accountants' Review Report (Convenience Translation into English from the Original Previously Issued in Portuguese)* dated on July 15, 2005.

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

Telecomunicações de São Paulo S.A. - Telesp

*Interim Financial Statements for the Quarter Ended March 31, 2005
and Independent Accountants' Review Report*

Deloitte Touche Tohmatsu Auditores Independentes

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Management of

Telecomunicações de São Paulo S.A. - Telesp

São Paulo - SP

1. We have performed a special review of the accompanying interim financial statements of Telecomunicações de São Paulo S.A. - Telesp and subsidiaries (Company and consolidated), consisting of the balance sheets as of March 31, 2005, and the related statements of income for the quarter then ended and the performance report, all expressed in Brazilian reais and prepared in accordance with Brazilian accounting practices under the responsibility of the Company's management.
2. We conducted our review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, which consisted principally of: (a) inquiries of and discussions with persons responsible for the accounting, financial and operating areas as to the criteria adopted in preparing the interim financial statements, and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material modifications that should be made to the financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of mandatory interim financial statements.
4. We had previously audited the Company and consolidated balance sheets as of December 31, 2004, and reviewed the Company and consolidated statements of income for the quarter ended March 31, 2004, presented for comparative purposes, and issued an unqualified opinion thereon and unqualified special review report thereon, dated February 2, 2005 and April 30, 2004, respectively.
5. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, May 2, 2005

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Maurício Pires de Andrade Resende
Engagement Partner

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

BALANCE SHEETS AS OF MARCH 31, 2005 AND DECEMBER 31, 2004

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	03/31/05	12/31/04	03/31/05	12/31/04
ASSETS				
CURRENT ASSETS	4,670,215	4,098,160	4,725,698	4,161,865
Cash and cash equivalents	690,911	172,293	743,971	238,577
Trade accounts receivable, net	2,846,822	2,681,644	2,857,437	2,696,000
Deferred and recoverable taxes	739,677	897,546	759,921	907,819
Inventories	88,965	91,462	90,336	93,002
Other recoverable amounts	114,278	91,212	115,851	92,830
Other	189,562	164,003	158,182	133,637
LONG-TERM ASSETS	767,937	703,092	868,338	805,119
Deferred and recoverable taxes	381,738	325,560	410,068	354,382
Escrow deposits	348,725	333,407	349,222	333,893
Other	37,474	44,125	109,048	116,844
PERMANENT ASSETS	13,399,644	13,884,589	13,306,416	13,784,783
Investments	492,736	509,745	278,445	284,574
Property, plant and equipment, net	12,806,141	13,261,463	12,912,518	13,369,391
Deferred charges	100,767	113,381	115,453	130,818
TOTAL ASSETS	18,837,796	18,685,841	18,900,452	18,751,767

The accompanying notes are an integral part of these interim financial statements.

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

BALANCE SHEETS AS OF MARCH 31, 2005 AND DECEMBER 31, 2004

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	03/31/05	12/31/04	03/31/05	12/31/04
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES	3,877,928	4,138,548	3,900,089	4,163,806
Loans and financing	392,272	526,132	396,446	529,930
Trade accounts payable	1,269,823	1,172,604	1,296,172	1,194,781
Taxes payable	958,415	1,155,720	972,515	1,165,734
Dividends and interest on capital	502,596	506,116	502,596	506,116
Reserve for contingencies	54,918	52,806	54,967	52,847
Payroll and related charges	121,392	138,628	125,605	143,312
Temporary losses on derivatives	229,797	235,918	230,737	235,918
Other	348,715	350,624	321,051	335,168
LONG-TERM LIABILITIES	3,069,606	3,147,047	3,092,631	3,170,245
Loans and financing	2,121,627	2,205,762	2,142,160	2,226,313
Taxes payable	25,171	26,007	25,171	26,007
Reserve for contingencies	827,054	800,244	827,235	800,382
Other	95,754	115,034	98,065	117,543
DEFERRED INCOME			17,470	17,470
SHAREHOLDERS EQUITY	11,888,648	11,398,632	11,888,648	11,398,632
Capital	5,978,074	5,978,074	5,978,074	5,978,074
Capital reserves	2,745,386	2,745,272	2,745,386	2,745,272
Profit reserves	659,556	659,556	659,556	659,556
Retained earnings	2,505,632	2,015,730	2,505,632	2,015,730
FUNDS FOR CAPITALIZATION	1,614	1,614	1,614	1,614
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	18,837,796	18,685,841	18,900,452	18,751,767

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The accompanying notes are an integral part of these interim financial statements.

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

STATEMENTS OF INCOME

FOR THE QUARTERS ENDED MARCH 31, 2005 AND 2004

(In thousands of Brazilian reais - R\$, except earnings per share)

	Company		Consolidated	
	03/31/05	03/31/04	03/31/05	03/31/04
Telecommunications services	4,723,199	4,497,420	4,781,135	4,520,419
Revenue deductions	(1,374,241)	(1,250,242)	(1,396,170)	(1,254,256)
NET OPERATING REVENUE	3,348,958	3,247,178	3,384,965	3,266,163
Cost of services provided	(1,857,320)	(1,837,564)	(1,864,313)	(1,842,945)
GROSS PROFIT	1,491,638	1,409,614	1,520,652	1,423,218
OPERATING EXPENSES	(645,895)	(692,536)	(676,432)	(709,485)
Selling	(384,235)	(386,000)	(413,251)	(409,795)
General and administrative	(197,863)	(236,252)	(211,512)	(239,330)
Equity in subsidiaries	(17,681)	(11,571)	(3,329)	(1,208)
Other, net	(46,116)	(58,713)	(48,340)	(59,152)
INCOME FROM OPERATIONS BEFORE FINANCIAL EXPENSES, NET	845,743	717,078	844,220	713,733
Financial expenses, net	(101,465)	(81,542)	(104,448)	(82,434)
INCOME FROM OPERATIONS	744,278	635,536	739,772	631,299
Nonoperating income, net	8,357	9,189	8,680	9,221
INCOME BEFORE TAXES	752,635	644,725	748,452	640,520
Income and social contribution taxes	(262,733)	(226,144)	(258,550)	(221,939)
Reversal of interest on capital				
NET INCOME	489,902	418,581	489,902	418,581
NUMBER OF SHARES OUTSTANDING AT BALANCE SHEET DATE (IN THOUSANDS)	493,592,279	493,592,279		
EARNINGS PER SHARE - R\$	0.00099	0.00085		

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The accompanying notes are an integral part of these interim financial statements.

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE QUARTER ENDED MARCH 31, 2005

(Amounts in thousands of Brazilian reais - R\$, unless otherwise indicated)

1. OPERATIONS

a. Ownership control and operations

Telecomunicações de São Paulo S.A. - Telesp, hereinafter referred to as the Company or Telesp, is controlled by Telefónica S.A. that, as of March 31, 2005, holds directly and indirectly 84.71% of the common shares and 88.90% of the preferred shares of the Company.

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

The Company's activities are regulated by the Brazil's telecommunications regulator (ANATEL), in accordance with the terms of the concession granted by the Brazilian Government.

The Company is a concessionaire of the fixed switch telephone service (STFC) in Region 3, which comprises the State of São Paulo, in Sectors 31, 32 and 34 established in the General Concession Plan (PGO).

The STFC Concession Agreement in effect until December 31, 2005 may be renewed, upon the Concessionaire's request, on a chargeable basis, only once for another 20 years, provided that the Concessionaire meets the requirements of the agreement. The new agreement can contain new requirements and establish new universalization and quality targets, based on the conditions in force at the time of the renewal.

b. Telecommunications service providers and subsidiaries

Assist Telefônica S.A.: this wholly-owned subsidiary is a closely-held company engaged primarily in providing the following services: technical assistance for installation, operation and maintenance of internal telephone, data and IT networks; value-added services, including those related to internet content, connection and access, as well as technology services and internet support; installation, operation and maintenance of

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internet, intranet and extranet solutions; sale, rent and maintenance of general telecommunications and IT equipment and devices.

Aliança Atlântica Holding B.V.: this company headquartered in Amsterdam, Netherlands, is a 50-50 joint venture formed in 1997 between Telebrás and Portugal Telecom. With the spin-off of Telebrás in February 1998, Telebrás' equity interest in Aliança Atlântica was transferred to the Company. Currently, Aliança Atlântica is owned 50% by the Company and 50% by Telefónica S.A

Companhia AIX de Participações: this company is engaged in both direct and indirect development of activities related to the construction, conclusion and operation of underground fiber optic networks. Currently, Telesp holds a 50% interest in this company.

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Companhia ACT de Participações: on June 30, 2001, Telesp paid up an equity interest of 32% in this company. In November and December 2003, this company underwent a corporate restructuring that increased Telesp's equity interest to 50%.

Santo Genovese Participações Ltda.: on December 24, 2004, the Company acquired all the sharequotas of Santo Genovese Participações Ltda., a limited liability company, which holds an equity interest in Atrium Telecomunicações Ltda. Atrium that provides telecommunications management services for corporate clients in Brazil (industries, companies and condominiums), internet and intranet services, and sale, rent and representation of telecommunication systems and equipment.

2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The individual (Company) and consolidated interim financial statements have been prepared in accordance with Brazilian accounting practices, rules applicable to concessionaires of public telecommunications services, and accounting procedures and standards established by the Brazilian Securities Commission (CVM).

The consolidated interim financial statements include the accounts of the subsidiaries Assist Telefônica S.A. and Santo Genovese Participações Ltda. and of the jointly-owned subsidiaries Aliança Atlântica Holding B.V., Companhia AIX de Participações and Companhia ACT de Participações, which were fully or proportionally consolidated in accordance with CVM Instruction No. 247/96.

In consolidation, all intercompany accounts and transactions have been eliminated.

The interim financial statements have been reclassified when applicable for comparability purposes, as shown in Note 22.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The interim financial statements as of March 31, 2005 have been prepared in accordance with the principles, practices and criteria consistently applied to the financial statements for the prior year and should be analyzed together with those financial statements.

4. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Cash and banks	8,489	9,478	21,484	25,323
Temporary cash investments	682,422	162,815	722,487	213,254
Total	690,911	172,293	743,971	238,577



Table of Contents**5. TRADE ACCOUNTS RECEIVABLE, NET**

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Billed amounts	2,398,410	2,212,569	2,407,337	2,225,833
Unbilled amounts	1,005,204	1,033,315	1,011,778	1,038,304
Gross accounts receivable	3,403,614	3,245,884	3,419,115	3,264,137
Allowance for doubtful accounts	(556,792)	(564,240)	(561,678)	(568,137)
Total	2,846,822	2,681,644	2,857,437	2,696,000
Current	2,249,726	2,145,167	2,246,687	2,148,190
Past-due 1 to 30 days	461,554	433,423	470,643	440,352
Past-due 31 to 60 days	129,905	114,127	132,466	116,478
Past-due 61 to 90 days	65,101	48,938	66,099	50,098
Past-due 91 to 120 days	34,659	34,086	35,766	34,963
Past-due more than 120 days	462,669	470,143	467,454	474,056
Total	3,403,614	3,245,884	3,419,115	3,264,137

The Company has accounts receivable and payable under negotiation with Embratel – Empresa Brasileira de Telecomunicações S.A. (long-distance operator). Amounts receivable and payable are recorded based on estimates prepared by the Company; significant changes to such amounts are not expected. Amounts receivable under discussion with Embratel, in the amount of R\$68,258 as of March 31, 2005, are shown as current in the table above.

6. DEFERRED AND RECOVERABLE TAXES

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Withholding taxes	32,317	46,070	33,254	46,980
Prepaid income tax	160,216	220,924	161,154	221,407
Prepaid social contribution tax	56,006	85,586	56,031	85,603
Deferred taxes	643,042	619,279	683,576	654,103
Tax loss carryforwards – Income tax			20,762	21,136
Tax loss carryforwards – Social contribution tax			7,475	7,610
Reserve for contingencies	286,435	276,602	286,513	276,662
Postretirement benefit plans	15,218	15,182	15,251	15,211
Income tax on other temporary differences	251,021	240,805	259,982	245,209
Social contribution tax on other temporary differences	90,368	86,690	93,593	88,275
ICMS (state VAT) (*)	229,404	251,054	234,931	253,360
Other	430	193	1,043	748

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Total	1,121,415	1,223,106	1,169,989	1,262,201
Current	739,677	897,546	759,921	907,819
Long-term	381,738	325,560	410,068	354,382

(*) Refers to tax credits derived from the purchase of fixed assets, available for offset in 48 months.

Table of ContentsDeferred income and social contribution taxes

Considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable income discounted to present value based on a technical feasibility study, as provided for in CVM Instruction No. 371/2002, the Company estimates the realization of the deferred taxes as of March 31, 2005 as follows:

Year	Company	Consolidated
2005	287,231	298,999
2006	108,500	110,197
2007	63,129	69,181
2008	63,129	71,958
2009 and thereafter	121,053	133,241
Total	643,042	683,576

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

7. OTHER RECOVERABLE AMOUNTS

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Advances to employees	5,914	5,710	6,069	6,085
Advances to suppliers	42,470	29,344	43,065	29,881
Other advances	601	342	604	342
Other recoverable amounts	65,293	55,816	66,113	56,522
Total current	114,278	91,212	115,851	92,830

8. INVENTORIES

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Consumption materials	102,089	104,550	102,138	104,599
Resale items	122,963	129,995	129,360	140,850
Public telephone prepaid cards	8,362	8,510	8,362	8,510
Scraps	543	641	543	641

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Allowance for reduction to market value and obsolescence	(144,992)	(152,234)	(150,067)	(161,598)
Total current	88,965	91,462	90,336	93,002

Table of Contents**9. OTHER ASSETS**

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Prepaid expenses	85,540	56,163	82,395	52,587
Receivables from Barramar S.A. (*)			75,138	76,503
Intercompany receivables - current	105,836	99,801	75,327	70,283
Onlending of foreign currency loans	4,098	4,184	4,098	4,184
Tax incentives, net of allowance	411	411	411	411
Amounts linked to National Treasury securities	8,449	8,284	8,449	8,284
Receivables from sale of properties/scraps	4,720	16,234	4,720	16,234
Other assets	8,419	6,931	7,628	6,053
Total	217,473	192,008	258,166	234,539
Current	189,562	164,003	158,182	133,637
Long-term	27,911	28,005	99,984	100,902

(*) Refer to receivables from Barramar S.A., recorded by Companhia AIX de Participações, net of allowance for doubtful accounts.

10. ESCROW DEPOSITS

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Civil litigation	37,416	36,509	37,452	36,546
Tax litigation	232,483	225,651	232,841	226,008
Labor claims	78,826	71,247	78,929	71,339
Total long-term	348,725	333,407	349,222	333,893

11. INVESTMENTS

	Company		Consolidated	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Investments carried under the equity method	398,962	415,957	116,825	119,820
Aliança Atlântica Holding B.V.	72,381	75,704		
Assist Telefônica S.A.	157,412	166,195		

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Companhia AIX de Participações	69,789	71,683		
Negative goodwill on acquisition of shares Companhia Aix de Participações	(17,470)	(17,470)		
Allowance for losses Companhia AIX de Participações (i)	25	25		
Companhia ACT de Participações	119,820	119,820	119,820	119,820
Goodwill on acquisition Santo Genovese Participações Ltda.	(2,995)		(2,995)	
Investments carried at cost	93,774	93,788	161,620	164,754
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Portugal Telecom	75,362	75,362	143,209	146,329
Other companies	29,136	29,149	29,135	29,148
Other investments	3,359	3,360	3,359	3,360
Tax incentives	15,164	15,164	15,164	15,164
Allowance for losses	(29,247)	(29,247)	(29,247)	(29,247)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	492,736	509,745	278,445	284,574
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The negative goodwill on the acquisition of shares of Companhia AIX de Participações recorded by the Company was allocated to Deferred Income in the consolidated balance sheet, according to Art. 26 of CVM Instruction No. 247/96.

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Investment acquisition - Santo Genovese Participações Ltda.

On December 24, 2004, the Company acquired control of Santo Genovese Participações Ltda., parent company of Atrium Telecomunicações Ltda. (Atrium), which is engaged in the telecommunications services management.

Santo Genovese Participações Ltda. (Santo Genovese) is a holding company which holds 99.99% of Atrium. The acquisition price was R\$113,440.

Such operation will allow to increase the supply of higher value-added services on the domestic market, through the management of telecommunications services.

The goodwill, based on Atrium s future profitability, is calculated as follows:

	<u>Amounts</u>
Acquisition price	113,440
Acquisition costs	2,435
(-) Book value of investment	(3,945)
Goodwill	119,820

The principal financial information on the subsidiaries as of March 31, 2005 and December 31, 2004 is as follows:

	<u>March 2005</u>				
	<u>Aliança Atlântica</u>	<u>Assist Telefônica</u>	<u>Companhia AIX</u>	<u>Companhia ACT</u>	<u>Santo Genovese (a)</u>
Paid-up capital	138,413	254,000	460,929	1	51,850
Capital reserves					450
Retained earnings (accumulated deficit)	6,349	(96,588)	(321,351)	50	(59,926)
Shareholders equity	144,762	157,412	139,578	51	(7,626)
Shares (million)					
Number of subscribed and paid-up shares	88	367,977	298,562	1,000	51,850
Number of common shares owned	44	367,977	149,281	500	51,850
Ownership percentage	50%	100%	50%	50%	100%

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	December 2004				
	Aliança Atlântica	Assist Telefônica	Companhia AIX	Companhia ACT	Santo Genovese (a)
Paid-up capital	144,779	254,000	460,929	1	51,850
Capital reserves					450
Retained earnings (accumulated deficit)	6,630	(87,805)	(317,563)	50	(56,245)
Shareholders' equity	151,409	166,195	143,366	51	(3,945)
Shares (million)					
Number of subscribed and paid-up shares	88	367,977	298,562	1,000	51,850
Number of common shares owned	44	367,977	149,281	500	51,850
Ownership percentage	50%	100%	50%	50%	100%

- (a) The Company recorded a provision for shareholders' deficit in the amount of R\$7,626 (R\$3,945 as of December 31, 2004), under the caption "Other liabilities".

	March 2005					March 2004		
	Aliança Atlântica	Assist Telefônica	Cia AIX	Cia ACT (c)	Santo Genovese (b) (c)	Aliança Atlântica	Assist Telefônica	Companhia AIX
Net income (loss)	11	(8,783)	(3,788)		(3,680)		(8,165)	(4,395)

- (b) Santo Genovese's loss includes the result of December 2004, because the consolidated balance sheet for 2004 was prepared based on Santo Genovese's balance sheet as of November 2004. The current consolidated balance sheet has been prepared on the same monthly basis.
- (c) Companhia ACT de Participações and Santo Genovese Participações Ltda were consolidated from December 2004.

The Company's equity in subsidiaries is as follows:

	March 2005	March 2004
Aliança Atlântica	(3,324)	(1,208)
Assist Telefônica	(8,783)	(8,165)
Companhia AIX de Participações	(1,894)	(2,198)
Companhia ACT de Participações		
Santo Genovese Participações Ltda.	(3,680)	
	(17,681)	(11,571)

Table of Contents**12. PROPERTY, PLANT AND EQUIPMENT, NET**

	Company						
	Annual depreciation rates %	March 2005			December 2004		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property, plant and equipment in service		38,002,562	(25,518,186)	12,484,376	37,962,793	(25,004,091)	12,958,702
Switching and transmission equipment	12.50	15,503,214	(11,598,591)	3,904,623	15,589,724	(11,434,121)	4,155,603
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	11,316,598	(7,945,177)	3,371,421	11,299,344	(7,786,228)	3,513,116
Transmission equipment - modems	20.00	559,093	(404,516)	154,577	540,040	(375,265)	164,775
Underground and undersea cables, poles and towers	5.00 a 6.67	388,883	(203,112)	185,771	387,765	(199,272)	188,493
Subscriber, public and booth equipment	12.50	1,840,791	(1,041,904)	798,887	1,804,641	(994,303)	810,338
IT equipment	20.00	465,948	(392,326)	73,622	466,266	(386,296)	79,970
Buildings and underground cables	4.00	6,322,154	(3,232,555)	3,089,770	6,313,571	(3,178,563)	3,135,008
Vehicles	20.00	47,406	(35,738)	11,497	49,465	(36,623)	12,842
Land		258,185		258,185	257,530		257,530
Other	10.00 a 20.00	1,300,290	(664,267)	636,023	1,254,447	(613,420)	641,027
Property, plant and equipment in progress		321,765		321,765	302,761		302,761
Total		38,324,327	(25,518,186)	12,806,141	38,265,554	(25,004,091)	13,261,463
Average annual depreciation rates - %		10.55			10.49		
Assets fully depreciated		12,698,535			12,223,036		

	Consolidated						
	Annual depreciation rates %	March 2005			December 2004		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Property, plant and equipment in service		38,150,646	(25,567,923)	12,582,723	38,106,747	(25,047,625)	13,059,122
Switching and transmission equipment	12.50	15,503,264	(11,598,592)	3,904,672	15,589,724	(11,434,120)	4,155,604
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	11,327,731	(7,946,378)	3,381,353	11,329,039	(7,795,144)	3,533,895
Transmission equipment modems	20.00	578,025	(413,312)	164,713	540,040	(375,265)	164,775
Underground and undersea cables, poles and towers	5.00 a 6.67	401,915	(203,810)	198,105	400,797	(199,737)	201,060
Subscriber, public and booth equipment	12.50	1,840,797	(1,041,907)	798,890	1,804,647	(994,305)	810,342
IT equipment	20.00	469,348	(394,466)	74,882	469,549	(388,256)	81,293

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Buildings and underground cables	4.00	6,322,205	(3,232,571)	3,089,634	6,313,622	(3,178,578)	3,135,044
Vehicles	20.00	47,745	(35,846)	11,899	49,731	(36,716)	13,015
Land		258,225		258,225	257,530		257,530
Other	10.00 a 20.00	1,401,391	(701,041)	700,350	1,352,068	(645,504)	706,564
Property, plant and equipment in progress		329,795		329,795	310,269		310,269
Total		38,480,441	(25,567,923)	12,912,518	38,417,016	(25,047,625)	13,369,391
Average annual depreciation rates - %		10.58			10.57		
Assets fully depreciated		12,699,731			12,223,036		

Table of ContentsReturnable assets

Pursuant to the Concession Agreement, all assets pertaining to the Company's equity and indispensable to the provision of the services described in said agreement are considered returnable and are part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the Concession Agreement. As of March 31, 2005, the net book value of such returnable assets is estimated at R\$9,953,474 (R\$10,295,779 as of December 31, 2004), comprised of switching and transmission equipment, public use terminals, external network equipment, energy equipment, and system and operation support equipment.

13. DEFERRED CHARGES

Deferred charges as of March 31, 2005 and December 31, 2004 are as follows:

	Company		Consolidated	
	Mar/05	Dec/04	Mar/05	Dec/04
Preoperating expenses	23,245	26,034	29,499	32,527
Cost	55,788	55,788	65,279	65,279
Accumulated amortization	(32,543)	(29,754)	(35,780)	(32,752)
Merged goodwill - Ceterp S.A.	21,287	29,298	21,287	29,298
Cost	187,951	187,951	187,951	187,951
Accumulated amortization	(166,664)	(158,653)	(166,664)	(158,653)
Goodwill on the acquisition of the IP network	56,235	58,049	56,235	58,049
Cost	72,561	72,561	72,561	72,561
Accumulated amortization	(16,326)	(14,512)	(16,326)	(14,512)
Other			8,432	10,944
Cost			12,059	14,243
Accumulated amortization			(3,627)	(3,299)
Total	100,767	113,381	115,453	130,818

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Preoperating expenses refer to costs incurred in the preoperating stage of long-distance services; amortization began in May 2002, over a period of 60 months.

The goodwill paid on the acquisition of Ceterp S.A. is presented in deferred charges due to that company's merger on November 30, 2000. This goodwill, based on the expectation of future profitability, is being amortized over 60 months.

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 considered as goodwill and recorded in deferred charges corresponds to the customer portfolio of the business. According to an appraisal report, the economic fundamental of the goodwill is the expected future profitability, for an amortization period of 120 months.

14. LOANS, FINANCING AND DEBENTURES

	Consolidated			Balance as of March 2005		
	Currency	Annual interest rate %	Maturity	Current	Long-term	Total
Mediocrédito	US\$	1.75%	2014	8,218	64,154	72,372
CIDA	CAN\$	3.00%	2005	1,566		1,566
Loans in local currency (a)	R\$	6% + 3.75% spread and CDI + 0.40% per month	through 2006	3,486	1,339	4,825
Loans in foreign currency (a)			through 2009	360,641	576,667	937,308
Debentures	R\$	103.50% of CDI	through 2007	22,535	1,500,000	1,522,535
Total				396,446	2,142,160	2,538,606

	Consolidated			Balance as of December 2004		
	Currency	Annual interest rate %	Maturity	Current	Long-term	Total
Mediocrédito	US\$	1.75%	2014	8,528	67,862	76,390
CIDA	CAN\$	3.00%	2005	1,565		1,565
Loans in local currency	R\$	6% + 3.75% spread and CDI + 0.40% per month	through 2006	3,599	2,119	5,718
Loans in foreign currency			through 2009	494,279	656,332	1,150,611
Debentures	R\$	103.50% of CDI	through 2007	21,959	1,500,000	1,521,959

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Total	<u>529,930</u>	<u>2,226,313</u>	<u>2,756,243</u>
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Loans in foreign currency are as follows:

	<u>Currency</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Consolidated Mar/2005</u>
Resolution 2770	USD	2.00% to 6.90%	312,021	13,739	325,760
Resolution 2770	JPY	1.40%	22,126		22,126
Debt assumption	USD	18.4% to 27.50%	8,611	4,356	12,967
Untied Loan JBIC	JPY	Libor + 1.25%	555,257	1,316	556,573
DEG Deutsche Investitions	USD	Libor + 6%	17,997	1,885	19,882
			<u>916,012</u>	<u>21,296</u>	<u>937,308</u>

	<u>Currency</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Consolidated Dec/2004</u>
Resolution 2770	USD	2.00% to 6.90%	310,640	10,415	321,055
Resolution 2770	JPY	1.40%	79,736	34	79,770
Debt assumption	USD	8.62% to 27.50%	61,119	23,081	84,200
Untied Loan JBIC	JPY	Libor + 1.25%	643,242	3,713	646,955
DEG Deutsche Investitions	USD	Libor + 6%	18,432	199	18,631
			<u>1,113,169</u>	<u>37,442</u>	<u>1,150,611</u>

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

Long-term debt maturities

<u>Year</u>	<u>Total</u>
2006	192,652
2007	1,650,603
2008	131,409
2009	131,409
Thereafter	36,087
	<u>2,142,160</u>

Debentures

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

The Program amounts to R\$3.0 billion for a period of two years from the filing with the CVM on October 15, 2004 and contemplates the issuance of simple nonconvertible debentures, unsecured or subordinated, and/or promissory notes.

The Offering consisted of the issue of 150,000 simple nonconvertible unsecured debentures, with a face value of R\$10, in the total amount of R\$1,500,000, 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 (Clearinghouse for the Custody and Financial Settlement of Securities). The adjustment to the interest rate of debentures is estimated for September 1, 2007. On a conservative basis, the Company included, in the consolidated schedule of long-term debt maturities shown above, the principal of the debentures in the year 2007, date of adjustment of interest rates.

Table of Contents**15. TAXES PAYABLE**

	Company		Consolidated	
	Mar/05	Dec/04	Mar/05	Dec/04
Taxes on income				
Income tax	211,252	330,756	212,436	330,886
Social contribution tax	76,119	120,685	76,549	120,738
Deferred taxes				
Income tax	20,260	20,875	20,260	20,875
Social contribution tax	7,292	7,513	7,292	7,513
Indirect taxes				
ICMS (state VAT)	586,560	612,047	593,228	616,786
PIS and COFINS (taxes on revenue)	65,464	72,910	69,383	76,277
Other	16,639	16,941	18,538	18,666
Total	983,586	1,181,727	997,686	1,191,741
Current	958,415	1,155,720	972,515	1,165,734
Long-term	25,171	26,007	25,171	26,007

16. PAYROLL AND RELATED CHARGES

	Company		Consolidated	
	Mar/05	Dec/04	Mar/05	Dec/04
Salaries and fees	22,374	16,247	23,259	16,836
Payroll charges	66,276	58,681	68,845	61,605
Accrued benefits	3,452	4,853	3,736	5,277
Employee profit sharing	29,290	58,847	29,765	59,594
Total	121,392	138,628	125,605	143,312

17. CONSIGNMENTS ON BEHALF OF THIRD PARTIES

	Company		Consolidated	
	Mar/05	Dec/04	Mar/05	Dec/04
Collateral for deposits	1,899	6,296	1,899	6,296
Amounts charged to users	91,287	101,833	81,369	92,117
Retentions	79,214	67,987	80,121	68,651
Other consignments	1,601	1,574	1,601	1,573

Total	174,001	177,690	164,990	168,637
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18. DIVIDENDS AND INTEREST ON CAPITAL PAYABLE

	Company/Consolidated	
	Mar/05	Dec/04
Interest on capital	198,954	200,300
Minority shareholders	198,954	200,300
Dividends	303,642	305,816
Minority shareholders	303,642	305,816
Total	502,596	506,116

The interest on capital and dividends payable to minority shareholders refer to declared but unclaimed amounts.

Table of Contents**19. RESERVE FOR CONTINGENCIES**

The Company, as an entity and also as the successor to the merged companies, and its subsidiaries are involved in labor, tax and civil lawsuits filed with different courts. The Company's management, based on the opinion of its legal counsel, recognized reserves for those cases in which an unfavorable outcome is considered probable and prudently for certain cases with possible risk of loss, as follows:

Consolidated	Nature			Total
	Labor	Tax	Civil	
Balances as of December 31, 2004	271,839	539,594	41,796	853,229
Additions	20,277	2,581	3,050	25,908
Write-offs	(10,794)	(973)	(5,266)	(17,033)
Monetary restatement	9,231	10,140	727	20,098
Balances as of March 31, 2005	290,553	551,342	40,307	882,202
Current	32,440	16,766	5,761	54,967
Long-term	258,113	534,576	34,546	827,235

19.1 Labor contingencies

The Company has various labor contingencies and recorded a reserve of R\$290,553, consolidated, to cover probable losses. The amounts involved and respective degrees of risk are as follows:

Risk	Amount Involved		
	Telesp	Assist	Total
Remote	1,736,667	3,995	1,740,662
Possible	90,858		90,858
Probable	290,352	201	290,553
Total	2,117,877	4,196	2,122,073

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

19.2 Tax Contingencies

Risk	Amount Involved		
	Telesp	Assist	Total
Remote	1,120,487		1,120,487
Possible	1,151,346	11,739	1,163,085
Probable	551,342		551,342
Total	2,823,175	11,739	2,834,914

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Based on the assessment of the Company's legal counsel and management, a reserve amounting to R\$551,342 was recorded as of March 31, 2005. The principal tax contingencies, assessed as remote, possible and probable risk, are as follows:

Claims by the National Institute of Social Security (INSS), amounting to R\$787,198, referring to:

- a. Several legal proceedings for the collection of Workers' Compensation Insurance (SAT) and joint liability of the Company for payment of social security contributions allegedly not made by contractors, considered possible risk, in the amount of R\$273,823. Based on a partially unfavorable court decision, management decided to provide for R\$96,283 relating to the portion of the total amount for which the likelihood of loss is probable.
- b. Discussion regarding social security contribution on certain amounts paid for compensation of salary losses resulting from economic plans (*Plano Verão* and *Plano Bresser*), in the amount of R\$126,970 for which an unfavourable outcome is considered possible. Based on higher court decisions and an unfavorable court decision in a similar case involving another company of the group, the Company's management decided to provide for R\$88,355 to cover potential losses, despite the legal counsel's classification of possible risk.
- c. Notification demanding social security contributions, SAT and amounts for third parties (National Institute for Agrarian Reform and Colonization (INCRA) and Brazilian Mini and Small Business Support Agency (SEBRAE)) on the payment of various salary amounts for the period from January 1999 to December 2000, in the amount of approximately R\$52,252, considered as possible risk. These lawsuits are in the 1st lower court and at the last administrative level, respectively. No provision was recorded based on the risk classification of this matter.
- d. Notification demanding social security contributions for joint liability in 1993, in the amount of approximately R\$172,171, for which the risk is considered possible. This process is at the 2nd administrative level. No provision 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 provision was made for the balance, for which the likelihood of loss is deemed possible. This process is at the 1st administrative level.

Claims by the Finance Secretary of the State of São Paulo, totaling R\$705,549, referring to:

- f. Tax assessments on October 31 and December 13, 2001, related to ICMS (state VAT) allegedly due on international long-distance calls, amounting to approximately R\$157,229 for November and December 1996 and from January 1997 to March 1998, at the first administrative level, assessed as possible risk, and R\$169,211 for the period from April 1998 to December 1999, at the second administrative level, assessed as remote risk. No provision was recorded based on the risk classification of these matters.
- g. Tax assessment on February 29, 2000 demanding payment of the ICMS allegedly due on cell phone activation tariff in the period from January 1995 to December 1997, plus fines and interest, amounting to approximately R\$266,420, assessed as

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- remote risk. The claim is at the 1st administrative level. No provision was recorded based on the risk classification of this matter.
- h. Tax assessment on July 2, 2001 demanding the difference in ICMS paid without late-payment fine, amounting to R\$5,397, assessed as possible risk. The claim is in the lower court. No provision was recorded based on the risk classification of this matter.
 - i. Tax assessment notice related to the untimely used credits in the period from January to April 2002, in the amount of R\$28,329, for which the risk is considered remote. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
 - j. Tax assessment notice related to the use of ICMS credits on acquisition of consumption materials, in the amount of R\$10,357, for which the risk is considered possible. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
 - k. Tax assessment notice 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, in addition to an ICMS credit unduly taken in March 1999. The total amount involved is R\$56,917. The risk is considered possible by legal counsel. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
 - l. Notifications of around R\$7,668 regarding the former Ceterp's loss of the tax benefit established by State Decree No. 48,237/03, due to underpayment for an error in the calculation of the debt, assessed as possible risk. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
 - m. Tax collection lawsuits demanding about R\$4,021 of ICMS differences for the period from May 1999 to June 2003. The Company is gathering the documents to prove that the amounts have been effectively paid. Guarantee is being provided and defense is being prepared for presentation in the lower court. The risk is assessed as possible. No provision was recorded based on the risk classification of this matter.

Litigation at the Federal and Municipal levels in the amount of R\$615,387:

- n. The Company filed a lawsuit challenging the increase of the COFINS and PIS (taxes on revenue) tax basis (COFINS until February 2004 tax basis and PIS until November 2002 tax basis), requiring the inclusion of financial and securitization income and exchange gains, instead of only operating revenues. Despite the injunction obtained suspending the change in the calculation method and the risk assessed as possible, the Company recognized a provision of R\$240,075, in case it receives an unfavorable judgment.
- o. 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\$15,657, considered as a possible loss. The claim is at the higher court. No provision was recorded based on the risk classification of this matter.

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- p. Litigation contesting the levy of corporate income tax, social contribution tax, PASEP and COFINS on telecommunications services of Centrais Telefônicas de Ribeirão Preto S.A. CETERP, merged in November 2000, based on paragraph 3 of Article 155 of the Federal Constitution, according to which, with the exception of ICMS (state VAT) and taxes on exports and imports, no other taxation applies to services. The Company assesses this case as probable loss and has recorded a reserve of R\$70,146. The claim is in the higher court.
- q. Lawsuit seeking a court decision declaring the nonexistence of a legal tax relationship between Telesp and the Federal Government, the defendant, that would require the Company to pay the Federal Economic Intervention Contribution (CIDE) on remittances to be made based on contracts with foreign residents, since the unconstitutionality of said tax is clear. The lawsuit also seeks offset against other taxes payable, in the amount of R\$2,190, monetarily restated, related to the CIDE payment made in March 2002. The Company made an escrow deposit of R\$2,178 related to the remittance made on October 18, 2002. Despite the risk is considered to be possible, the Company recognized a reserve for the unpaid amounts, in the amount of R\$11,776. The claim is at the lower court.
- r. Tax collection claims demanding differences regarding income tax, based on DCTF's (Declaration of Federal Tax Credits and Debits) for the first half of 1999, amounting to approximately R\$263,095 and R\$4,835, assessed, respectively, as remote and possible risk. These claims are at the 1st administrative level and no provision was recorded based on the risk classification.
- s. At the municipal level, the Company has contingencies related to the IPTU (municipal real estate tax) in the amount of R\$1,001, which have all been accrued due to the existence of favorable and unfavorable decisions regarding this matter.
- t. The Municipal Government of São Paulo assessed the Company, alleging differences in the payment of the ISS (municipal service tax), a fine of 20% not paid in the amount of R\$8,802. No reserve has been recorded for this contingency, since the attorneys responsible for this case believe that the risk is possible. The claim is at the first administrative level.

There are other contingencies that have also been accrued, in the amount of R\$43,706, for which the risk is assessed by management as probable.

19.3 Civil Contingencies

Risk	Amount Involved		
	Telesp	Assist	Total
Remote	998,271	1,663	999,934
Possible	929,847	115	929,962
Probable	40,277	30	40,307
Total	1,968,395	1,808	1,970,203

The contingencies assessed as possible risk involve various matters: unacknowledged title to telephone line, indemnity for material and personal damages, and other, in the amount of approximately R\$354,000. In addition, the Company is also 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 Santo André, Diadema, São Caetano do Sul, São Bernardo do Campo, Ribeirão Pires and Mauá, involving a total amount of approximately R\$576,161. The risks involved were assessed as possible by legal counsel. The claims are in the higher court.

Table of Contents**20. OTHER LIABILITIES**

	Company		Consolidado	
	Mar/2005	Dec/2004	Mar/2005	Dec/2004
Provision for post-retirement benefit plans (Note 31)	44,759	44,651	44,855	44,738
Advances from customers	48,051	55,403	48,051	55,403
Amounts to be refunded to subscribers	35,586	39,294	30,951	37,904
Installments payable acquisition of Santo Genovese Participações Ltda. (Atrium Telecomunicações Ltda.)	5,594	20,772	5,594	20,772
Subsidiaries shareholders deficit (Santo Genovese Participações Ltda.)	7,626	3,945		
Other	40,071	28,281	50,562	38,065
Total	181,687	192,346	180,013	196,882
Current	117,441	127,851	113,343	129,821
Long-term	64,246	64,495	66,670	67,061

21. SHAREHOLDERS EQUITY

a. Capital

Capital as of March 31, 2005 and December 31, 2004 is R\$5,978,074. Subscribed and paid-up capital is represented by shares without par value, as follows:

Common shares	165,320,206,602
Preferred shares	328,272,072,739
Total shares	493,592,279,341
Book value per thousand shares R\$	24.09

Preferred shares are nonvoting but have priority in the reimbursement of capital and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's bylaws and clause II, article 17, of Law No. 6404/76, with wording of Law No. 10,303/01.

Table of Contents**22. OPERATING REVENUE, NET**

	Company		Consolidated	
	Mar/2005	Mar/2004	Mar/2005	Mar/2004
Subscription (i)	1,380,412	1,183,447	1,380,412	1,183,447
Activation	17,064	21,889	17,064	21,889
Local service	727,423	779,618	727,423	779,618
Domestic long distance	772,287	751,553	772,287	751,553
Intraregional	570,621			