

TELESP PARTICIPACOES SA
Form 6-K
June 21, 2004

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 June, 2004

Commission File Number: 001-14475

TELESP HOLDING COMPANY

(Translation of registrant's name into English)

Rua Martiniano de Carvalho, 851 - 21andar

São Paulo, S.P.

Federative Republic of Brazil

(Address of principal executive office)

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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

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, 2004 and Independent Accountant's Review Report* dated on June 18, 2004.

Telecomunicações de

São Paulo S.A. - Telesp

Interim Financial Statements for the Quarter

Ended March 31, 2004 and

Independent Accountants' Review Report

Deloitte Touche Tohmatsu Auditores Independentes

(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 made a special review of the accompanying quarterly information, Company and consolidated, of Telecomunicações de São Paulo S.A. - Telesp and subsidiaries, consisting of the balance sheets as of March 31, 2004, the statements of income for the quarter then ended, management's comments on consolidated performance and other relevant information, all expressed in Brazilian reais and prepared in conformity with Brazilian accounting practices under the responsibility of the Companies' managements.
2. Our review was conducted in accordance with specific standards established by IBRACON - Brazilian Institute of Independent Auditors, together with the Federal Accounting Council, and consisted principally of: (a) inquiries of and discussions with management personnel responsible for the accounting, financial and operating areas of the Companies as to the principal criteria adopted in the preparation of the quarterly information, and (b) review of the information and subsequent events that had or might have had significant effects on the financial position and operations of the Companies.
3. Based on our special review, we are not aware of any significant change that should be made to the quarterly information referred to in paragraph 1 for it to be in conformity with Brazilian accounting practices and with standards established by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of such mandatory quarterly information.
4. The balance sheets, Company and consolidated, as of December 31, 2003, and the statements of income, Company and consolidated, for the quarter ended March 31, 2003, presented for comparative purposes, were, respectively, audited and reviewed by us and our audit opinion thereon and special review report, dated January 30, 2004 and April 30, 2003, respectively, were issued without qualification.
5. These interim financial statements and related information have been translated into English for the convenience of readers outside Brazil.

São Paulo, April 30, 2004

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Domingos do Prado
Engagement Partner

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

BALANCE SHEETS AS OF MARCH 31, 2004 AND DECEMBER 31, 2003

(In thousands of Brazilian reais - R\$)

| | Company | | Consolidated | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| | (Unaudited) | | (Unaudited) | |
| ASSETS | | | | |
| CURRENT ASSETS | 4,749,749 | 4,053,622 | 4,771,414 | 4,121,165 |
| Cash and cash equivalents | 780,795 | 179,960 | 809,196 | 214,932 |
| Trade accounts receivable, net | 2,669,540 | 2,423,472 | 2,678,824 | 2,430,974 |
| Deferred and recoverable taxes | 925,440 | 1,103,085 | 946,333 | 1,130,367 |
| Loans receivable | 31,840 | | | |
| Other recoverable amounts | 69,758 | 70,494 | 70,675 | 71,516 |
| Inventories | 108,481 | 123,846 | 110,028 | 125,434 |
| Other | 163,895 | 152,765 | 156,358 | 147,942 |
| NONCURRENT ASSETS | 734,763 | 822,247 | 843,391 | 919,480 |
| Deferred and recoverable taxes | 361,609 | 429,333 | 382,782 | 441,099 |
| Escrow deposits | 293,518 | 280,226 | 294,144 | 280,853 |
| Receivables from related parties | 50,680 | 85,855 | 50,538 | 85,741 |
| Other | 28,956 | 26,833 | 115,927 | 111,787 |
| PERMANENT ASSETS | 14,646,264 | 15,161,923 | 14,572,313 | 15,082,174 |
| Investments | 344,485 | 356,056 | 164,036 | 165,363 |
| Property, plant and equipment, net | 14,150,555 | 14,642,029 | 14,240,139 | 14,735,494 |
| Deferred charges | 151,224 | 163,838 | 168,138 | 181,317 |
| TOTAL ASSETS | 20,130,776 | 20,037,792 | 20,187,118 | 20,122,819 |

The notes are an integral part of the financial statements.

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TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

BALANCE SHEETS AS OF MARCH 31, 2004 AND DECEMBER 31, 2003

(In thousands of Brazilian reais - R\$)

| | Company | | Consolidated | |
|--|-------------|------------|--------------|------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| | (Unaudited) | | (Unaudited) | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | 5,696,265 | 5,921,252 | 5,721,788 | 5,957,980 |
| Loans and financing | 1,800,379 | 1,966,248 | 1,800,379 | 1,982,062 |
| Accounts payable and accrued expenses | 1,069,455 | 1,074,048 | 1,085,478 | 1,086,645 |
| Taxes payable | 781,189 | 709,262 | 785,535 | 712,565 |
| Payroll and related charges | 106,292 | 150,752 | 107,423 | 152,101 |
| Profit participation payable | 1,276,928 | 1,276,663 | 1,276,928 | 1,276,663 |
| Consignments for third parties | 183,328 | 212,247 | 183,855 | 212,615 |
| Reserve for contingencies | 51,036 | 49,390 | 51,105 | 49,408 |
| Payables to related parties | 21,309 | 22,249 | 20,934 | 21,950 |
| Unrealized losses on derivatives | 323,309 | 359,482 | 323,309 | 359,482 |
| Other | 83,040 | 100,911 | 86,842 | 104,489 |
| LONG-TERM LIABILITIES | 1,744,966 | 1,845,866 | 1,758,315 | 1,876,695 |
| Loans and financing | 861,875 | 979,547 | 861,875 | 995,087 |
| Taxes payable | 29,193 | 31,346 | 29,193 | 31,373 |
| Reserve for contingencies | 702,505 | 676,371 | 702,573 | 676,474 |
| Payables to related parties | 45,232 | 54,899 | 45,283 | 55,550 |
| Other | 106,161 | 103,703 | 119,391 | 118,211 |
| DEFERRED INCOME | | | 17,470 | 17,470 |
| SHAREHOLDERS EQUITY | 12,687,931 | 12,269,060 | 12,687,931 | 12,269,060 |
| Capital | 5,978,074 | 5,978,074 | 5,978,074 | 5,978,074 |
| Capital reserves | 2,744,321 | 2,744,031 | 2,744,321 | 2,744,031 |
| Profit reserves | 550,498 | 550,498 | 550,498 | 550,498 |
| Retained earnings | 3,415,038 | 2,996,457 | 3,415,038 | 2,996,457 |
| FUNDS FOR CAPITALIZATION | 1,614 | 1,614 | 1,614 | 1,614 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 20,130,776 | 20,037,792 | 20,187,118 | 20,122,819 |

The notes are an integral part of the 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, 2004 AND 2003

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

(Unaudited)

| | Company | | Consolidated | |
|---|-------------|-------------|--------------|-------------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| GROSS OPERATING REVENUE | 4,497,420 | 3,649,128 | 4,520,419 | 3,669,034 |
| Telecommunication services/sales revenue | 4,497,420 | 3,649,128 | 4,520,419 | 3,669,034 |
| Revenue deductions | (1,250,242) | (986,768) | (1,254,256) | (988,293) |
| OPERATING REVENUE, NET | 3,247,178 | 2,662,360 | 3,266,163 | 2,680,741 |
| Cost of services provided and of sales | (1,837,564) | (1,566,759) | (1,842,945) | (1,572,278) |
| GROSS PROFIT | 1,409,614 | 1,095,601 | 1,423,218 | 1,108,463 |
| OPERATING EXPENSES | (692,536) | (595,212) | (709,485) | (608,776) |
| Selling | (386,000) | (263,990) | (409,795) | (268,850) |
| General and administrative | (236,252) | (270,860) | (239,330) | (275,938) |
| Results from investments accounted for under the equity method | (11,571) | 1,266 | (1,208) | 231 |
| Other, net | (58,713) | (61,628) | (59,152) | (64,219) |
| INCOME FROM OPERATIONS | | | | |
| BEFORE FINANCIAL EXPENSES | 717,078 | 500,389 | 713,733 | 499,687 |
| Financial expenses, net | (81,542) | (180,403) | (82,434) | (179,173) |
| INCOME FROM OPERATIONS | 635,536 | 319,986 | 631,299 | 320,514 |
| Nonoperating income (expense), net | 9,189 | 10,884 | 9,221 | 10,884 |
| INCOME BEFORE TAXES | 644,725 | 330,870 | 640,520 | 331,398 |
| Income and social contribution taxes | (226,144) | (110,298) | (221,939) | (110,826) |
| NET INCOME | 418,581 | 220,572 | 418,581 | 220,572 |
| NUMBER OF SHARES OUTSTANDING AT BALANCE SHEET DATE (IN THOUSANDS) | 493,592,279 | 493,592,280 | | |
| EARNINGS PER THOUSAND SHARES - R\$ | 0.85 | 0.45 | | |



The notes are an integral part of the financial statements.

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

NOTES TO THE FINANCIAL STATEMENTS AS OF MARCH 31, 2004

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

1. OPERATIONS AND BACKGROUND

- a) Formation of the Company, its controlling shareholders and corporate restructuring

Telecomunicações de São Paulo S.A. - Telesp (formerly Telesp Participações S.A. - TelespPar), hereafter denominated the Company or Telesp , is controlled by Telefônica S.A., which, as of March 31, 2004, 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 Securities and Exchange Commission - SEC, in the United States of America, 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 Federal regulatory authority, the National Telecommunications Agency (ANATEL), in accordance with the terms of the concession granted by the Federal Government up to December 31, 2005, which may be renewed for another period of 20 years.

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

- b) The telecommunication services subsidiaries

Assist Telefônica S.A.: a wholly-owned subsidiary incorporated as a closely-held company, mainly engaged in providing the following services: technical assistance for installation, operation and maintenance of internal telephony, data and IT networks; value-added services, including those related to internet content, connection and access, as well as technology services and all the necessary support related to the internet; installation, operation and maintenance of internet, intranet and extranet solutions; sale, rent and maintenance of general telecommunications and IT equipment and devices.

Aliança Atlântica Holding B.V.: a company headquartered in Amsterdam, Netherlands, is a joint venture formed in 1997 by Telebrás and Portugal Telecom, where each company had a 50% interest. As a result of the spin-off of Telebrás in February 1998, its interest in Aliança Atlântica was transferred to the Company. Currently, the Company has a 50% interest in Aliança Atlântica and Telefônica S.A. holds the other

50%. This company is proportionally consolidated by the Company.

Telecomunicações de São Paulo S.A. - Telesp

Companhia Aix de Participações: On June 30, 2001, the Company made a capital contribution of 32% to Companhia Aix de Participações with advances to Barramar S.A., which were recorded under property, plant and equipment for the direct and indirect development of activities related to the construction, conclusion and operation of underground duct networks for fiber optics. In November and December 2003, Companhia Aix de Participações underwent several corporate restructurings, in which the Company became the holder of 50% of its capital.

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 standards and accounting procedures established by the CVM.

The consolidated interim financial statements include the balances and transactions of the wholly-owned subsidiary Assist Telefônica S.A. and the jointly-controlled subsidiaries Aliança Atlântica Holding B.V. and Companhia Aix de Participações, which were fully or proportionally consolidated according to CVM Instruction No. 247/96 rules.

All assets, liabilities, revenues and expenses from transactions between the consolidated companies were eliminated in consolidation.

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

The interim financial statements 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./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Cash and banks | 18,548 | 30,454 | 24,734 | 41,524 |
| Temporary cash investments | 762,247 | 149,506 | 784,462 | 173,408 |
| Total | 780,795 | 179,960 | 809,196 | 214,932 |

Temporary cash investments are comprised of highly liquid investments with maturities of three months or less.

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5. TRADE ACCOUNTS RECEIVABLE, NET

| | Company | | Consolidated | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Unbilled | 980,624 | 899,952 | 977,224 | 897,304 |
| Billed | 2,272,962 | 2,058,208 | 2,314,868 | 2,108,355 |
| Gross accounts receivable | 3,253,586 | 2,958,160 | 3,292,092 | 3,005,659 |
| Allowance for doubtful accounts | (584,046) | (534,688) | (613,268) | (574,685) |
| Total | 2,669,540 | 2,423,472 | 2,678,824 | 2,430,974 |
| Current | 1,883,208 | 1,750,263 | 1,889,695 | 1,756,359 |
| Past due - 1 to 30 days | 469,178 | 419,427 | 474,492 | 420,359 |
| Past due - 31 to 60 days | 177,723 | 142,750 | 177,980 | 144,137 |
| Past due - 61 to 90 days | 93,960 | 67,233 | 94,135 | 67,829 |
| Past due - 91 to 120 days | 41,073 | 51,957 | 41,270 | 52,493 |
| Past due - more than 120 days | 588,444 | 526,530 | 614,520 | 564,482 |
| Total | 3,253,586 | 2,958,160 | 3,292,092 | 3,005,659 |

The Company has receivable and payable balances under negotiation with Empresa Brasileira de Telecomunicações S.A. - Embratel. Amounts receivable and payable are recorded based on studies prepared by the Company; significant changes to such amounts are not expected. The related amounts receivable from Embratel are shown as current in the table above, amounting to R\$68,258 as of March 31, 2004.

6. DEFERRED AND RECOVERABLE TAXES

| | Company | | Consolidated | |
|--|-----------|-----------|--------------|-----------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Income tax withheld at source | 18,638 | 105,836 | 18,945 | 106,906 |
| Prepaid income tax | 170,901 | 144,840 | 174,004 | 148,496 |
| Prepaid social contribution tax | 22,799 | 84,915 | 23,250 | 85,401 |
| Deferred taxes | 800,208 | 896,927 | 837,235 | 929,777 |
| Tax loss carryforward credits | 65,062 | 106,755 | 80,612 | 115,379 |
| Social contribution tax loss credits | 23,454 | 38,360 | 29,053 | 41,465 |
| Tax credit from corporate restructuring | 153,776 | 219,680 | 153,776 | 219,680 |
| Reserve for contingencies | 242,768 | 230,407 | 242,815 | 230,449 |
| Post-retirement benefit plans | 28,977 | 28,014 | 28,977 | 28,015 |
| Income tax on other temporary differences | 210,420 | 200,987 | 222,060 | 216,485 |
| Social contribution tax on other temporary differences | 75,751 | 72,724 | 79,942 | 78,304 |

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| | | | | |
|---------------|-------------------|-------------------|-------------------|-------------------|
| State VAT (*) | 274,097 | 299,729 | 274,844 | 300,323 |
| Other | 406 | 171 | 837 | 563 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | 1,287,049 | 1,532,418 | 1,329,115 | 1,571,466 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Current | 925,440 | 1,103,085 | 946,333 | 1,130,367 |
| Noncurrent | 361,609 | 429,333 | 382,782 | 441,099 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

(*) Refers to credits on the acquisition of property, plant and equipment items; recovery occurs in 48 months.

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Deferred income and social contribution tax credits

According to the tax legislation in force, tax losses can be offset against future taxable income, up to the annual limit of 30% of these future profits.

Considering the existence of taxable income in four out of the last five fiscal years and the expected generation of taxable income discounted to present value, based on a technical feasibility study, as provided for in CVM Instruction No. 371/02, the Company estimates the realization of the deferred tax credits as of March 31, 2004 as follows:

| Year | Company | Consolidated |
|----------|---------|--------------|
| 2004 (*) | 474,634 | 474,634 |
| 2005 | 133,826 | 153,348 |
| 2006 | 106,697 | 118,412 |
| 2007 | 79,343 | 85,133 |
| 2008 | 5,708 | 5,708 |
| Total | 800,208 | 837,235 |

(*) From April to December 2004.

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

Merged tax credit

The corporate restructuring in 1999 was carried out so as to avoid that the amortization of the merged goodwill would adversely affect the Company's future results and the payment of dividends to its shareholders, and to ensure the realization of the tax credit used to increase capital.

The accounting records maintained for the Company's corporate and tax purposes include specific accounts related to merged goodwill and the related reserve, as well as the corresponding amortization, reversal of reserve and tax credit. The balances are as follows:

| Company/Consolidated | |
|----------------------|-----------|
| Mar./2004 | Dec./2003 |

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| | | |
|---------------------------|-------------------|-------------------|
| Effects on balance sheet: | | |
| Goodwill | 465,988 | 665,698 |
| Reserve | (312,212) | (446,018) |
| | <u> </u> | <u> </u> |
| Net | 153,776 | 219,680 |
| | <u> </u> | <u> </u> |
| Effect on income: | | |
| Goodwill amortization | (199,709) | (199,709) |
| Reversal of reserve | 133,805 | 133,805 |
| Tax credit | 67,901 | 67,901 |
| | <u> </u> | <u> </u> |
| Effect on income | 1,997 | 1,997 |
| | <u> </u> | <u> </u> |

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For purposes of calculation of the tax credit arising from the merger, the tax rates applied were 25% for income tax and 8% for social contribution tax, in accordance with the tax legislation in force on the merger date. The social contribution tax rate is 9%.

Due to this change, as shown above, the amortization of goodwill, net of reversal of the related reserve and the corresponding tax credit, in the first quarter of 2004, resulted in an increase in net income and, consequently, in the calculation basis for mandatory minimum dividends.

For a better presentation of the Company's financial position and results of operations, the net amount of R\$153,776 (R\$219,680 as of December 31, 2003) which, in essence, represents the merged tax credit, was recorded in the balance sheet in current assets as deferred and recoverable taxes. Amortization of goodwill, reversal of the reserve and the corresponding tax credit are included as operating income and expense in the statements of income.

Realization of tax credit

On November 25, 1999, SP Telecomunicações Holding S.A. (currently SP Telecomunicações Holding Ltda.) assumed the commitment to reimburse the Company in case the tax benefit derived from the goodwill amortization is not fully used within the 60-month period set forth for the use of the benefit. The assumed commitment was limited to the refund of the estimated tax benefit amount not used. At the end of the estimated 60-month period, in case the final balance is positive or zero, no amount will be refunded by SP Telecomunicações Holding Ltda. Accordingly, no credit related to the refund was recorded in the Company's assets as of March 31, 2004, since management believes that the tax benefit will be fully used in the 60-month period set forth for the goodwill amortization.

7. OTHER RECOVERABLE AMOUNTS

| | Company | | Consolidated | |
|-----------------------|---------------|---------------|---------------|---------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Advances to employees | 6,329 | 2,468 | 6,361 | 2,554 |
| Advances to suppliers | 28,749 | 40,618 | 29,189 | 41,058 |
| Other advances | 25,233 | 25,337 | 25,236 | 25,337 |
| Other | 9,447 | 2,071 | 9,889 | 2,567 |
| Total current | 69,758 | 70,494 | 70,675 | 71,516 |

Telecomunicações de São Paulo S.A. - Telesp

8. INVENTORIES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Consumable supplies | 120,233 | 132,513 | 120,300 | 132,580 |
| Resale items | 147,783 | 156,610 | 159,955 | 168,823 |
| Scrap | 499 | 442 | 499 | 442 |
| Public telephone prepaid cards | 6,039 | 6,959 | 6,039 | 6,959 |
| Allowance for reduction to realizable value | (166,073) | (172,678) | (176,765) | (183,370) |
| Total current | 108,481 | 123,846 | 110,028 | 125,434 |

9. OTHER ASSETS

| | Company | | Consolidated | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Prepaid expenses | 59,137 | 57,044 | 53,332 | 53,351 |
| Receivables from Barramar S.A. (*) | | | 90,576 | 88,588 |
| Receivables from affiliates - current | 69,942 | 66,548 | 66,850 | 64,394 |
| Repass of loans in foreign currency | 4,682 | 4,641 | 4,682 | 4,641 |
| Net tax incentives after allowance | 411 | 411 | 411 | 411 |
| Amounts linked to National Treasury | 7,807 | 7,671 | 7,807 | 7,671 |
| Receivables from sale of properties | 22,397 | 22,060 | 22,397 | 22,060 |
| Other | 28,475 | 21,223 | 26,230 | 18,613 |
| Total | 192,851 | 179,598 | 272,285 | 259,729 |
| Current | 163,895 | 152,765 | 156,358 | 147,942 |
| Noncurrent | 28,956 | 26,833 | 115,927 | 111,787 |

(*) Refer to receivables from Barramar S.A., in the amount of R\$139,376, recorded by Companhia Aix de Participações, net of allowance for investment losses recorded by the Company in the amount of R\$48,800, to cover probable losses on realization of receivables (see Note 11).

10. ESCROW DEPOSITS

| | Company | | Consolidated | |
|--|-----------|-----------|--------------|-----------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |

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| | | | | |
|-------------------------|----------------|----------------|----------------|----------------|
| Civil litigation | 33,475 | 31,812 | 33,499 | 31,837 |
| Tax litigation | 207,373 | 201,797 | 207,924 | 202,349 |
| Labor claims | 52,670 | 46,617 | 52,721 | 46,667 |
| Total noncurrent | 293,518 | 280,226 | 294,144 | 280,853 |

Telecomunicações de São Paulo S.A. - Telesp

11. INVESTMENTS

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| In subsidiaries/affiliates carried under the equity method | 250,699 | 262,270 | | |
| Aliança Atlântica Holding B.V. | 73,081 | 74,289 | | |
| Assist Telefônica S.A. | 114,700 | 122,865 | | |
| Companhia Aix de Participações | 129,187 | 131,385 | | |
| Negative goodwill on acquisition of shares - Companhia Aix de Participações | (17,469) | (17,469) | | |
| Allowance for losses - Companhia Aix de Participações (*) | (48,800) | (48,800) | | |
| Investments carried at cost | 93,786 | 93,786 | 164,036 | 165,363 |
| Portugal Telecom | 75,362 | 75,362 | 145,612 | 146,939 |
| Other companies | 29,149 | 29,149 | 29,149 | 29,149 |
| Other investments | 3,360 | 3,360 | 3,360 | 3,360 |
| Tax incentives | 15,164 | 15,164 | 15,164 | 15,164 |
| Allowance for losses | (29,249) | (29,249) | (29,249) | (29,249) |
| Total | 344,485 | 356,056 | 164,036 | 165,363 |

(*) In consolidation, the allowance for investment losses is offset against receivables from Barramar S.A. recorded under other assets (Note 9).

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.

The principal financial information on the subsidiaries/affiliates, as of March 31, 2004 and December 31, 2003, is as follows:

| | Mar./2004 | | | Dec./2003 | | |
|-----------------------------|-------------------|------------------------------|---------------|-------------------|-------------------|---------------|
| | Aliança Atlântica | Assist Telefônica (Note 1.b) | Companhia Aix | Aliança Atlântica | Assist Telefônica | Companhia Aix |
| Paid-up capital | 143,314 | 184,000 | 460,929 | 146,023 | 184,000 | 460,929 |
| Subscribed capital | 143,314 | 184,000 | 460,929 | 146,023 | 184,000 | 460,929 |
| Retained earnings (deficit) | 2,849 | (69,300) | (202,555) | 2,556 | (61,135) | (198,159) |
| Shareholders equity | 146,163 | 114,700 | 258,374 | 148,579 | 122,865 | 262,770 |

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| Shares (millions): | | | | | | |
|-------------------------------|-----|---------|---------|-----|---------|---------|
| Number of subscribed shares | 88 | 212,421 | 298,562 | 88 | 212,421 | 298,562 |
| Number of common shares owned | 44 | 212,421 | 149,281 | 44 | 212,421 | 149,281 |
| Ownership | 50% | 100% | 50% | 50% | 100% | 50% |

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Results of the equity method pick-up for the Company are as follows:

| | <u>Mar./2004</u> | <u>Mar./2003</u> |
|--|-------------------|-------------------|
| Aliança Atlântica (exchange variation) | (1,208) | (695) |
| Assist Telefônica | (8,165) | 1,035 |
| Companhia Aix de Participações | (2,198) | 926 |
| | <u> </u> | <u> </u> |
| Total | (11,571) | 1,266 |
| | <u> </u> | <u> </u> |

Additional information

Companhia Aix de Participações

Barramar S.A., which was incorporated with the implementation of the Barramar project, through contracts with several highway concessionaires, was committed to build an underground network of fiber optics ducts. According to these contracts, Barramar agreed to make available part of the network and make payments to the concessionaires. However, due to financial difficulties, Barramar failed to comply with certain clauses of the contracts with suppliers and concessionaires. Accordingly, in order to proceed with the activities related to the construction and subsequent sale of that network infrastructure, in 2001, a private instrument for credit assignment and other agreements was signed, according to which receivables of R\$94,505 from Barramar became due by Companhia Aix de Participações to be paid through issuance of shares of the latter, through which that company was formed.

On November 19, 2003, the Company, together with other controlling shareholders (Alcatel Telecomunicações S.A. and Pegasus Telecom S.A.), approved the economic valuation of Companhia Aix de Participações, prepared by an independent firm, which included receivables from Barramar S.A., the realization of which is dependent upon the future profitability of Consórcio Refibra. The profitability of the consortium will result from contracts for use of the Company's own infrastructure networks and those of Pegasus Telecom S.A. Based on this projection, the Board of Directors of Companhia Aix de Participações approved, on November 20, 2003, the recognition of an allowance for losses of R\$157,400.

On December 16, 2003, Alcatel Telecomunicações S.A. sold its ownership interest to the Company and Pegasus Telecom S.A. As a result of this transaction, the Company acquired an additional 20.7% interest in that company, recording a discount of R\$17,470. At the same time, the Company and Pegasus Telecom S.A. increased the capital of Companhia Aix de Participações through receivables from the latter in the amounts of R\$105,752 and R\$59,816, respectively. Accordingly, the Company is now the holder of a 50% interest in Companhia Aix de Participações.

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12. PROPERTY, PLANT AND EQUIPMENT, NET

| | Company | | | | | | |
|---|-------------------------------------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Annual depreciation rates - % | Mar./2004 | | | Dec./2003 | | |
| | | Cost | Depreciation | Net book value | Cost | Depreciation | Net book value |
| Property, plant and equipment in service | | 37,108,901 | (23,277,662) | 13,831,239 | 37,002,934 | (22,656,569) | 14,346,365 |
| Switching and transmission equipment | 12.50 | 15,368,413 | (10,712,337) | 4,656,076 | 15,298,905 | (10,396,203) | 4,902,702 |
| Transmission equipment, aerial, underground and building cables, teleprinters, PABX, energy equipment and furniture | 10.00 | 11,132,801 | (7,326,617) | 3,806,184 | 11,129,437 | (7,175,980) | 3,953,457 |
| Transmission equipment - modems | 20.00 | 478,032 | (320,096) | 157,936 | 493,952 | (324,983) | 168,969 |
| Underground and marine cables, poles and towers | 5.00 to 6.67 | 387,489 | (187,833) | 199,656 | 387,234 | (183,997) | 203,237 |
| Subscriber, public and booth equipment | 12.50 | 1,683,396 | (854,096) | 829,300 | 1,654,744 | (809,103) | 845,641 |
| IT equipment | 20.00 | 441,833 | (354,127) | 87,706 | 439,871 | (343,094) | 96,777 |
| Buildings and underground cables | 4.00 | 6,237,608 | (3,014,615) | 3,222,993 | 6,232,290 | (2,960,291) | 3,271,999 |
| Vehicles | 20.00 | 53,303 | (44,017) | 9,286 | 55,033 | (44,996) | 10,037 |
| Land | | 256,962 | | 256,962 | 257,170 | | 257,170 |
| Other | 10.00 to 20.00 | 1,069,064 | (463,924) | 605,140 | 1,054,298 | (417,922) | 636,376 |
| Construction in progress | | 319,316 | | 319,316 | 295,664 | | 295,664 |
| Total | | 37,428,217 | (23,277,662) | 14,150,555 | 37,298,598 | (22,656,569) | 14,642,029 |
| Average depreciation rates - % | | 10.47 | | | 10.52 | | |
| Assets fully depreciated | | 10,739,992 | | | 10,455,765 | | |

Consolidated

| | Annual depreciation rates - % | Mar./2004 | | | Dec./2003 | | |
|---|-------------------------------------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | | Cost | Depreciation | Net book value | Cost | Depreciation | Net book value |
| Property, plant and equipment in service | | 37,196,229 | (23,292,697) | 13,903,532 | 37,089,874 | (22,667,697) | 14,422,177 |
| Switching and transmission equipment | 12.50 | 15,368,480 | (10,712,338) | 4,656,142 | 15,298,905 | (10,396,203) | 4,902,702 |
| Transmission equipment, aerial, underground and building cables, teleprinters, PABX, energy equipment and furniture | 10.00 | 11,135,138 | (7,327,230) | 3,807,908 | 11,131,612 | (7,176,540) | 3,955,072 |
| Transmission equipment - modems | 20.00 | 478,032 | (320,096) | 157,936 | 493,952 | (324,983) | 168,969 |
| Underground and marine cables, poles and towers | 5.00 to 6.67 | 387,489 | (187,833) | 199,656 | 387,234 | (183,997) | 203,237 |
| Subscriber, public and booth equipment | 12.50 | 1,683,402 | (854,098) | 829,304 | 1,654,750 | (809,105) | 845,645 |
| IT equipment | 20.00 | 442,929 | (354,825) | 88,104 | 440,971 | (343,739) | 97,232 |
| Buildings and underground cables | 4.00 | 6,237,659 | (3,014,626) | 3,223,033 | 6,232,341 | (2,960,301) | 3,272,040 |
| Vehicles | 20.00 | 53,556 | (44,066) | 9,490 | 55,286 | (45,033) | 10,253 |
| Land | | 256,962 | | 256,962 | 257,170 | | 257,170 |
| Other | 10.00 to 20.00 | 1,152,582 | (477,585) | 674,997 | 1,137,653 | (427,796) | 709,857 |
| Construction in progress | | 336,607 | | 336,607 | 313,317 | | 313,317 |
| Total | | 37,532,836 | (23,292,697) | 14,240,139 | 37,403,191 | (22,667,697) | 14,735,494 |
| Average depreciation rates - % | | 10.48 | | | 10.52 | | |
| Assets fully depreciated | | 10,739,992 | | | 10,455,765 | | |

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Concession assets

The STFC Concession Agreement in effect until December 31, 2005 ensures the right to its renewal for an additional 20 years, that is, through December 31, 2025, with an annual payment of 2% of prior-year revenue, net of taxes. The first installment will be due on April 30, 2007 and subsequently every 24 months.

Financial commitments (maintenance and investment) are those derived from Universalization (PGMU) and Quality (PGMQ) obligations.

The following commitments are also provided for:

FUST (1% of net revenue).

FUNTTEL (0.5% of net revenue).

FISTEL fees on telecommunications stations, for both installation and operation, in proportion to stations in service.

All risk insurance for all and every Concession asset.

Insurance for maintenance of the economic conditions for continuity of service.

Insurance for guarantee of compliance with quality and universalization obligations.

Reversible assets

The Concession Agreement establishes that every asset held by the Company that is essential for providing the services described in said agreement should be considered reversible and comprise the assets of the respective concession. These assets will automatically revert to ANATEL upon the concession agreement expiration. As of March 31, 2004, the net book value of reversible assets is estimated at R\$11,385,489 (R\$11,850,521 in 2003), comprised of switching and transmission equipment, terminals for public use, external network equipment, energy equipment and system and operation support equipment.

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13. DEFERRED CHARGES

Deferred charges as of March 31, 2004 and December 31, 2003 are comprised as follows:

| | Company | | Consolidated | |
|---------------------------------------|-----------|-----------|--------------|-----------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Preoperating expenses | 34,403 | 37,192 | 41,571 | 44,596 |
| Cost | 55,788 | 55,788 | 65,240 | 65,240 |
| Accumulated amortization | (21,385) | (18,596) | (23,669) | (20,644) |
| Merged goodwill - Ceterp S.A. | 53,330 | 61,341 | 53,330 | 61,341 |
| Cost | 187,951 | 187,951 | 187,951 | 187,951 |
| Accumulated amortization | (134,621) | (126,610) | (134,621) | (126,610) |
| Goodwill on acquisition of IP network | 63,491 | 65,305 | 63,491 | 65,305 |
| Cost | 72,561 | 72,561 | 72,561 | 72,561 |
| Accumulated amortization | (9,070) | (7,256) | (9,070) | (7,256) |
| Other | | | 9,746 | 10,075 |
| Cost | | | 12,059 | 12,059 |
| Accumulated amortization | | | (2,313) | (1,984) |
| | 151,224 | 163,838 | 168,138 | 181,317 |

Preoperating expenses refer to costs incurred during the preoperating stage for long-distance services; amortization began in May 2002, being recognized 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 subsequent merger on November 30, 2000. The period for amortization of the goodwill, based on the expectation of future profitability, is 60 months.

The goodwill on acquisition of the IP network in December 2002 refers to the acquisition of the assets and customer portfolio for the IP Comutado and Speedy Link services of Telefônica Empresas S.A. The portion of the acquired business which refers to the customer portfolio was treated as goodwill and recorded in deferred charges. According to the appraisal report, this goodwill, the economic basis of which is the expected future profitability, is amortizable over 120 months.

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14. LOANS AND FINANCING

| | Currency | Annual interest rate - % | Maturity | Consolidated Mar./2004 | | |
|---------------------------------|----------|--------------------------------|--------------|------------------------|----------------|------------------|
| | | | | Current | Long term | Total |
| Mediocrédito | US\$ | 1.75 | 2014 | 8,992 | 78,735 | 87,727 |
| CIDA | CAN\$ | 3.00 | 2005 | 1,092 | 472 | 1,564 |
| Comtel | US\$ | 10.75 | 2004 | 905,388 | | 905,388 |
| Other loans in foreign currency | | | Through 2009 | 884,907 | 782,668 | 1,667,575 |
| Total | | | | 1,800,379 | 861,875 | 2,662,254 |

| | Currency | Annual interest rate - % | Maturity | Consolidated Dec./2003 | | |
|---------------------------------|----------|---------------------------------|---------------|------------------------|----------------|------------------|
| | | | | Current | Long term | Total |
| Mediocrédito | US\$ | 1.75 | 2014 | 9,345 | 82,555 | 91,900 |
| CIDA | CAN\$ | 3.00 | 2005 | 1,120 | 475 | 1,595 |
| Comtel | US\$ | 10.75 | 2004 | 923,434 | | 923,434 |
| Loan agreement (a) | R\$ | CDI + 2.75 | Indeterminate | | 15,540 | 15,540 |
| Loans in local currency (b) | R\$ | CDI + 2.75 and CDI + 2.80 | 2004 | 15,814 | | 15,814 |
| Other loans in foreign currency | | | Through 2009 | 1,032,349 | 896,517 | 1,928,866 |
| Total | | | | 1,982,062 | 995,087 | 2,977,149 |

- (a) Refers to loans between Companhia Aix de Participações and Pegasus Telecom S.A., whose consolidated balance represents 50% of the total balance.
- (b) Refers to loans from financial institutions for financing of Companhia Aix de Participações working capital.

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The composition of other loans in foreign currency is as follows:

| | <u>Currency</u> | <u>Annual interest rate - %</u> | <u>Principal</u> | <u>Interest</u> | <u>Consolidated Mar./2004</u> |
|----------------------|-----------------|---|------------------|-----------------|-----------------------------------|
| Resolution No. 2,770 | US\$ | 2.38 to 15.45 | 528,321 | 33,538 | 561,859 |
| Resolution No. 4,131 | US\$ | Libor + 1.00 to Libor + 3.13 | 116,344 | 8,163 | 124,507 |
| Import financing | US\$ | 7.38 to 9.17 + IR | 18,073 | 3,136 | 21,209 |
| Import financing | US\$ | Libor + 0.25 + IR to Libor + 1.75 + IR | 32,794 | 249 | 33,043 |
| Debt assumption | US\$ | 8.45 to 27.50 | 129,458 | 34,706 | 164,164 |
| Untied Loan - JBIC | Yen | Libor + 1.25 | 760,986 | 1,807 | 762,793 |
| | | | <u>1,585,976</u> | <u>81,599</u> | <u>1,667,575</u> |
| | | | | | <u>Consolidated Dec./2004</u> |
| Resolution No. 2,770 | US\$ | 2.38 to 15.45 | 562,357 | 26,077 | 588,434 |
| Resolution No. 4,131 | US\$ | 7.80 | 57,784 | 3,992 | 61,776 |
| Resolution No. 4,131 | US\$ | Libor + 1.00 to Libor + 3.13 | 115,568 | 6,201 | 121,769 |
| Import financing | US\$ | 7.11 to 9.17 | 19,618 | 2,954 | 22,572 |
| Import financing | US\$ | Libor + 0.25 to Libor + 3.00 | 62,598 | 2,338 | 64,936 |
| Debt assumption | US\$ | 8.45 to 27.50 | 206,506 | 54,360 | 260,866 |
| Untied Loan - JBIC | Yen | Libor + 1.25 | 803,827 | 4,686 | 808,513 |
| | | | <u>1,828,258</u> | <u>100,608</u> | <u>1,928,866</u> |

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

Long-term debt maturities

| <u>Year</u> | <u>Amounts</u> |
|---------------|----------------|
| 2005 | 234,070 |
| 2006 | 147,109 |
| 2007 | 147,109 |
| 2008 | 147,109 |
| Starting 2009 | 186,478 |
| Total | <u>861,875</u> |

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15. TAXES PAYABLE

| | Company | | Consolidated | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Taxes on income: | | | | |
| Income tax payable | 94,879 | 62,680 | 94,879 | 62,680 |
| Social contribution tax payable | 34,239 | 23,409 | 34,239 | 23,409 |
| Deferred taxes payable: | | | | |
| Income tax | 23,217 | 24,799 | 23,217 | 24,820 |
| Social contribution tax | 8,357 | 8,927 | 8,357 | 8,933 |
| Indirect taxes: | | | | |
| Value-added tax (State tax) | 569,757 | 551,870 | 570,614 | 552,418 |
| Taxes on revenue | 63,693 | 53,935 | 66,230 | 55,907 |
| Other | 16,240 | 14,988 | 17,192 | 15,771 |
| Total | 810,382 | 740,608 | 814,728 | 743,938 |
| Current | 781,189 | 709,262 | 785,535 | 712,565 |
| Long term | 29,193 | 31,346 | 29,193 | 31,373 |

Deferred taxes payable refer to amounts from special monetary restatement as per Law No. 8,200/91.

16. PAYROLL AND RELATED CHARGES

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Wages, salaries and other compensation | 20,519 | 17,738 | 20,728 | 17,929 |
| Payroll charges | 58,250 | 54,813 | 58,945 | 55,495 |
| Accrued benefits | 2,879 | 4,581 | 2,900 | 4,606 |
| Employee profit sharing | 24,644 | 73,620 | 24,850 | 74,071 |
| Total | 106,292 | 150,752 | 107,423 | 152,101 |

17. CONSIGNMENTS FOR THIRD PARTIES

| Company | Consolidated |
|---------|--------------|
|---------|--------------|

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| | <u>Mar./2004</u> | <u>Dec./2003</u> | <u>Mar./2004</u> | <u>Dec./2003</u> |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
| Guarantees and deposits | 8,830 | 6,521 | 8,830 | 6,521 |
| Amounts charged to users | 117,174 | 104,770 | 117,174 | 104,770 |
| Retentions | 55,246 | 98,904 | 55,773 | 99,272 |
| Other consignments | 2,078 | 2,052 | 2,078 | 2,052 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | 183,328 | 212,247 | 183,855 | 212,615 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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18. PROFIT PARTICIPATION PAYABLE

| | <u>Company/Consolidated</u> | |
|----------------------------------|-----------------------------|------------------|
| | <u>Mar./2004</u> | <u>Dec./2003</u> |
| Interest on capital | 1,088,530 | 1,087,709 |
| Telefónica Internacional S.A. | 624,534 | 624,534 |
| SP Telecomunicações Holding S.A. | 194,347 | 194,347 |
| Minority shareholders | 269,649 | 268,828 |
| Dividends | 188,398 | 188,954 |
| Minority shareholders | 188,398 | 188,954 |
| Total | 1,276,928 | 1,276,663 |

19. RESERVE FOR CONTINGENCIES

The Company, as an entity and also as the successor to the companies merged, and its subsidiaries are involved in labor, tax and civil proceedings filed with different courts. Company's management, based on the opinion of its legal counsel, has recognized reserves for those cases in which an unfavorable outcome is considered probable and, on a conservative basis, in certain cases where whose risks are considered as possible and remote, as follows:

| <u>Nature</u> | <u>Company</u> | | <u>Consolidated</u> | |
|---------------|------------------|------------------|---------------------|------------------|
| | <u>Mar./2004</u> | <u>Dec./2003</u> | <u>Mar./2004</u> | <u>Dec./2003</u> |
| Labor | 196,681 | 179,095 | 196,809 | 179,208 |
| Tax | 494,538 | 484,517 | 494,538 | 484,517 |
| Civil | 62,322 | 62,149 | 62,331 | 62,157 |
| Total | 753,541 | 725,761 | 753,678 | 725,882 |
| Current | 51,036 | 49,390 | 51,105 | 49,408 |
| Long term | 702,505 | 676,371 | 702,573 | 676,474 |

19.1. Labor contingencies

The Company has various labor contingencies, with R\$196,681 (R\$196,809 - consolidated) reserved to cover probable losses. The amounts involved and the respective degree of risk are as follows:

| <u>Risk</u> | <u>Amount</u> | | |
|--------------|------------------|---------------|------------------|
| | <u>Telesp</u> | <u>Assist</u> | <u>Total</u> |
| Remote | 1,521,192 | 3,383 | 1,524,575 |
| Possible | 79,037 | | 79,037 |
| Probable | 196,681 | 128 | 196,809 |
| Total | 1,796,910 | 3,511 | 1,800,421 |

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These contingencies involve various actions, mainly related to wage differences, wage equivalence, overtime, employment relationship with employees of outsourced companies and job hazard premium, among others.

19.2. Tax contingencies

| Risk | Amount | | |
|--------------|------------------|---------------|------------------|
| | Telesp | Assist | Total |
| Remote | 753,185 | | 753,185 |
| Possible | 946,339 | 11,084 | 957,423 |
| Probable | 494,538 | | 494,538 |
| Total | 2,194,062 | 11,084 | 2,205,146 |

The amount of R\$494,538 as of March 31, 2004 includes contingencies classified by management as probable risk, as well as certain cases related to lawsuits filed by the Company, even when the risks are classified as possible (items a, b, k and n).

Based on the legal counsel's opinion, the method of restatement of tax claims was revised, which resulted in a reduction in contingencies compared to the prior quarter.

The principal tax contingencies for which the risks are considered remote, possible and probable by management and its legal counsel are as follows:

Claims by the National Institute of Social Security (INSS), amounting to R\$631,722, referring to:

- a) Collection of Work Accident Insurance (SAT) and the assessment of joint liability for social security contributions allegedly not paid by contracted third parties, for which the risk is considered possible, amounting to approximately R\$261,005. Due to a partially unfavorable decision, management classified R\$124,967 (December 2003) of the total contingency as a probable risk, and recognized a reserve in the same amount to cover possible losses.
- b) Social security contributions on the payment of compensation arising from the replacement of salary losses originating from the government's economic stabilization plans, Plano Verão and Plano Bresser, amounting to approximately R\$160,852, for which the risk is considered possible. Due to decisions made by higher courts and an unfavorable decision obtained by another Group company in a similar case, management decided to classify R\$49,099 (December 2003) of the contingency as a probable risk, and recognized a reserve in the same amount to cover possible losses.

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- 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 amounts of approximately R\$44,733 and R\$1,333, for which the risk is considered possible and probable, which are in the lower court and at the administrative level, respectively.

- d) Notification demanding social security contributions for joint liability in 1993, in the amount of approximately R\$163,799, for which the risk is considered possible. This process is at the second administrative level.

Claims by the Finance Secretary of the State of São Paulo, totaling R\$651,059, referring to:

- e) Assessments on October 31 and December 13, 2001, related to ICMS (State VAT) allegedly due on international long-distance calls amounting to approximately R\$148,489 for the period from November to December 1996 and from January 1997 to March 1998, considered as a possible risk, and to R\$158,949 for the period from April 1998 to December 1999, considered as a remote risk. The first claim is at the first administrative level and the second claim is at the second level.

- f) Assessment, on February 29, 2000, demanding payment of the ICMS allegedly due on cell phone activation in the period from January 1995 to December 1997, plus fines and interest, amounting to approximately R\$251,873, considered as a remote risk. The claim is at the first administrative level.

- g) Assessment, on July 2, 2001, demanding the difference in ICMS paid without late-payment penalty, amounting to R\$4,960, considered as a possible risk. The claim is in the lower court.

- h) Infraction notice related to the use of credits in the period from January to April 2002, in the amount of R\$26,595, for which the risk is considered remote. The claim is at the second administrative level.

- i) Infraction notice related to the use of ICMS credits on acquisition of consumable materials, in the amount of R\$9,793, for which the risk is considered possible. The claim is at the second administrative level.

- j) Infraction notice related to the nonreversal of ICMS credits in proportion to sales and exempt and nontaxed services in the period from January 1999 to June 2000, in addition to an ICMS credit unduly used in March 1999. The total amount involved is R\$50,400. The risk is considered possible by legal counsel. The claim is at the first administrative level.

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Litigation at the Federal and Municipal levels in the amount of R\$318,460:

- k) The Company filed a lawsuit challenging the expansion of the COFINS and PIS (taxes on revenue) (PIS - through November 2002) tax basis, requiring the inclusion of financial and securitization income and exchange gains, instead of only on operating revenues. Despite the injunction obtained suspending the change in the calculation method, the Company considered the risk as possible and recognized a reserve of R\$216,413 in case the final court decision is unfavorable to the Company.
- l) FINSOCIAL, now COFINS, was a tax on gross operating revenues, originally established at a rate of 0.5% and gradually and subsequently raised to 2.0%. Such rate increases were judicially challenged with success by several companies which led to the creation of taxable credits, caused by higher payments, which were offset by CTBC (company merged into the Company in November 1999) against current payments of related taxes, the COFINS. Claiming that those offsets made by CTBC were improper, the Federal Government made an assessment in the amount of R\$15,093, considered as a possible loss. The claim is at the second administrative level.
- m) Litigation contesting the incidence of taxation for corporate income tax, social contribution tax, PASEP and COFINS on telecommunication services of Ceterp, merged in November 2000, based on paragraph 3 of article 155 of the Federal Constitution, according to which, with the exception of VAT and taxes on exports and imports, no other taxation applies to services. The Company considers this case as a probable loss, and has reserved the amount of R\$69,136. The claim is at the second administrative level.
- n) Lawsuit filed to obtain 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 Economic Domain Intervention Contribution Tax (CIDE) on remittances to be made based on contracts with foreign residents, since the unconstitutionality of the referred tax is clear. The lawsuit also requests approval to offset, against other taxes payable, 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. Although the risk of loss is considered as possible, the Company recognized a reserve for the unpaid amounts, in the amount of R\$9,018. The claim is in the lower court.
- o) At the municipal level, the Company has contingencies related to real estate tax (IPTU) in the amount of R\$635, which have all been accrued due to the existence of favorable and unfavorable decisions in relation to the Company's position.
- p) The City of São Paulo assessed the Company, alleging differences in the payment of the municipal tax on services (ISS), by the imputation of fines of 20% not paid by the Company, in the amount of R\$8,165. The Company did not reserve for this contingency, since the lawyers responsible for this case believe that the risk is possible. The claim is at the first administrative level.

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There are other contingencies that have also been accrued, for which the involved amount is R\$23,937; the risk is considered probable by management.

19.3. Civil contingencies

| Risk | Amount | | |
|--------------|------------------|--------------|------------------|
| | Telesp | Assist | Total |
| Remote | 362,197 | 1,493 | 363,690 |
| Possible | 845,642 | 88 | 845,730 |
| Probable | 62,322 | 9 | 62,331 |
| Total | 1,270,161 | 1,590 | 1,271,751 |

The Company is involved in public class action lawsuits related to the Community Telephony Plan (PCT), claiming the possible right for indemnity for purchasers of the expansion plans who did not receive shares for their financial investment, in the municipalities of Santo André, Diadema, São Caetano do Sul, São Bernardo do Campo, Ribeirão Pires and Mauá, involving a total amount of approximately R\$534,997. The risks involved are considered possible by legal counsel. The claim is at the second administrative level.

20. OTHER LIABILITIES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | Mar./2004 | Dec./2003 | Mar./2004 | Dec./2003 |
| Accrual for post-retirement benefit plans (Note 30) | 85,226 | 82,394 | 85,228 | 82,396 |
| Advances from customers | 43,749 | 46,575 | 43,749 | 46,575 |
| Amounts to be refunded to subscribers | 38,673 | 53,746 | 42,347 | 57,254 |
| Other debtors | 21,553 | 21,899 | 34,909 | 36,475 |
| Total | 189,201 | 204,614 | 206,233 | 222,700 |
| Current | 83,040 | 100,911 | 86,842 | 104,489 |
| Long term | 106,161 | 103,703 | 119,391 | 118,211 |

21. SHAREHOLDERS EQUITY

- a) Capital

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Capital as of March 31, 2004 and December 31, 2003 is R\$5,978,074. Subscribed and paid-up capital is represented by shares without par value, distributed as follows:

| | |
|--|-----------------|
| Common shares | 165,320,206,602 |
| Preferred shares | 328,272,072,739 |
| | <hr/> |
| Total outstanding shares | 493,592,279,341 |
| | <hr/> |
| Book value per thousand shares outstanding - R\$ | 25.71 |
| | <hr/> |

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Preferred shares are nonvoting but have priority in the redemption of capital and are entitled to dividends 10% higher than those attributable to common shareholders, as per article 7 of the Company's bylaws and clause I, article 17, of Law No. 6,404/76, amended by Law No. 10,303/01.

22. OPERATING REVENUE, NET

| | Company | | Consolidated | |
|-----------------------------------|-------------|-----------|--------------|-----------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Monthly charges | 1,130,313 | 982,198 | 1,120,097 | 982,467 |
| Installation | 21,889 | 22,244 | 21,889 | 22,244 |
| Local service | 777,811 | 677,585 | 777,811 | 677,585 |
| Domestic long distance | 753,359 | 494,442 | 753,359 | 494,442 |
| Intraregional | 568,207 | 369,229 | 568,207 | 369,229 |
| Interregional | 185,152 | 125,213 | 185,152 | 125,213 |
| International long distance | 28,185 | 22,582 | 28,185 | 22,582 |
| Network | 1,023,789 | 829,386 | 1,023,789 | 829,386 |
| Use of network | 265,760 | 282,942 | 265,760 | 282,942 |
| Public telephones | 76,918 | 51,772 | 76,918 | 51,772 |
| Business communication | 222,132 | 126,430 | 222,132 | 126,430 |
| Other | 197,264 | 159,547 | 230,479 | 179,184 |
| Gross operating revenue | 4,497,420 | 3,649,128 | 4,520,419 | 3,669,034 |
| Taxes on gross revenue | (1,220,179) | (968,291) | (1,224,193) | (969,816) |
| State VAT (ICMS) | (1,053,602) | (832,898) | (1,053,908) | (833,010) |
| PIS and COFINS (taxes on revenue) | (165,432) | (133,019) | (168,205) | (133,942) |
| Municipal services tax (ISS) | (1,145) | (2,374) | (2,080) | (2,864) |
| Discounts | (30,063) | (18,477) | (30,063) | (18,477) |
| Net operating revenue | 3,247,178 | 2,662,360 | 3,266,163 | 2,680,741 |

Notes:

LDN - National long distance.

LDI - International long distance.

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On July 6, 2003, the wireless operators implemented the Carriers Selection Code (CSP) on national (VP2 and VP3) and international long distance calls, according to SMP rules. The Company started recognizing revenues from these services and paying, in turn, wireless operators for the use of their networks.

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On June 26, 2003, through Notices No. 37,166 and No. 37,167, ANATEL approved tariff adjustments for fixed-switch telephone service (STFC), based on criteria established in the local and domestic long-distance concession contracts, effective June 30, 2003, except for the former Ceterp s region which is July 3, 2003. The local basic plan had an average increase of 28.75%, including a productivity gain of 1%, while the maximum net tariffs for the long-distance services basic plan had an average increase of 24.84%, including a productivity gain of 4%, as established in the concession contract. The net charges for other STFC services and products were increased by 30.05% on average. However, a preliminary court order annulled ANATEL s resolutions and stipulated the IPC-A (Extended Consumer Price Index), of approximately 17%, in lieu of the IGP-DI (General Price Index - Internal Availability) for the calculation set forth in clauses 11.1 and 11.2 of the public telephone service concession contracts. This court order is subject to appeals; however, it continues in force. The main question, at the end of the legal process, is to define the index to be applied in the adjustment.

23. COST OF SERVICES PROVIDED

| | Company | | Consolidated | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Depreciation and amortization | 631,661 | 666,515 | 634,032 | 666,515 |
| Personnel | 42,962 | 75,036 | 43,525 | 75,189 |
| Materials | 9,433 | 13,746 | 9,475 | 13,833 |
| Network interconnection | 895,710 | 583,728 | 895,710 | 583,728 |
| Outside services | 208,120 | 179,990 | 210,453 | 184,708 |
| Cost of goods sold | 10,920 | | 10,960 | 529 |
| Other | 38,758 | 47,744 | 38,790 | 47,776 |
| Total | 1,837,564 | 1,566,759 | 1,842,945 | 1,572,278 |

24. SELLING EXPENSES

| | Company | | Consolidated | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Depreciation and amortization | 1,873 | 1,294 | 1,873 | 1,294 |
| Personnel | 39,996 | 33,501 | 40,951 | 33,510 |
| Materials | 13,295 | 6,989 | 13,348 | 7,059 |
| Outside services | 189,930 | 112,509 | 211,475 | 115,896 |
| Provision for doubtful accounts | 133,715 | 103,478 | 134,864 | 104,868 |
| Other | 7,191 | 6,219 | 7,284 | 6,223 |
| Total | 386,000 | 263,990 | 409,795 | 268,850 |

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25. GENERAL AND ADMINISTRATIVE EXPENSES

| | Company | | Consolidated | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Depreciation and amortization | 55,649 | 46,037 | 57,756 | 46,234 |
| Personnel | 33,439 | 83,156 | 34,476 | 84,033 |
| Materials | 3,701 | 6,290 | 3,722 | 6,307 |
| Outside services | 135,848 | 122,766 | 135,588 | 126,697 |
| Other | 7,615 | 12,611 | 7,788 | 12,667 |
| Total | 236,252 | 270,860 | 239,330 | 275,938 |

26. FINANCIAL EXPENSES, NET

| | Company | | Consolidated | |
|--|-----------------|------------------|-----------------|------------------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Financial income | 105,800 | 535,569 | 106,166 | 536,851 |
| Income from temporary cash investments | 15,694 | 69,041 | 16,478 | 70,137 |
| Gains on derivative operations | 50,971 | 190,764 | 50,971 | 190,764 |
| Interest | 22,251 | 24,506 | 21,734 | 24,655 |
| Other | 631 | 4,867 | 730 | 4,904 |
| Monetary/exchange variations | 16,253 | 246,391 | 16,253 | 246,391 |
| Financial expenses | (187,342) | (715,972) | (188,600) | (716,024) |
| Interest on liabilities | (59,630) | (153,883) | (60,613) | (153,888) |
| Losses on derivative operations | (73,715) | (542,405) | (73,715) | (542,405) |
| Expenses on financial transactions | (17,431) | (19,543) | (17,706) | (19,678) |
| Monetary/exchange variations | (36,566) | (141) | (36,566) | (53) |
| Total | (81,542) | (180,403) | (82,434) | (179,173) |

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27. OTHER OPERATING EXPENSES, NET

| | Company | | Consolidated | |
|--|-----------|-----------|--------------|-----------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Income | 84,613 | 68,738 | 84,032 | 68,345 |
| Technical and administrative services | 14,977 | 12,749 | 14,266 | 12,199 |
| Income from supplies | 5,305 | 4,467 | 5,305 | 4,467 |
| Dividends | 446 | 14 | 446 | 14 |
| Fines on telecommunication services | 24,906 | 20,781 | 24,906 | 20,881 |
| Recovered expenses | 14,125 | 5,708 | 14,187 | 5,735 |
| Reversal of reserve for contingencies | 8,236 | 2,189 | 8,303 | 2,189 |
| Other | 16,618 | 22,830 | 16,619 | 22,860 |
| Expenses | (143,326) | (130,366) | (143,184) | (132,564) |
| Supplies, including write-offs and adjustments to realizable value | (8,248) | (14,269) | (8,248) | (14,331) |
| Goodwill amortization - Ceterp | (8,011) | (8,011) | (8,011) | (8,011) |
| Donations and sponsorships | (4,290) | (1,040) | (4,290) | (1,047) |
| Taxes (other than on income) | (57,819) | (47,274) | (57,666) | (47,339) |
| Provision for contingencies | (21,743) | (32,028) | (21,754) | (32,032) |
| Commissions on voice and data communication services (*) | (27,701) | (21,514) | (27,701) | (21,514) |
| Other | (15,514) | (6,230) | (15,514) | (8,290) |
| Total | (58,713) | (61,628) | (59,152) | (64,219) |

(*) Refers mainly to commissions to Telefônica Empresas S.A.

28. NONOPERATING INCOME (EXPENSES), NET

| | Company | | Consolidated | |
|---|-----------|-----------|--------------|-----------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Income | 12,877 | 12,456 | 12,916 | 12,456 |
| Proceeds from sale of property, plant and equipment | 3,283 | 2,336 | 3,283 | 2,336 |
| Unidentified taxes collected | 8,502 | 8,992 | 8,502 | 8,992 |
| Other | 1,092 | 1,128 | 1,131 | 1,128 |
| Expenses | (3,688) | (1,572) | (3,695) | (1,572) |
| Cost of property, plant and equipment disposals | (3,675) | (1,570) | (3,682) | (1,570) |
| Other | (13) | (2) | (13) | (2) |

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| | | | | |
|-------|-------|--------|-------|--------|
| Total | 9,189 | 10,884 | 9,221 | 10,884 |
|-------|-------|--------|-------|--------|

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29. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company recognizes income and social contribution taxes monthly on the accrual basis and pays the taxes on an estimated basis. The taxes calculated on income as of the date of interim statements are recorded in liabilities or assets, as applicable. Prepayments of income and social contribution taxes are recorded as deferred and recoverable taxes.

Reconciliation of tax charge to the official tax rates

The table below is a reconciliation of the reported tax charge and the amounts calculated by applying 34% (income tax of 25% and social contribution tax of 9%) in 2004 and 2003.

| | Company | | Consolidated | |
|--|-----------|-----------|--------------|-----------|
| | Mar./2004 | Mar./2003 | Mar./2004 | Mar./2003 |
| Income before taxes | 644,725 | 330,870 | 640,520 | 331,398 |
| <u>Social contribution tax</u> | | | | |
| Charge | (58,025) | (29,778) | (57,647) | (29,826) |
| Permanent differences: | | | | |
| Equity in subsidiaries | (1,041) | 114 | (109) | 21 |
| Difference in merged tax credit rate (Note 6) | 1,997 | 1,997 | 1,997 | 1,997 |
| Nondeductible expenses, gifts, incentives and dividends received | (1,469) | (134) | (1,667) | (134) |
| Social contribution tax charge in the statement of income | (58,538) | (27,801) | (57,426) | (27,942) |
| <u>Income tax</u> | | | | |
| Charge | (161,181) | (82,718) | (160,130) | (82,850) |
| Permanent differences: | | | | |
| Equity in subsidiaries | (2,893) | 316 | (302) | 58 |
| Nondeductible expenses, gifts, incentives and dividends received | (3,824) | (365) | (4,373) | (362) |
| Other items- | | | | |
| Incentives (cultural, employee meals and transport) | 292 | 270 | 292 | 270 |
| Income tax charge in the statement of income | (167,606) | (82,497) | (164,513) | (82,884) |
| Total income and social contribution tax expenses | (226,144) | (110,298) | (221,939) | (110,826) |

The components of deferred tax assets and liabilities on temporary differences are shown in Notes 6 and 15, respectively.

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30. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The principal balances with related parties are as follows:

| | Consolidated | |
|---|--------------|-----------|
| | Mar./2004 | Dec./2003 |
| ASSETS | | |
| Current assets | 143,295 | 168,693 |
| Trade accounts receivable | 69,945 | 97,799 |
| Other: | | |
| Other recoverable amounts | 6,500 | 6,500 |
| Receivables from related parties | 66,850 | 64,394 |
| Noncurrent assets | 50,538 | 85,741 |
| Receivables from related parties | 50,538 | 85,741 |
| Total assets | 193,833 | 254,434 |
| LIABILITIES | | |
| Current liabilities | 305,555 | 285,477 |
| Accounts payable | 283,117 | 262,087 |
| Other: | | |
| Consignments on behalf of third parties | 1,504 | 1,440 |
| Payables to related parties | 20,934 | 21,950 |
| Long-term liabilities | 49,021 | 59,347 |
| Payables to related parties | 45,283 | 55,550 |
| Other- | | |
| Other creditors | 3,738 | 3,797 |
| Total liabilities | 354,576 | 344,824 |
| Consolidated | | |
| | Mar./2004 | Dec./2003 |
| STATEMENT OF INCOME | | |
| Revenue | 111,043 | 348,140 |
| Telecommunication services | 106,286 | 332,743 |
| Financial income | 74 | 3,112 |
| Other operating income | 4,683 | 12,285 |

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| | | |
|----------------------------|-----------|-----------|
| Costs and expenses | (637,503) | (105,988) |
| Cost of services provided | (522,106) | (38,180) |
| Selling | (66,307) | (28,673) |
| General and administrative | (22,797) | (18,279) |
| Financial expenses | (103) | (113) |
| Other operating expenses | (26,190) | (20,743) |

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Trade accounts receivable include receivables for telecommunications services, principally from Telerj Celular S.A., Celular CRT S.A., Telefônica Empresas S.A., Atento Brasil S.A. and Telesp Celular S.A. and for international long-distance services, principally from Telefónica de Argentina S.A.

Other in current assets refers to advances to Telefônica Gestão de Serviços Compartilhados do Brasil Ltda.

Receivables from related parties in current and noncurrent assets are comprised of receivables from Telefônica Empresas S.A., Telefónica Internacional S.A., Telefônica S.A., Tele Sudeste Celular Participações S.A., Telefônica Publicidade e Informação Ltda., Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., Atento Brasil S.A., Telefônica Data do Brasil Ltda., Terra Networks Brasil S.A. and other Group companies for services provided, consulting fees, salary, travel and other expenses paid by the Company to be reimbursed by the respective companies.

Accounts payable include services provided primarily by Telefónica Procesos y Tecnología de la Información, Atento Brasil S.A., Telerj Celular S.A., TeleBahia Celular S.A., Telefônica Empresas S.A., Tele-Leste Celular S.A., Telergipe Celular S.A., Terra Networks Brasil S.A., Telefônica Pesquisa e Desenvolvimento Ltda., Telefônica Factoring do Brasil Ltda., Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., Global Telecom S.A., Celular CRT S.A., Telesp Celular S.A. and international long-distance services provided by Compañía de Telecomunicaciones de Chile Transmisiones Regionales S.A., Telefónica de Argentina S.A. and Telefónica de España S.A.

Payables to related parties in current and long-term liabilities are comprised mainly of consulting fees and management fee payable to Telefónica Internacional S.A., administrative services in the accounting, financial, human resources, equity, logistics and IT areas payable to Telefônica Gestão de Serviços Compartilhados do Brasil Ltda. and voice and data communication services payable to Telefônica Empresas S.A.

Revenue from telecommunication services comprises mainly billings to Telesp Celular S.A., Telefônica Empresas S.A., Terra Networks Brasil S.A. and Atento Brasil S.A.

Other operating revenues include revenue from lease of equipment for the Switched IP and Speedy Link networks to Telefônica Empresas S.A.

Cost of services provided refers to customer services provided by Atento Brasil S.A. and administrative services provided by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., as well as interconnection services provided by Telesp Celular S.A., Tele- -Sudeste S.A., CRT Celular S.A., Tele-Leste Celular S.A. and Telecentro-Oeste S. A.

Selling expenses refer to services provided by Atento Brasil S.A., Telefônica Empresas S.A., Telesp Celular S.A., Terra Brasil S.A., and Telefônica Publicidade e Informação S.A.

General and administrative expenses refer to customer services provided by Atento Brasil S.A., administrative services provided by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., management fees paid to Telefónica Internacional S.A., rent of data circuits paid to Telefônica Empresas S.A., and systems development services paid to Telefônica Pesquisa e Desenvolvimento Ltda.

Other operating expenses refer to commissions on voice and data communication services provided by Telefônica Empresas S.A.

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31. 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, all sponsors of the plans managed by Sistel were unified as to all plans then existent. 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 Plan) and the continuation of participation in the unified 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 Supplementary Pension Plan Secretariat on January 13, 2000.

Due to the end of unification in December 1999, Telesp individually sponsors a defined retirement benefit plan (PBS Telesp Plan) which covers approximately 1% of the Company's employees. In addition to the supplemental pension benefit, health care (PAMA) is provided to retired employees and their dependents, at shared costs. Contributions for the PBS Telesp Plan are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The method used to determine costing is the capitalization method and the contribution by the sponsoring entity is 61.4% of payroll of employees covered by the plan, of which 59.9% is allocated to costing of the PBS Telesp Plan and 1.5% to costing of the PAMA Plan.

For the 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 supported by contributions made by the participants (employees) and by the sponsor which are credited to participants' individual accounts. Telesp is responsible for funding all administrative expenses and plan maintenance, including participant's 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 Company's contributions to the Visão Telesp Plan are equal to those of the employees, varying from 2% to 9% of salary, based on the percentage chosen by the participant.

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

In the period from January to March 2004, the Company made contributions to the PBS Telesp Plan in the amount of R\$77 (R\$65 in the same period in 2003) and the Visão Telesp Plan in the amount of R\$4,455 (R\$5,041 in the same period in 2003).

Assist individually sponsors a defined contribution plan similar to that of Telesp, the Visão Assist Benefit Plan, which covers about 42% of its employees. Assist's contributions to that plan totaled R\$45 (R\$17 in the same period in 2003).

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The Company recognized actuarial liabilities as provided in CVM Instruction No. 371 of December 13, 2000. The actuarial valuation of the plans was made using the projected unit credit method, based on the plan assets as of November 30, 2003 and November 30, 2002. For multiemployer plans (PAMA and PSB-A), apportionment of assets is made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

The accrual for the plans as of March 30, 2004 and December 31, 2003 is as follows:

| Plan | Mar./2004 | Dez./2003 |
|----------------------------------|------------------|------------------|
| PBS/Visão Telesp/CTB | 34,827 | 33,398 |
| PAMA | 50,399 | 48,996 |
| Total - Company | 85,226 | 82,394 |
| (Asset)/liability - Visão Assist | 2 | 2 |
| Total consolidated | 85,228 | 82,396 |

Shown below are expenses estimated for 2004 as per actuaries' report:

| Plan | Amounts |
|-------------------------------------|----------------|
| PBS/Visão Telesp/CTB | |
| Cost of current service | 2,932 |
| Interest cost | 13,006 |
| Expected return on plan assets | (9,855) |
| Employees' contribution | (367) |
| Total - PBS/Visão Telesp/CTB | 5,716 |
| PAMA | |
| Cost of current service | 77 |
| Interest on actuarial liabilities | 12,395 |
| Expected return on plan assets | (6,860) |
| Total - PAMA | 5,612 |
| Total of plans | 11,328 |

32. COMMITMENTS

- a) Capital expenditures

The Company submitted to the Board of Directors the capital expenditure budget for 2004, in the amount of R\$1,410,859 - consolidated, which was subsequently approved by the Annual Shareholders Meeting on March 25, 2004. The source will be funds generated by operations.

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As of March 31, 2004, R\$196,781 had been invested by the Company and R\$175 by the wholly-owned subsidiary Assist Telefônica S.A. The new capital expenditure commitments contracted in the first quarter of 2004 are as follows:

| <u>Year of expenditure</u> | <u>Total contracted</u> | <u>Total budgeted</u> |
|----------------------------|-------------------------|-----------------------|
| 2004 | 271.039 | 296.034 |

b) ANATEL commitments

Quality and universalization targets for fixed-switch telephone service are available to monitor the Company's performance at ANATEL's website: www.anatel.gov.br.

33. INSURANCE

It is the policy of the Company and its subsidiaries to obtain insurance coverage for all high-risk assets and liabilities of significant values, based on management's judgment, according to instructions of the Telefônica S.A. corporate program. The Company strictly complies with Brazilian legislation for contracting insurance.

| <u>Type</u> | <u>Insurance coverage</u> |
|---|---------------------------|
| Operating risks (loss of profits) | US\$ 6,743,393,000 |
| Optional third-party liability - vehicles | R\$ 1,000 |
| ANATEL guarantee insurance | R\$ 30,759 |

34. FINANCIAL INSTRUMENTS

In compliance with the terms of CVM Instruction No. 235/95, the Company and its wholly-owned subsidiary made an evaluation of the book values of their 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 realization 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.

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Book and market values of financial instruments as of March 31, 2004 and December 31, 2003 are as follows:

| | Consolidated | | | |
|---|---------------------|--------------------|--------------------|--------------------|
| | Mar./2004 | | Dec./2003 | |
| | Book | Market | Book | Market |
| | value | value | value | value |
| Loans and financing | (2,662,254) | (2,673,535) | (2,977,149) | (3,006,402) |
| Derivatives | (323,309) | (174,475) | (359,482) | (178,393) |
| Cash and cash equivalents | 809,196 | 809,196 | 214,932 | 214,932 |
| Portugal Telecom - direct and indirect interest through Aliança Atlântica | 145,612 | 347,527 | 146,939 | 310,515 |
| Total | (2,030,755) | (1,691,287) | (2,974,760) | (2,659,348) |

The Company has investments carried under both the cost and equity methods. The net assets of the subsidiary, Aliança Atlântica, are represented principally by an equity interest of 0.42% in Portugal Telecom.

The Company has a direct interest of 0.64% and an indirect interest of 0.21% in Portugal Telecom, carried at cost. The investment, at market value, is based on the last quotation of March 2004 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to 9.10 euros (7.98 euros in December 2003):

| | Consolidated | | | |
|--|---------------------|---------------|------------------|---------------|
| | Mar./2004 | | Dec./2003 | |
| | Book | Market | Book | Market |
| | value | value | value | value |
| Portugal Telecom - direct interest | 75,362 | 260,645 | 75,362 | 232,886 |
| Portugal Telecom - indirect interest through Aliança Atlântica | 70,250 | 86,882 | 71,577 | 77,629 |
| | 145,612 | 347,527 | 146,939 | 310,515 |

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 and financing denominated in foreign currency and the related financial expenses. To reduce this risk, the Company enters into hedge contracts (swaps) with financial institutions.

The Company's indebtedness and the results of operations are significantly affected by the foreign exchange rate risk. As of March 31, 2004, 100% of the debt was denominated in foreign currency (U.S. dollar, Canadian dollar and yen); 99.9% 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 March 31, 2004, these transactions generated a net loss of R\$22,744 (consolidated). The Company has recorded a liability of R\$323,309 to reflect the unrealized temporary loss.

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The book value and market value of the Company's net excess (exposure) to the exchange rate risk as of March 31, 2004 and December 31, 2003 are as follows:

| | Consolidated | | | |
|------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Mar./2004 | | Dec./2003 | |
| | Book value | Market value | Book value | Market value |
| Liabilities | | | | |
| Loans and financing | 2,662,254 | 2,673,535 | 2,945,795 | 2,975,048 |
| Purchase commitments | 52,554 | 52,554 | 40,846 | 40,846 |
| Asset position on swaps | 2,711,062 | 2,731,306 | 2,983,462 | 3,020,168 |
| Net excess (exposure) | (3,746) | 5,217 | (3,179) | 4,274 |

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 settlement or realization expectations of liabilities and assets, at market rates prevailing on the balance sheet date.

b) Interest rate risk

This risk arises from the possibility that the Company may incur losses due to internal and external interest rate fluctuations affecting the Company's results.

As of March 31, 2004, the Company had R\$2,662,254 (R\$2,945,795 as of December 31, 2003) of loans and financing in foreign currency, of which R\$1,741,911 (R\$1,950,577 as of December 31, 2003) was at fixed interest rates and R\$920,343 (R\$995,218 as of December 31, 2003) was at variable interest rates (Libor). To hedge against the exchange risk on these foreign currency debts, the Company has hedge transactions in order to peg these debts to local currency, at floating rates indexed to the CDI, in a way that the Company's financial result is affected by the CDI. On the other hand, the Company invests its excess cash (temporary cash investments) of R\$809,196 (R\$214,932 as of December 31, 2003) mainly in short-term instruments, based on the CDI variation, which reduces this risk. The book values of these instruments approximate market values, since they may be redeemed in the short term.

The Company has a hedge against external variable interest rate risks on the financing obtained from JBIC - Japan Bank for International Cooperation. The Company continues monitoring market rates in order to evaluate the need to contract other derivatives to hedge against the volatility risk of external variable rates on the remaining balance.

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As of March 31, 2004, the Company had swap transactions - CDI versus fixed rate - to partially hedge against internal interest rate fluctuations. Hedged operations mature in September 2004 and January 2005, totaling R\$1,593,738 (R\$1,117,359 as of December 31, 2003).

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Another risk to which the Company is exposed is the nonmatching of the monetary restatement indices for its debt and for accounts receivable. Telephone tariff adjustments do not necessarily follow increases in local interest rates which affect the Company's debt.

c) Debt acceleration risk

As of March 31, 2004, most of the Company's loan and financing agreements contain restrictive clauses (covenants), typically applied to such agreements, relating to cash generation, debt ratios and other. These restrictive clauses have been complied with by the Company in full and do not restrict its capacity to conduct its regular business.

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 does not pay the related bills in 30 days. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

As of March 31, 2004, the Company's customer portfolio had no subscribers whose receivables were individually higher than 1% of the total accounts receivable from services.

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.

35. SUBSEQUENT EVENT

On April 8, 2004, the Company published a notice for declaration of interim dividends and interest on capital for fiscal 2004, as decided at the Board of Directors' Meeting on April 7, 2004, subject to approval of Shareholders' Meeting, and payment of interest on capital for fiscal 2003 decided at the Annual Shareholders' Meeting on March 25, 2004.

a) Interim dividends - fiscal 2004

The Company declared interim dividends in the amount of R\$613,570 based on retained earnings of the last annual balance sheet, according to article 28 of the Company's bylaws and articles 204 and 105 of Law No. 6,404/76.

Type of shares

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| | <u>Common</u> | <u>Preferred (*)</u> |
|---------------------------------|---------------|----------------------|
| Value per thousand shares - R\$ | 1.165553 | 1.282108 |

(*) 10% higher than the value of each common share, according to article 7 of the Company's bylaws.

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Interim dividends will be included in mandatory minimum dividends for fiscal 2004, subject to shareholders' approval, as provided for in sole paragraph, article 28 of the Company's bylaws.

These dividends started being paid on April 23, 2004 to the holders of common and preferred shares who were in the Company's records at the end of April 7, 2004.

b) Interest on capital - fiscal 2004

The Company declared interest on capital in the amount of R\$295,800, less withholding income tax at the rate of 15%, resulting in net interest of R\$251,430, according to article 9 of Law No. 9,249/95 and CVM Resolution No. 207/96.

| <u>Value per thousand shares (R\$)</u> | <u>Immune or exempt legal entities (gross amount)</u> | <u>Withholding income tax (15%)</u> | <u>Legal entities and individuals (net amount)</u> |
|--|---|---|--|
| Common shares | 0.561909 | 0.084286 | 0.477622 |
| Preferred shares (*) | 0.618100 | 0.092715 | 0.525385 |

(*) 10% higher than the value of each common share, according to article 7 of the Company's bylaws.

Corresponding credits were posted to the Company's accounting records on April 7, 2004, individually for each shareholder based on shares held at the end of April 7, 2004. The payment of this interest began on April 23, 2004.

According to sole paragraph, article 29 of the Company's bylaws, interest on capital can be included in mandatory minimum dividends for fiscal 2004. Income tax-immune or exempt shareholders will receive this interest at gross amount, as per prevailing legislation, upon evidence of such condition, according to the notice to shareholders published on April 8, 2004.

c) Payment of interest on capital - fiscal 2003

At the Annual Shareholders' Meeting held on March 25, 2004, the shareholders approved the payment of interest on capital for fiscal 2003, started on April 23, 2004, to the holders of common and preferred shares based on their shares held on December 29, 2003, according to the Notice to Shareholders published on December 11, 2003. The amount approved for payment was R\$1,100,000, less withholding income tax at the rate of 15%, resulting in net interest of R\$935,000.

| <u>Value per thousand shares (R\$)</u> | <u>Immune or exempt legal entities (gross amount)</u> | <u>Withholding income tax (15%)</u> | <u>Legal entities and individuals (net amount)</u> |
|--|---|---|--|
|--|---|---|--|

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| | | | |
|----------------------|----------|----------|----------|
| Common shares | 2.089588 | 0.313438 | 1.776150 |
| Preferred shares (*) | 2.298547 | 0.344782 | 1.953765 |

(*) 10% higher than the value of each common share, according to article 7 of the Company's bylaws.

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According to article 9 of Law No. 9,249/95 and item V of CVM Resolution No. 207/96, the net amount of interest on capital was computed in the amount of mandatory minimum dividends for fiscal 2003.

William Cuenca Filho

Accountant

CRC - 1SP194341/O-7

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: June 18, 2004.

By: /s/ Charles E. Allen

Name: Charles E. Allen

Title: Investor Relations Director