

TELESP PARTICIPACOES SA
Form 6-K
May 02, 2005

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 April, 2005

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 Announces the Financial Statements for the Years Ended December 31, 2004 and 2003 and Independent Auditors' Report (Convenience Translation into English from the Original Previously Issued in Portuguese)* dated on April 29, 2005.

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

Telecomunicações de

São Paulo S.A. - Telesp

Financial Statements for the Years Ended

December 31, 2004 and 2003 and

Independent Auditors Report

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of

Telecomunicações de São Paulo S.A. - Telesp

São Paulo - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Telecomunicações de São Paulo S.A. Telesp and subsidiaries as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Telecomunicações de São Paulo S.A. - Telesp and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, the changes in shareholders' equity, and the changes in their financial positions for the years then ended in conformity with accounting practices adopted in Brazil.
4. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 2, 2005

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Maurício Pires de Andrade Resende
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2004	2003	2004	2003
ASSETS				
CURRENT ASSETS	4,098,160	4,053,622	4,161,865	4,121,165
Cash and cash equivalents	172,293	179,960	238,577	214,932
Trade accounts receivable, net	2,681,644	2,423,472	2,696,000	2,430,974
Deferred and recoverable taxes	897,546	1,103,085	907,819	1,130,367
Inventories	91,462	123,846	93,002	125,434
Other recoverable amounts	91,212	70,494	92,830	71,516
Other	164,003	152,765	133,637	147,942
NONCURRENT ASSETS	703,092	822,247	805,119	919,480
Deferred and recoverable taxes	325,560	429,333	354,382	441,099
Escrow deposits	333,407	280,226	333,893	280,853
Other	44,125	112,688	116,844	197,528
PERMANENT ASSETS	13,884,589	15,161,923	13,784,783	15,082,174
Investments	509,745	356,056	284,574	165,363
Property, plant and equipment, net	13,261,463	14,642,029	13,369,391	14,735,494
Deferred charges	113,381	163,838	130,818	181,317
TOTAL ASSETS	18,685,841	20,037,792	18,751,767	20,122,819

The accompanying notes are an integral part of these 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 DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2004	2003	2004	2003
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES	4,138,548	5,921,252	4,163,806	5,957,980
Loans and financing	526,132	1,966,248	529,930	1,982,062
Accounts payable	1,172,604	1,074,048	1,194,781	1,086,645
Taxes payable	1,155,720	709,262	1,165,734	712,565
Dividends/ interest on capital	506,116	1,276,663	506,116	1,276,663
Reserve for contingencies	52,806	49,390	52,847	49,408
Payroll and related charges	138,628	150,752	143,312	152,101
Temporary losses on derivatives	235,918	359,482	235,918	359,482
Other	350,624	335,407	335,168	339,054
LONG-TERM LIABILITIES	3,147,047	1,845,866	3,170,245	1,876,695
Loans and financing	2,205,762	979,547	2,226,313	995,087
Taxes payable	26,007	31,346	26,007	31,373
Reserve for contingencies	800,244	676,371	800,382	676,474
Other	115,034	158,602	117,543	173,761
DEFERRED INCOME			17,470	17,470
SHAREHOLDERS EQUITY	11,398,632	12,269,060	11,398,632	12,269,060
Capital	5,978,074	5,978,074	5,978,074	5,978,074
Capital reserves	2,745,272	2,744,031	2,745,272	2,744,031
Profit reserves	659,556	550,498	659,556	550,498
Retained earnings	2,015,730	2,996,457	2,015,730	2,996,457
FUNDS FOR CAPITALIZATION	1,614	1,614	1,614	1,614
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	18,685,841	20,037,792	18,751,767	20,122,819

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	Company		Consolidated	
	2004	2003	2004	2003
Telecommunication services	18,327,071	16,117,923	18,425,674	16,221,967
Revenue deductions	(5,102,017)	(4,409,359)	(5,117,044)	(4,417,208)
NET OPERATING REVENUE	13,225,054	11,708,564	13,308,630	11,804,759
Cost of services provided	(7,449,067)	(6,677,036)	(7,496,010)	(6,714,499)
GROSS PROFIT	5,775,987	5,031,528	5,812,620	5,090,260
OPERATING EXPENSES	(2,511,773)	(2,571,160)	(2,543,294)	(2,642,628)
Selling	(1,528,467)	(1,225,708)	(1,606,645)	(1,286,177)
General and administrative	(763,222)	(957,263)	(746,802)	(963,925)
Results from equity investments	(84,932)	(63,201)	(461)	(1,012)
Other, net	(135,152)	(324,988)	(189,386)	(391,514)
INCOME FROM OPERATIONS BEFORE FINANCIAL EXPENSES, NET	3,264,214	2,460,368	3,269,326	2,447,632
Financial expenses, net	(1,285,753)	(1,722,405)	(1,292,808)	(1,730,196)
INCOME FROM OPERATIONS	1,978,461	737,963	1,976,518	717,436
Nonoperating income, net	39,982	49,857	40,102	50,025
INCOME BEFORE TAXES	2,018,443	787,820	2,016,620	767,461
Income and social contribution taxes	(725,894)	(299,818)	(724,071)	(279,459)
Reversal of interest on capital	888,600	1,100,000	888,600	1,100,000
NET INCOME	2,181,149	1,588,002	2,181,149	1,588,002
NUMBER OF SHARES OUTSTANDING AT BALANCE SHEET DATE (IN THOUSANDS)	493,592,279	493,592,279		
EARNINGS PER THOUSAND SHARES - R\$	4.42	3.22		

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In thousands of Brazilian reais - R\$)

	Capital reserves				Profit reserves		Total
	Capital	Share premium	Investment grants	Tax incentives	Legal reserve	Retained earnings	
BALANCES DECEMBER 31, 2002	5,978,074	2,737,087	5,454	188	471,098	5,290,736	14,482,637
Investment grants			1,302				1,302
Expired dividends and interest on capital, net of taxes						24,732	24,732
Income tax on interest on capital, unclaimed in 2002						(27,613)	(27,613)
Net income						1,588,002	1,588,002
Proposed allocation of income:							
Legal reserve					79,400	(79,400)	
Dividends						(2,700,000)	(2,700,000)
Interest on capital						(935,000)	(935,000)
Income tax on interest on capital						(165,000)	(165,000)
BALANCES DECEMBER 31, 2003	5,978,074	2,737,087	6,756	188	550,498	2,996,457	12,269,060
Investment grants			1,241				1,241
Expired dividends and interest on capital, net of taxes						45,472	45,472
Net income						2,181,149	2,181,149
Proposed allocation of income:							
Legal reserve					109,058	(109,058)	
Dividends						(2,209,690)	(2,209,690)
Interest on capital						(755,310)	(755,310)
Income tax on interest on capital						(133,290)	(133,290)
BALANCES DECEMBER 31, 2004	5,978,074	2,737,087	7,997	188	659,556	2,015,730	11,398,632

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2004	2003	2004	2003
SOURCES OF FUNDS				
From operations:				
Net income	2,181,149	1,588,002	2,181,149	1,588,002
Items not affecting working capital	2,907,531	2,738,924	2,884,509	2,718,447
Depreciation and amortization of property, plant and equipment and deferred charges	2,718,013	2,812,537	2,736,811	2,822,778
Monetary and exchange variations on noncurrent and long-term items, net	1,435	(346,361)	1,445	(339,498)
Interest on loans and financing	6,702	40,956	12,049	41,510
Loss on equity investments	84,932	63,201	461	1,012
Gain on change in equity interest		(25,449)		(25,449)
Loss on sale of property, plant and equipment	(6,372)	12,786	(6,359)	12,767
Provision for contingencies	135,006	302,012	135,170	302,037
Tax credits	22,315	(90,110)	5,258	(94,089)
Amortization of goodwill	32,043	32,043	32,043	32,043
Provision for losses - receivables from Barramar	(48,800)		5,173	28,025
Revasal of provision for post-retirement benefit plans	(37,743)	(62,691)	(37,658)	(62,689)
Other			116	
Funds provided by operations	5,088,680	4,326,926	5,065,658	4,306,449
Increase in long-term liabilities	1,738,731	1,137,382	1,729,399	1,162,137
Loans and financing	1,738,700	1,100,707	1,725,635	1,114,116
Related parties		36,675		39,246
Other	31		3,764	8,775
Other sources	294,259	527,907	301,675	527,399
Investment grants	1,241	1,301	1,241	1,301
Transfer from noncurrent to current assets	232,997	437,414	240,264	436,790
Proceeds from sale of property, plant and equipment	14,549	64,460	14,549	64,576
Unclaimed dividends	45,472	24,732	45,472	24,732
Other			149	
Total sources	7,121,670	5,992,215	7,096,732	5,995,985
USES OF FUNDS				
Increase in noncurrent assets	112,438	178,337	115,006	183,317

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Escrow deposits	38,187	76,693	38,337	76,761
Recoverable State VAT	62,141	60,794	62,141	60,794
Related parties		36,558	87	38,969
Other	12,110	4,292	14,441	6,793
Increase in permanent assets	1,517,033	1,360,120	1,456,580	1,355,743
Investments	189,824	90,000	115,879	
Property, plant and equipment	1,327,209	1,246,348	1,340,697	1,328,937
Deferred charges		23,772	4	26,806
Other uses of funds	3,664,957	5,789,272	3,690,272	5,830,270
Income tax on interest on capital, unclaimed in 2002		27,613		27,613
Interest on capital and dividends	3,098,290	3,800,000	3,098,290	3,800,000
Consolidated working capital			2,944	32,214
Transfer from long-term to current liabilities	566,667	1,961,659	589,038	1,970,423
Other				20
Total uses	5,294,428	7,327,729	5,261,858	7,369,330
DECREASE (INCREASE) IN WORKING CAPITAL DEFICIENCY	1,827,242	(1,335,514)	1,834,874	(1,373,345)
REPRESENTED BY				
Current assets:				
Beginning of year	4,053,622	4,622,941	4,121,165	4,703,820
End of year	4,098,160	4,053,622	4,161,865	4,121,165
	44,538	(569,319)	40,700	(582,655)
Current liabilities:				
Beginning of year	5,921,252	5,155,057	5,957,980	5,167,290
End of year	4,138,548	5,921,252	4,163,806	5,957,980
	(1,782,704)	766,195	(1,794,174)	790,690
DECREASE (INCREASE) IN WORKING CAPITAL DEFICIENCY	1,827,242	(1,335,514)	1,834,874	(1,373,345)

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP

Announces Business Report for the full year 2004

In accordance with the legal requirements and Company bylaws, the Management of TELECOMUNICAÇÕES DE SÃO PAULO S.A. TELESP submits the Business Report and Consolidated Financial Statements for the year ended on December 31, 2004, duly reviewed by the Independent Public Auditors and the Council Members.

1. Presentation

It has been six years since privatization. Important achievements were accomplished, including the social inclusion, which allowed that low-income families had access to the telecommunication services and Internet, which are crucial for the personal and familiar progress in Information Era.

In 1998, in São Paulo, only 8% of the families of class D had fixed telephone and, currently, according to the latest available information, 50% of this class has telephone line in their homes. In the class C, this service democratization occurred also. Six years ago, 35% of homes had telephone and, nowadays, this percentage is around 82%. In São Paulo, the number of customers was 6,4 million in 1998 and in the end of 2004, this number raised to 12,5 million. At the same time, the network digitalization increased from 72.7% to 98.7% in 2004.

The number of public telephones in São Paulo doubled from 169.0 thousand in 1997 to 331.2 thousand in 2004, which represent 8.4 public telephones per group of thousand inhabitants. This rate is higher than in United States, France, Germany and Spain.

As a result of universalization, the telephone density in São Paulo reaches 32 lines per each 100 inhabitants, which is similar to the rates registered in Portugal and Spain.

To achieve this result, since the privatization in July 1998, the Company invested R\$ 15,3 billion for the acquisition and subsequent increase of its stakes, and beyond R\$ 16,9 million for the expansion and modernization of the fixed networks.

The Company directly hires 7.125 people, on top of 33.988 who are hired indirectly, becoming the 4th biggest employer in the country.

Aware of the social responsibility and for coordinating the efforts of its companies in this front, the Telefónica Group instituted in March 1999 the *Fundação Telefônica*. Among several initiatives, it is worth mentioning the programs *EducaRede* (www.educarede.org.br), which is a free access internet portal dedicated to students and teachers of Brazilian public schools, with registers more than 2 thousand of visits per day and 1 million of pageviews per month, and *RISolidária* (www.risolidaria.org.br), created for organizations that assists children and adolescents, and since its launch, in the end of 2003, has already had more than 75 thousand accesses. Besides that, the *Fundação*

Telefônica acts in other social areas through its programs *Gera Renda* , *Medida Legal* , *Pró-Direitos* and *Memória Telefônica* , benefiting about 81 thousand people in more than 60 social projects.

Since achieving the universalization targets, beginning in September 2001, when Telefônica became the first fixed operator to achieved these targets, the focus of the Company had been investments profitability and technology convergence. It is worth noting that the current rate of return on investment is lower than capital cost of the Company. The Company has worked towards technology convergences as evidenced by the focus on the expansion of connection services to the Internet in broadband and in a portfolio increase for value added services, that offers to its clients the most modern technologies in the telecommunication world scenario.

During 2004, the Company reached 12,462,746 LIS (lines in service) and a productivity of 1.865 LIS/employee (consider fixed lines in service plus the ADSL lines *AssymetricDigital Subscriber Line*), an outstanding efficiency indicator, that, once again, rates amongst the best in the world.

The digital services, which include intelligent facilities like *Identificador de Chamada* (caller identification), *Siga-me* , transfers of calls to mobile phone, voice-mail, conference calls, and others, had, in 2004, already reached 6.9 million subscribers and a total of 13.5 million individual services hired.

In the long distance services, there are at least four operators in each region disputing the clients. The corporate markets still have more competitors offering data and voice services for companies. The Company's intrastate traffic revenue presented a positive performance, achieving R\$2,334,5 million, while the investment in this market has maintained relatively stable. In regards to the national and international long distance services, the evolution was also positive due to the success of the *Super 15* campaign. The registered revenues were R\$844,9 million for the interstate and international traffic.

The technology modernization allowed the launch of pioneer products such as *Speedy* , the broadband Internet access by Telefônica, which started-up on February 2002, simultaneously with other markets like Spain, Germany and England. Currently, the ADSL service *Assymetric Digital Subscriber Line* negotiated under brand *Speedy* , is a national leader with 826.4 thousand subscribers, where Telefônica retain on average, 21.0 users/inhabitant in the state of São Paulo, higher than what was registered in other Latin America countries. On the broadband Internet access service, the fixed telephones operators compete with cable TV, and alternatives solutions by radio companies.

The connection for Internet access was expanded also due to investments of approximately R\$300 million in construction of the Rede IP (Internet Protocol network) which allows users to access the *web* in the majority of the Sao Paulo's districts without having to make a long distance call to the ISPs headquartered in big cities. The IP network has been one of the biggest promoters for the Internet use increase in the state of São Paulo.

During the year 2004, the Company paid to Federal, State and Municipal Government R\$5,8 billion in taxes and contributions. For FUST it was destined R\$95,1 million, and for FUNTTEL the contribution achieved R\$58,6 million.

The investments made by the Company for modernization, expansion, quality, and network maintenance in 2004 reached R\$1,34 billion, which confirms the Telefónica Group's interest in Brazil for the long term and confidence in the future of the country as a major foreign investor.

During the year 2004, dividends and interest on shareholders equity were declared, in the amount of R\$ 5,89 per lot of thousand of common shares and R\$6,47 per lot of thousand of preferred shares. Such values are according to the solid financial condition of the Company, although it can be considered modest compared to the amount of investments realized since the privatization.

The Company's debt shall be considered low in comparison of the size of the Company, where 44.6% of its loans are denominated in foreign currency. The efficient financial administration and hedge policies resulted reduced net financial expenses.

2. Macroeconomic environment

In 2004, the Brazilian economy recovered a strong growth rhythm, at par with the world expansion. Until the third quarter, the GDP has increased 5.3%, much higher than the growth of 0.5% registered during 2003.

On this context of national and international growth, the inflation measured by IPCA (Extended Consumer Index Price), published by *Instituto Brasileiro de Geografia e Estatística* (Brazilian Geography and Statistics Institute) approached the rate of 8.0%, the top limit allowed by Monetary Authorities, registering 7.6%. In 2003, this rate had been of 9.3%. The inflation measured by the General Price Index (IGP-DI calculated by *Fundação Getúlio Vargas*), that includes the wholesale prices, retail and civil construction, reached 12.1%, while, in 2003, this index was 7.7%.

In view of this inflation behavior, the Brazilian Central Bank, after interrupting the interest rate decrease in May 2004, keeping it at 16%, started increasing it after September 2004, so that it ended the year at 17.75%, as part of an effort to meet inflation goals.

Related to the country's external accounts, the trade balance increased again this year, reaching US\$33 billion in 2004, compared to US\$24 billion in 2003. The exports reached US\$96,5 billion, an increased of 32% relative to 2003, while the imports increased 30%, reaching US\$62,8 billion.

The public finances had a better performance than the estimated government forecast, so that the initial goal for the primary surplus, which was 4.25% of GDP, has reached 4.5% of GDP. Until November, the accumulated primary surplus, for 12 months, was 4.6% of GDP.

The net of sector public debt, considering GDP proportionally, had decreased to 51.1% in November 2004, in comparison to 57.2% in December 2003.

The improvement of the domestic economic fundamentals, associated with a scenario of large liquidity in international capital markets, contributed to the country risk decrease. The index EMBI+, calculated by JP Morgan Bank, fell to 382 basic points as of December 31, 2004, in comparison to 463 basic points as of December 31, 2003.

On this favorable context of external accounts and perception of risk, the Brazilian currency, Real, appreciated during the year. The exchange rate on December 31, 2004 was R\$2,65 per US\$ 1,00, compared to R\$2,89 to US\$1,00 on December 2003. The average rate in 2004 was R\$2,93 to US\$1,00, compared of R\$3,07 to US\$1,00 in 2003. This fact also elapsed from dollar devaluation against the other currencies in the world.

3. Business Performance

Basic Telephony

In 2004, the number of fixed lines in the State of São Paulo has met the demand and is being kept above the requirements of the regulatory agency. The telephone density of 32 lines per 100 inhabitants is one of the highest in Latin America.

The public telephone network density is 8,4 TUP (Public Use Telephone)/1000 inhabitants and the rate of 2.5% TUP s per installed access. São Paulo is the State with the highest penetration rate for this service in the country.

These numbers accomplish the density requirements of 7,5 public telephones per 1,000 inhabitants and the maximum user displacement of 300 meters to reach a public telephone in towns with a population above 300 inhabitants, as well the percentage of 2.5% of public telephone over the total installed network base, according to the target designated on the Article 7° of PGMU *Plano Geral de Metas de Universalização* (General Plan of Universalization Targets), approved by Order nº 2.592, of May 15, 1998, which began to be followed on December 31, 2003.

The Company ended the year of 2004 with 331.228 TUP s, exceeding PGMU s goal, which shows the Company concerns about social issues.

From 331,228 public telephones installed, 323,533 or 97.7%, use inductive cards. In addition, there are 793 pay phones using cellular technology and 2.402 that employ WLL technology.

From the towns identified as without STFC - *Serviço Telefonia Fixo Comutado* (fixed telephony switched service) 152 now have at least 1 public phone installed, available around the clock and capable of sending and receiving national and international long distance calls (LDN and LDI). All the towns have at least 3 TUPs per 1.000 inhabitants.

Telesp keeps promoting the installation of public phones specially devised for the hearing and speaking impaired. During 2004, 513 TDD (Telecommunications Device for the Deaf) special equipment units were installed, meaning a 40% increase compared to year 2001.

Currently, 9.343 public phones are dedicated to service the hearing and speaking impaired, or handicapped people, showing the concern of the Company equally serve all of its customers.

The Public Use Telephone presented also a higher levels of service quality, exceeding Anatel s quality targets for 2004, which was a maximum of 10 repair requests per 100 public phones, and at least 97% of the repairs executed within 8 hours.

Billing complaints per 1000 issued bills FCL 4

In 2004, Anatel's target was reduced from 3 to 2 complaints per 100 issued billing. For this reason, some projects were developed in order to improve internal process and services rendered, aiming to reduce the number of complaints and asserting the commitment to the clients. It is worth to mention that the average number of complaints about billing errors in 2004 was 1,81 per 1000 issued bills.

Repair Requests and Repair Request Attention Rate FCL2 and QCT3

The repair request rate was reduced by 4.89% compared to the average rate in 2003, as a consequence of improvement in critical systems, PET projects Clients Commitment, SLA s, Six Sigma projects, all of which contributed to the indicator decrease. There was a reduction of 0,12% on the repair request attention rate, despite the increase in the number of installations, which demanded the labor migration from repair to installation.

3.1 Commercial Strategy

The penetration of fixed telephones in the State of São Paulo had already achieved a high level in 2003. Aiming to grow in new segments and to minimize the potential cannibalization by mobile telephone, *Linha da Economia* (economic line) and *Linha da Super Economia* (super economic line) services were launched in 2004, with enormous commercial success. Through these projects, the Company had an important increase on subscribers and on the clients' average life. Besides plant growth, actions for profitability increase were also developed in 2004 through more offers of value added services and a campaign for fixed telephony traffic increase.

The Company made huge efforts for increasing broadband access (Speedy service) through promotions and customization in the product, aiming to make it more attractive for clients in various segments. With this, the Company will have more opportunities of launching new services based on this technology and increasing the profitability on this product category.

In addition, 2004 was the consolidation of long distance service (national and international) market with Super 15. With a marketing strategy focusing on communication, promotions and development of alternative plans, the Company could continue the market share growth estimated on these services, ending the year exceeding the planned participation.

In the corporate segment, the focus was the loyalty of the customer base, mainly due to the increase of competition within this segment. Actions for improvement of quality in all relevant processes for the clients were the priority for this segment and had a positive repercussion for the Company.

3.2 Interconnection and Network

In 2004, the Company signed 12 interconnection contracts, allowing the communication of Telesp clients with users from other networks and vice-versa. Those contracts reach operators on 3 regions in Brazil where the Company acts, according to the concession/authorization contracts, issued by Anatel (National Agency of Telecommunications). These contracts allow for increased traffic due to local and long distance (national and international) calls, increasing the options of services for the client and, consequently, resulting in a bigger competition for the Company.

The network was upgraded with new points of presence and interconnection with the principal telecommunication companies in the country, linking several towns from various Brazilian States.

At the same time, the delimitations of some local tariff areas was changed, defined by Anatel, which joined various adjacent towns, causing a significant impact on the network and interconnection programming. However, all the transition process was marked by the diligence on the maintenance and operation processes, resulting in the significant improvement of the services quality rendered by Company.

In 2004, the operators CTBC Cellular, Telemig Celular and Amazônia Celular migrated their SMC (mobile cellular service) services rendered to SMP (personal mobile service). Besides these operators, Brazil Telecom Celular (which belongs to Brasil Telecom de Telefonia Fixa group), got the authorization for SMP Personal Mobile Service. Therefore, in 2004, The Company started having four new operators, which offers long distance service (national and international) through CSP (Selection Operator Code).

This process demanded a negotiation and conclusion of new interconnection contracts amongst Companies, contemplating the new rules and specific regulations for the new service, as well as the negotiation of joint invoicing contracts (Co-billing), which permits that the long distance services rendered by the Company to the SMP clients users of Super 15 can be charged, where they are invoiced at the same access operator's account, that is the mobile operator.

The Company also provided service circuits for the companies authorized by Anatel for the SMC (multimedia communication services), contributing for their backbone composition, as well as for other STFC (Fixed Switched Telephone service) and SMP (Personal Mobile Service) companies.

In 2004, the process of treatment for inappropriate calls was intensified, aiming to reduce interconnection costs for the Company.

The telephone services market continues in development, with new local, regional and mobile services operators, in State of São Paulo, where the Company successfully capitalizes this growth, offering the network use or network facilities services to the new telephone operators services.

The end of 2004 was marked by Anatel public consultations, which aimed to change current interconnection regulations and remunerations for network use, expecting that some of those proposals become regulation in 2005, resulting in significant implementations and changes in the current Company's processes.

4. Financial and Economics Highlights

4.1 Operating Revenue, gross and net

In 2004, the Company had gross consolidated operating revenue of R\$18,425,7 million, an increase of 13.6% compared to the same period in 2003. The net operating revenue ended 2004 at approximately R\$13,308,6 million compared to R\$11,804,8 million in 2003. Such performance is due to the tariff adjustment occurred in 2003 and 2004, communication services increase, due to Speedy service growth, and for the increase of national and international long distance services. Another reason was the increase of Personal Mobile Service - SMP.

4.2 Operating income before net of financial expenses

The operating income before consolidated net financial expenses raised 33.6%, from R\$2,447,6 million in 2003 to R\$3,269,3 million in 2004. Contributed to this the increase in operational activities resulting from traffic increase and the tariff adjustments. It should be noted, however, an increase in expenses relative to Fixed-Mobile traffic and Personal Mobile Service - SMP, taxes, and outsourced services.

4.3 EBITDA

EBITDA (earnings before interest, tax, depreciation and amortization) was around R\$6,038 million, 13.9% higher than in 2003 (R\$5,302 million). The EBITDA margin was 45.4% in 2004 and 44.9% in 2003.

<u>In thousand of reais</u>	<u>2004</u>	<u>2003</u>
Operating income before financial expenses	3,269,3	2,447,6
Depreciation and amortization		
Service costs (Note 22)	2,495,6	2,616,5
Selling costs (Note 23)	7,5	7,1
General and administrative expenses (Note 24)	233,7	199,2

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Goodwill Amortization CETERP (Note 26)	32,0	32,0
EBITDA	6,038,1	5,302,4