

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

TABLE OF CONTENTS

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

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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)	
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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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.

Telecomunicações de São Paulo S.A. - Telesp

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.

Telecomunicações de São Paulo S.A. - Telesp

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:

<u>Year</u>	<u>Company</u>	<u>Consolidated</u>
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:

<u>Company/Consolidated</u>	
<u>Mar./2004</u>	<u>Dec./2003</u>

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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>

Telecomunicações de São Paulo S.A. - Telesp

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%

Telecomunicações de São Paulo S.A. - Telesp

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		

Telecomunicações de São Paulo S.A. - Telesp

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.

Telecomunicações de São Paulo S.A. - Telesp

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.

Telecomunicações de São Paulo S.A. - Telesp

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.

Telecomunicações de São Paulo S.A. - Telesp

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	&nbs				