

TELESP PARTICIPACOES SA
Form 6-K
April 29, 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 April, 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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|-------------|---|
| 1. | Press Release entitled <i>Telecomunicações de São Paulo S.A. Telesp: Financial Statements for the Years Ended December 31, 2003 and 2002 and Independent Auditors' Report (Convenience Translation into English from the Original Previously Issued in Portuguese)</i> dated on April 28, 2004. |

(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, 2003 and 2002 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 individual (Company) and consolidated balance sheets of Telecomunicações de São Paulo S.A. - Telesp and subsidiaries as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity (Company), 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 a 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, 2003 and 2002, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.
4. These financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, January 30, 2004

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Domingos do Prado
Engagement Partner

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

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP

BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

(In thousands of Brazilian reais - R\$)

| | <u>Company</u> | | <u>Consolidated</u> | |
|------------------------------------|-------------------|-------------------|---------------------|-------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 179,960 | 464,980 | 214,932 | 490,640 |
| Trade accounts receivable, net | 2,423,472 | 1,950,004 | 2,430,974 | 1,982,051 |
| Deferred and recoverable taxes | 1,103,085 | 991,348 | 1,130,367 | 1,003,093 |
| Inventories | 123,846 | 179,977 | 125,434 | 193,499 |
| Other recoverable amounts | 70,494 | 86,366 | 71,516 | 86,860 |
| Temporary gains on derivatives | | 890,520 | | 890,520 |
| Other | 152,765 | 59,746 | 147,942 | 57,157 |
| | <u>4,053,622</u> | <u>4,622,941</u> | <u>4,121,165</u> | <u>4,703,820</u> |
| NONCURRENT ASSETS | | | | |
| Deferred and recoverable taxes | 429,333 | 690,420 | 441,099 | 698,206 |
| Amounts for capitalization | | 47,713 | | 47,713 |
| Escrow deposits | 280,226 | 197,374 | 280,853 | 197,422 |
| Other | 112,688 | 82,413 | 197,528 | 80,187 |
| | <u>822,247</u> | <u>1,017,920</u> | <u>919,480</u> | <u>1,023,528</u> |
| PERMANENT ASSETS | | | | |
| Investments | 356,056 | 246,856 | 165,363 | 172,993 |
| Property, plant and equipment, net | 14,642,029 | 16,219,848 | 14,735,494 | 16,222,866 |
| Deferred charges | 163,838 | 237,725 | 181,317 | 237,725 |
| | <u>15,161,923</u> | <u>16,704,429</u> | <u>15,082,174</u> | <u>16,633,584</u> |
| TOTAL ASSETS | <u>20,037,792</u> | <u>22,345,290</u> | <u>20,122,819</u> | <u>22,360,932</u> |

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, 2003 AND 2002

(In thousands of Brazilian reais - R\$)

| | Company | | Consolidated | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Loans and financing | 1,966,248 | 2,471,429 | 1,982,062 | 2,471,429 |
| Accounts payable | 1,074,048 | 929,973 | 1,086,645 | 939,067 |
| Taxes payable | 709,262 | 556,503 | 712,565 | 558,527 |
| Profit participation payable | 1,276,663 | 777,932 | 1,276,663 | 777,932 |
| Reserve for contingencies | 49,390 | 37,502 | 49,408 | 37,502 |
| Payroll and related charges | 150,752 | 124,346 | 152,101 | 124,747 |
| Temporary losses on derivatives | 359,482 | | 359,482 | |
| Other | 335,407 | 257,372 | 339,054 | 258,086 |
| | <u>5,921,252</u> | <u>5,155,057</u> | <u>5,957,980</u> | <u>5,167,290</u> |
| LONG-TERM LIABILITIES | | | | |
| Loans and financing | 979,547 | 2,114,968 | 995,087 | 2,114,968 |
| Taxes payable | 31,346 | 36,838 | 31,373 | 36,865 |
| Reserve for contingencies | 676,371 | 367,087 | 676,474 | 367,159 |
| Other | 158,602 | 187,077 | 173,761 | 190,387 |
| | <u>1,845,866</u> | <u>2,705,970</u> | <u>1,876,695</u> | <u>2,709,379</u> |
| DEFERRED INCOME | | | 17,470 | |
| SHAREHOLDERS EQUITY | | | | |
| Capital | 5,978,074 | 5,978,074 | 5,978,074 | 5,978,074 |
| Capital reserves | 2,744,031 | 2,742,729 | 2,744,031 | 2,742,729 |
| Profit reserves | 550,498 | 471,098 | 550,498 | 471,098 |
| Retained earnings | 2,996,457 | 5,290,736 | 2,996,457 | 5,290,736 |
| | <u>12,269,060</u> | <u>14,482,637</u> | <u>12,269,060</u> | <u>14,482,637</u> |
| FUNDS FOR CAPITALIZATION | | | | |
| | 1,614 | 1,626 | 1,614 | 1,626 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | <u>20,037,792</u> | <u>22,345,290</u> | <u>20,122,819</u> | <u>22,360,932</u> |

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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

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

| | Company | | Consolidated | |
|--|--------------------|--------------------|---------------------|--------------------|
| | 2003 | 2002 | 2003 | 2002 |
| GROSS OPERATING REVENUE | | | | |
| Telecommunication services | 16,117,923 | 13,602,503 | 16,221,967 | 13,677,097 |
| REVENUE DEDUCTIONS | (4,409,359) | (3,581,107) | (4,417,208) | (3,588,983) |
| NET OPERATING REVENUE | 11,708,564 | 10,021,396 | 11,804,759 | 10,088,114 |
| Cost of services provided | (6,677,036) | (5,742,846) | (6,714,499) | (5,769,782) |
| GROSS PROFIT | 5,031,528 | 4,278,550 | 5,090,260 | 4,318,332 |
| OPERATING EXPENSES | | | | |
| Selling | (1,225,708) | (992,774) | (1,286,177) | (1,009,904) |
| General and administrative | (957,263) | (827,350) | (963,925) | (839,867) |
| Results from equity investments | (63,201) | 20,816 | (1,012) | 15,709 |
| Other, net | (324,988) | (369,893) | (391,514) | (372,874) |
| | (2,571,160) | (2,169,201) | (2,642,628) | (2,206,936) |
| INCOME FROM OPERATIONS BEFORE FINANCIAL EXPENSE | 2,460,368 | 2,109,349 | 2,447,632 | 2,111,396 |
| Financial expenses, net | (1,722,405) | (1,340,238) | (1,730,196) | (1,340,147) |
| INCOME FROM OPERATIONS | 737,963 | 769,111 | 717,436 | 771,249 |
| Nonoperating income (expenses), net | 49,857 | (33,037) | 50,025 | (32,999) |
| INCOME BEFORE TAXES | 787,820 | 736,074 | 767,461 | 738,250 |
| Income and social contribution taxes | (299,818) | (245,480) | (279,459) | (247,656) |
| Reversal of interest on capital | 1,100,000 | 585,278 | 1,100,000 | 585,278 |
| NET INCOME | 1,588,002 | 1,075,872 | 1,588,002 | 1,075,872 |
| NUMBER OF SHARES OUTSTANDING AT BALANCE SHEET DATE (IN THOUSANDS) | 493,592,279 | 493,592,279 | | |
| EARNINGS PER THOUSAND SHARES - R\$ | 3.22 | 2.18 | | |

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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 | Special reserve for dividends and interest on capital | Retained earnings | |
| BALANCES DECEMBER 31, 2001 | 5,640,184 | 2,739,949 | 3,039 | 188 | 417,303 | 346,248 | 5,552,412 | 14,699,323 |
| Capital increase - Annual Shareholders Meeting on April 3, 2002 | 337,890 | | | | | | (337,890) | |
| Reversal of income tax on interest on capital - tax exempt | | | | | | 921 | | 921 |
| Investment grants | | | 2,415 | | | | | 2,415 |
| Public offering of shares | | (2,862) | | | | | | (2,862) |
| Unclaimed dividends | | | | | | | 80,928 | 80,928 |
| Reversal of reserve for dividends | | | | | | (347,169) | | (347,169) |
| Net income | | | | | | | 1,075,872 | 1,075,872 |
| Proposed allocation of income: | | | | | | | | |
| Legal reserve | | | | | 53,795 | | (53,795) | |
| Dividends (interim and additional) | | | | | | | (441,513) | (441,513) |
| Interest on capital | | | | | | | (497,486) | (497,486) |
| Income tax on interest on capital | | | | | | | (87,792) | (87,792) |
| 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: | | | | | | | | |
| Dividends | | | | | | | (2,700,000) | (2,700,000) |
| Legal reserve | | | | | 79,400 | | (79,400) | |
| 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 |

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(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, 2003 AND 2002

(In thousands of Brazilian reais - R\$)

| | Company | | Consolidated | |
|---|-----------|-----------|--------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| SOURCES OF FUNDS | | | | |
| From operations: | | | | |
| Net income | 1,588,002 | 1,075,872 | 1,588,002 | 1,075,872 |
| Items not affecting working capital: | | | | |
| Depreciation and amortization of property, plant and equipment and deferred charges | 2,812,537 | 2,809,098 | 2,822,778 | 2,809,717 |
| Monetary and exchange variations on noncurrent and long-term items, net | (346,361) | 622,199 | (339,498) | 622,199 |
| Interest on loans and financing | 40,956 | 53,300 | 41,510 | 53,300 |
| (Gain) loss on equity investments | 63,201 | (20,816) | 1,012 | (15,709) |
| Gain on change in equity interest | (25,449) | | (25,449) | |
| Loss on sale of property, plant and equipment | 12,786 | 23,734 | 12,767 | 23,696 |
| Provision for contingencies | 302,012 | 35,511 | 302,037 | 35,580 |
| Tax credits | (90,110) | (24,343) | (94,089) | (23,118) |
| Amortization of goodwill | 32,043 | 32,043 | 32,043 | 32,043 |
| Provision for losses - receivables from Barramar | | | 28,025 | |
| Provision for losses - funds for capitalization | | 48,800 | | 48,800 |
| Provision for post-retirement benefit plans | (62,691) | 906 | (62,689) | 906 |
| Other | | (9,208) | | (9,208) |
| | 4,326,926 | 4,647,096 | 4,306,449 | 4,654,078 |
| Funds provided by operations | | | | |
| Increase in long-term liabilities: | | | | |
| Loans and financing | 1,100,707 | 515,710 | 1,114,116 | 515,710 |
| Related parties | 36,675 | | 39,246 | 10,366 |
| Other | | | 8,775 | |
| Other sources: | | | | |
| Investment grants | 1,301 | 2,415 | 1,301 | 2,415 |
| Transfer from noncurrent to current assets | 437,414 | 450,167 | 436,790 | 451,983 |
| Proceeds from sale of property, plant and equipment | 64,460 | 66,507 | 64,576 | 66,604 |
| Unclaimed dividends | 24,732 | 80,928 | 24,732 | 80,928 |
| Reversal of income tax on interest on capital - tax exempt | | 921 | | 921 |
| Other | | 833 | | 833 |
| | 5,992,215 | 5,764,577 | 5,995,985 | 5,783,838 |
| USES OF FUNDS | | | | |
| Increase in noncurrent assets: | | | | |
| Escrow deposits | 76,693 | 38,483 | 76,761 | 38,507 |

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| | | | | |
|--|--------------------|------------------|--------------------|------------------|
| Recoverable State VAT | 60,794 | 96,209 | 60,794 | 96,209 |
| Related parties | 36,558 | | 38,969 | |
| Other | 4,292 | 18,239 | 6,793 | 18,239 |
| Increase in permanent assets: | | | | |
| Investments | 90,000 | 52,724 | | 27,750 |
| Property, plant and equipment | 1,246,348 | 1,570,644 | 1,328,937 | 1,571,166 |
| Deferred charges | 23,772 | 97,396 | 26,806 | 97,396 |
| Other uses of funds: | | | | |
| Payment of dividends from reserves | | 347,169 | | 347,169 |
| Income tax on interest on capital, unclaimed in 2002 | 27,613 | | 27,613 | |
| Interest on capital and dividends | 3,800,000 | 1,026,791 | 3,800,000 | 1,026,791 |
| Consolidated working capital | | | 32,214 | |
| Transfer from long-term to current liabilities | 1,961,659 | 560,966 | 1,970,423 | 560,966 |
| Other | | 2,858 | 20 | 3,050 |
| | <u>7,327,729</u> | <u>3,811,479</u> | <u>7,369,330</u> | <u>3,787,243</u> |
| Total uses | 7,327,729 | 3,811,479 | 7,369,330 | 3,787,243 |
| INCREASE (DECREASE) IN WORKING CAPITAL | (1,335,514) | 1,953,098 | (1,373,345) | 1,996,595 |
| REPRESENTED BY | | | | |
| Current assets: | | | | |
| Beginning of year | 4,622,941 | 3,605,374 | 4,703,820 | 3,665,493 |
| End of year | 4,053,622 | 4,622,941 | 4,121,165 | 4,703,820 |
| | <u>(569,319)</u> | <u>1,017,567</u> | <u>(582,655)</u> | <u>1,038,327</u> |
| Current liabilities: | | | | |
| Beginning of year | 5,155,057 | 6,090,588 | 5,167,290 | 6,125,558 |
| End of year | 5,921,252 | 5,155,057 | 5,957,980 | 5,167,290 |
| | <u>766,195</u> | <u>(935,531)</u> | <u>790,690</u> | <u>(958,268)</u> |
| INCREASE (DECREASE) IN WORKING CAPITAL | (1,335,514) | 1,953,098 | (1,373,345) | 1,996,595 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(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 - TelespPar), hereafter denominated as the Company or Telesp , was formed pursuant to article 189 of Law No. 9,472/97 of the General Telecommunications Law based on Decree No. 2,546 on April 14, 1998, as part of the spin-off of Telebrás. The Company is controlled by Telefônica S.A., which as of December 31, 2003 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

On October 29, 1999, the wholly-owned subsidiary Assist Telefônica S.A. was formed 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.

Telecomunicações de São Paulo S.A. - Telesp

On December 22, 1999, the Company acquired from the municipality of Ribeirão Preto, in a public auction, the controlling shares of Centrais Telefônicas de Ribeirão Preto S.A. - Ceterp (Ceterp), and its subsidiary Ceterp Celular S.A. On October 4, 2000, in accordance with the rules established in the privatization process, the Company concluded the acquisition, through public offering, of the common and preferred shares from minority shareholders. After these acquisitions, the Company then held 96.97% of the preferred shares and 99.85% of the common shares of Ceterp. On November 27, 2000, in accordance with the rules applicable to the Brazilian telecommunications market, Ceterp sold its subsidiary Ceterp Celular S.A. Additionally, on November 30, 2000, Ceterp was merged into the Company.

On August 3, 2000, the wholly-owned subsidiary Telefônica Empresas S.A. was formed, with operations related to packet-switched data network service. On November 24, 2000, the Company made a capital increase in the subsidiary with cash and through property items related to the packet-switched data network service, including the transfer of the authorization to explore this service.

On January 30, 2001, Telefônica Data Brasil Holding S.A. was formed, resulting from a partial spin-off of the Company's net assets. These assets were represented by the investment in the wholly-owned subsidiary Telefônica Empresas S.A. and accounts receivable. The objective of the formation of Telefônica Data Brasil Holding S.A. is to segregate operating activities related to packet-switched data network services, due to the operating and administrative restructuring in 2000.

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 networks for fiber optics ducts. 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 THE FINANCIAL STATEMENTS

The individual (Company) and consolidated financial statements as of December 31, 2003 and 2002 were 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 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 started being proportionally consolidated in December 2003.

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

The financial statements as of December 31, 2002 were reclassified, when applicable, for comparative purposes.

Telecomunicações de São Paulo S.A. - Telesp

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

a) Cash and cash equivalents

Cash equivalents are considered to be all highly liquid temporary cash investments with original maturity dates of three months or less. These investments are meant to be held until maturity and are recorded at cost, plus income earned to the balance sheet date.

b) Trade accounts receivable, net

Telecommunication services accounts receivable are stated at the tariff amounts on the date of rendering the service. This caption also includes accounts receivable from services rendered but not billed at the balance sheet date. The allowance for doubtful accounts is based on amounts considered uncollectible.

c) Foreign currency transactions

Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the transaction. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Exchange differences are recognized in income, when incurred.

d) Inventories

Stated at average acquisition cost, net of allowance for reduction to realizable value, and segregated into network expansion and maintenance/sale inventories. Inventories for use in network expansion are classified as Construction in progress under Property, plant and equipment. Inventories for resale or maintenance are classified as Inventories in current assets.

e) Investments

Investments in subsidiaries are carried under the equity method. In the consolidated financial statements, all subsidiaries are consolidated. Other investments are recorded at cost, less a reserve for probable losses, when considered necessary.

f) Property, plant and equipment, net

Stated at acquisition and/or construction cost, less accumulated depreciation.

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Improvement and repair costs when increasing installed capacity or operating life are capitalized; otherwise, these costs are charged to expense in the statements of income, as incurred.

Depreciation is calculated under the straight-line method based on the estimated useful lives of the assets and as determined by the public telecommunication service regulations. The principal depreciation rates are shown in Note 12.

Telecomunicações de São Paulo S.A. - Telesp

g) Deferred charges

Comprised of: (i) preoperating expenses stated at cost, amortized over a period of five years, (ii) goodwill on acquisition of investment subsequently merged, amortized over a period of five years, and (iii) goodwill on acquisition of IP network, amortized over a period of ten years. See Note 13.

h) Accrued vacation

Amounts related to vacation due to employees are accrued in proportion to the period the employee is entitled to vacation.

i) Income and social contribution taxes

Corporate income and social contribution taxes are accounted for on the accrual basis. Deferred taxes attributable to temporary differences and tax loss carryforwards are recognized as assets on the assumption of future realization, within the parameters established by CVM Instruction No. 371/02.

j) Reserve for contingencies

Recognized for those cases in which an unfavorable outcome is considered probable at the balance sheet date and, on a conservative basis, for those related to lawsuits filed by the Company, even when the risks are considered possible but not probable and remote (Note 18).

k) Revenue recognition

Revenues related to services rendered are accounted for on the accrual basis. Revenue unbilled from the date of the last billing until the date of the balance sheet is recognized in the month the service is rendered. Revenue from the sale of cards for public phones is deferred and recognized in income as the cards are utilized.

l) Financial income (expense), net

Represents interest, monetary and exchange variations arising from financial investments, loans and financing obtained and granted, as well as the results of hedge operations.

Interest on capital credited/charged is also included in this caption, and, for financial statement purposes, the amounts to be paid are reversed to shareholders' equity, as a charge to retained earnings.

m) Post-retirement benefit plans

The Company sponsors an entity that provides pension and other post-retirement benefits to employees through a multisponsored plan. Actuarial liabilities were calculated using the projected unit credit method, as provided by CVM Resolution No. 371/00. Other considerations related to these plans are described in Note 30.

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n) Derivatives

Derivatives: on exchange options, the premium paid is amortized over the term of the agreement and the temporary result is recorded in the financial statements. Gains or losses on derivatives are recorded monthly in income. The balances of derivative operations (exchange swaps and exchange options) are described in Notes 25 and 33.

o) Earnings per thousand shares

Calculated based on the number of shares outstanding at the balance sheet date.

4. CASH AND CASH EQUIVALENTS

| | Company | | Consolidated | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Cash and banks | 30,454 | 140,871 | 41,524 | 147,642 |
| Temporary cash investments | 149,506 | 324,109 | 173,408 | 342,998 |
| Total | 179,960 | 464,980 | 214,932 | 490,640 |

5. TRADE ACCOUNTS RECEIVABLE, NET

| | Company | | Consolidated | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Unbilled | 899,952 | 734,578 | 897,304 | 734,578 |
| Billed | 2,058,208 | 1,605,068 | 2,108,355 | 1,648,967 |
| Gross accounts receivable | 2,958,160 | 2,339,646 | 3,005,659 | 2,383,545 |
| Allowance for doubtful accounts | (534,688) | (389,642) | (574,685) | (401,494) |
| Total | 2,423,472 | 1,950,004 | 2,430,974 | 1,982,051 |
| Current | 1,750,263 | 1,396,466 | 1,756,359 | 1,423,460 |
| Past due - 1 to 30 days | 419,427 | 353,390 | 420,359 | 355,584 |
| Past due - 31 to 60 days | 142,750 | 106,640 | 144,137 | 107,255 |
| Past due - 61 to 90 days | 67,233 | 39,582 | 67,829 | 39,795 |
| Past due - 91 to 120 days | 51,957 | 24,685 | 52,493 | 24,880 |

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| | | | | |
|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Past due - more than 120 days | <u>526,530</u> | <u>418,883</u> | <u>564,482</u> | <u>432,571</u> |
| Total | <u>2,958,160</u> | <u>2,339,646</u> | <u>3,005,659</u> | <u>2,383,545</u> |

The Company has receivable and payable balances under negotiation with Empresa Brasileira de Telecomunicações S.A. - Embratel (long-distance operator). 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 December 31, 2003.

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6. DEFERRED AND RECOVERABLE TAXES

| | Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Income tax withheld at source | 105,836 | 87,876 | 106,906 | 88,207 |
| Prepaid income tax | 144,840 | 84,076 | 148,496 | 87,068 |
| Prepaid social contribution tax | 84,915 | 38,770 | 85,401 | 39,532 |
| Deferred taxes | 896,927 | 1,126,901 | 929,777 | 1,139,244 |
| Tax loss carryforward credits | 106,755 | 140,375 | 115,379 | 146,081 |
| Social contribution tax loss credits | 38,360 | 50,396 | 41,465 | 52,451 |
| Tax credit from corporate restructuring | 219,680 | 483,297 | 219,680 | 483,297 |
| Reserve for contingencies | 230,407 | 121,208 | 230,449 | 121,233 |
| Post-retirement benefit plans | 28,014 | 49,329 | 28,015 | 49,329 |
| Income tax on other temporary differences | 200,987 | 208,233 | 216,485 | 211,638 |
| Social contribution tax on other temporary differences | 72,724 | 74,063 | 78,304 | 75,215 |
| State VAT (*) | 299,729 | 344,145 | 300,323 | 346,205 |
| Other | 171 | | 563 | 1,043 |
| Total | 1,532,418 | 1,681,768 | 1,571,466 | 1,701,299 |
| Current | 1,103,085 | 991,348 | 1,130,367 | 1,003,093 |
| Noncurrent | 429,333 | 690,420 | 441,099 | 698,206 |

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

Deferred income and social contribution tax credits

The Company has assets of R\$145,115, representing income and social contribution tax loss carryforwards of R\$427,020 and R\$426,222 (remaining balances from December 31, 1999), respectively. 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. Accordingly, to utilize the existing income and social contribution tax loss carryforwards, it will be necessary to generate taxable income of R\$1,423,400 and R\$1,420,741 respectively.

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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 December 31, 2003, as follows:

| <u>Year</u> | <u>Company</u> | <u>Consolidated</u> |
|--------------|----------------|---------------------|
| 2004 | 460,298 | 465,806 |
| 2005 | 196,558 | 202,678 |
| 2006 | 133,298 | 139,999 |
| 2007 | 106,773 | 121,294 |
| Total | 896,927 | 929,777 |

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>2003</u> | <u>2002</u> |
| Goodwill | 665,698 | 1,464,536 |
| Reserve | (446,018) | (981,239) |
| Net | 219,680 | 483,297 |
| Goodwill amortization | (798,838) | (798,838) |
| Reversal of reserve | 535,221 | 527,233 |
| Tax credit | 271,605 | 271,605 |
| Effect on income | 7,988 | |

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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. Due to the change introduced by Law No. 10,637/02, effective in 2003, 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 2003, 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\$219,680 which, in essence, represents the merged tax credit, was recorded in the balance sheet in current assets in 2003 (R\$271,605 in current assets and R\$211,692 in noncurrent assets as of December 31, 2002), under 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.

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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 December 31, 2003, 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 | |
|-----------------------|---------------|---------------|---------------|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| Advances to employees | 2,468 | 4,093 | 2,554 | 4,102 |
| Advances to suppliers | 40,618 | 56,181 | 41,058 | 56,621 |
| Other advances | 25,337 | 24,879 | 25,337 | 24,879 |
| Other | 2,071 | 1,213 | 2,567 | 1,258 |
| Total current | 70,494 | 86,366 | 71,516 | 86,860 |

8. INVENTORIES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Consumable supplies | 132,513 | 169,211 | 132,580 | 169,332 |
| Resale items | 156,610 | 243,313 | 168,823 | 256,714 |
| Scrap | 442 | 778 | 442 | 778 |
| Public telephone prepaid cards | 6,959 | 1,862 | 6,959 | 1,862 |
| Allowance for reduction to realizable value | (172,678) | (235,187) | (183,370) | (235,187) |
| Total current | 123,846 | 179,977 | 125,434 | 193,499 |

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9. OTHER ASSETS

| | Company | | Consolidated | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Prepaid expenses | 57,044 | 45,665 | 53,351 | 45,679 |
| Receivables from Barramar S.A. (*) | | | 88,588 | |
| Receivables from affiliates | 152,403 | 52,700 | 150,135 | 50,459 |
| Repass of loans in foreign currency | 4,641 | 5,977 | 4,641 | 5,977 |
| Net tax incentives after allowance | 411 | 411 | 411 | 411 |
| Amounts linked to National Treasury | 7,671 | 6,683 | 7,671 | 6,683 |
| Receivables from sale of properties | 22,060 | | 22,060 | |
| Other | 21,223 | 30,723 | 18,613 | 28,135 |
| Total | 265,453 | 142,159 | 345,470 | 137,344 |
| Current | 152,765 | 59,746 | 147,942 | 57,157 |
| Noncurrent | 112,688 | 82,413 | 197,528 | 80,187 |

(*) Refer to receivables from Barramar S.A., in the amount of R\$137,388, 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 | |
|-------------------------|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Civil litigation | 31,812 | 33,651 | 31,837 | 33,676 |
| Tax litigation | 201,797 | 134,150 | 202,349 | 134,150 |
| Labor claims | 46,617 | 29,573 | 46,667 | 29,596 |
| Total noncurrent | 280,226 | 197,374 | 280,853 | 197,422 |

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11. INVESTMENTS

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|----------------|---------------------|----------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| In subsidiaries/affiliates carried under the equity method | 262,270 | 153,070 | | 6,638 |
| Aliança Atlântica Holding B.V. | 74,289 | 74,024 | | |
| Assist Telefônica S.A. | 122,865 | 72,408 | | |
| Companhia Aix de Participações | 131,385 | 6,638 | | 6,638 |
| Negative goodwill on acquisition of shares - Companhia Aix de Participações | (17,469) | | | |
| Allowance for losses - Companhia Aix de Participações (*) | (48,800) | | | |
| Investments carried at cost | 93,786 | 93,786 | 165,363 | 166,355 |
| Portugal Telecom | 75,362 | 75,362 | 146,939 | 147,931 |
| Other companies | 29,149 | 29,627 | 29,149 | 29,627 |
| 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) | (29,727) | (29,249) | (29,727) |
| Total | 356,056 | 246,856 | 165,363 | 172,993 |

(*) 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 discount is based on the expectation of future profitability, amortized over five years.

The principal financial information on the subsidiaries/affiliates, as of December 31, 2003 and 2002, is as follows:

| | <u>2003</u> | | | <u>2002</u> | | |
|-----------------------------|--------------------------|-------------------------------------|----------------------|--------------------------|--------------------------|----------------------|
| | <u>Aliança Atlântica</u> | <u>Assist Telefônica (Note 1.b)</u> | <u>Companhia Aix</u> | <u>Aliança Atlântica</u> | <u>Assist Telefônica</u> | <u>Companhia Aix</u> |
| Paid-up capital | 146,023 | 184,000 | 460,929 | 148,048 | 94,000 | 69,227 |
| Subscribed capital | 146,023 | 184,000 | 460,929 | 148,048 | 94,000 | 74,000 |
| Unpaid capital | | | | | | (4,773) |
| Retained earnings (deficit) | 2,556 | (61,135) | (198,159) | (21,592) | | (53,257) |

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| | | | | | | |
|-------------------------------|---------|---------|---------|---------|--------|---------|
| Shareholders equity | 148,579 | 122,865 | 262,770 | 148,048 | 72,408 | 15,970 |
| Shares (million): | | | | | | |
| Number of subscribed shares | 88 | 212,421 | 298,562 | 88 | 94,000 | 74,000 |
| Number of unpaid shares | | | | | | (4,773) |
| Number of paid-up shares | 88 | 212,421 | 298,562 | 88 | 94,000 | 69,227 |
| Number of common shares owned | 44 | 212,421 | 149,281 | 44 | 94,000 | 23,680 |
| Ownership | 50% | 100% | 50% | 50% | 100% | 32% |

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

| | <u>2003</u> | <u>2002</u> |
|--|-----------------|---------------|
| Aliança Atlântica (exchange variation) | 266 | 33,587 |
| Assist Telefônica | (39,543) | 4,271 |
| Companhia Aix de Participações | (23,924) | (17,042) |
| Total | (63,201) | 20,816 |

Additional information

Aliança Atlântica Holding B.V.

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

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

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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 - % | 2003 | | | 2002 | | |
| | | Cost | Depreciation | Net book value | Cost | Depreciation | Net book value |
| Property, plant and equipment in service | | 37,002,934 | (22,656,569) | 14,346,365 | 35,686,423 | (19,997,236) | 15,689,187 |
| Switching and transmission equipment | 12.50 | 15,298,905 | (10,396,203) | 4,902,702 | 14,777,948 | (9,056,767) | 5,721,181 |
| Transmission equipment, aerial, underground and building cables, teleprinters, PABX, energy equipment and furniture | 10.00 | 11,129,437 | (7,175,980) | 3,953,457 | 10,929,261 | (6,507,921) | 4,421,340 |
| Transmission equipment - modems | 20.00 | 493,952 | (324,983) | 168,969 | 446,474 | (242,936) | 203,538 |
| Underground and marine cables, poles and towers | 5.00 to 6.67 | 387,234 | (183,997) | 203,237 | 378,135 | (168,482) | 209,653 |
| Subscriber, public and booth equipment | 12.50 | 1,654,744 | (809,103) | 845,641 | 1,510,583 | (637,685) | 872,898 |
| IT equipment | 20.00 | 439,871 | (343,094) | 96,777 | 431,934 | (300,928) | 131,006 |
| Buildings and underground cables | 4.00 | 6,232,290 | (2,960,291) | 3,271,999 | 6,197,243 | (2,766,218) | 3,431,025 |
| Vehicles | 20.00 | 55,033 | (44,996) | 10,037 | 60,359 | (53,351) | 7,008 |
| Land | | 257,170 | | 257,170 | 243,918 | | 243,918 |
| Other | 10.00 to 20.00 | 1,054,298 | (417,922) | 636,376 | 710,568 | (262,948) | 447,620 |
| Construction in progress | | 295,664 | | 295,664 | 530,661 | | 530,661 |
| Total | | 37,298,598 | (22,656,569) | 14,642,029 | 36,217,084 | (19,997,236) | 16,219,848 |
| Average depreciation rates - % | | 10.52 | | | 10.57 | | |

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| | | 2003 | | 2002 | | | |
|---|-------------------------------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Annual depreciation rates - % | Cost | Depreciation | Net book value | Cost | Depreciation | Net book value |
| Assets fully depreciated | | 10,455,765 | | | 8,544,004 | | |
| Consolidated | | | | | | | |
| Property, plant and equipment in service | | 37,089,874 | (22,667,697) | 14,422,177 | 35,690,635 | (19,998,430) | 15,692,205 |
| Switching and transmission equipment | 12.50 | 15,298,905 | (10,396,203) | 4,902,702 | 14,777,948 | (9,056,767) | 5,721,181 |
| Transmission equipment, aerial, underground and building cables, teleprinters, PABX, energy equipment and furniture | 10.00 | 11,131,612 | (7,176,540) | 3,955,072 | 10,931,127 | (6,508,272) | 4,422,855 |
| Transmission equipment - modems | 20.00 | 493,952 | (324,983) | 168,969 | 446,474 | (242,936) | 203,538 |
| Underground and marine cables, poles and towers | 5.00 to 6.67 | 387,234 | (183,997) | 203,237 | 378,135 | (168,482) | 209,653 |
| Subscriber, public and booth equipment | 12.50 | 1,654,750 | (809,105) | 845,645 | 1,510,588 | (637,686) | 872,902 |
| IT equipment | 20.00 | 440,971 | (343,739) | 97,232 | 432,942 | (301,337) | 131,605 |
| Buildings and underground cables | 4.00 | 6,232,341 | (2,960,301) | 3,272,040 | 6,197,243 | (2,766,218) | 3,431,025 |
| Vehicles | 20.00 | 55,286 | (45,033) | 10,253 | 60,374 | (53,353) | 7,021 |
| Land | | 257,170 | | 257,170 | 243,918 | | 243,918 |
| Other | 10.00 to 20.00 | 1,137,653 | (427,796) | 709,857 | 711,886 | (263,379) | 448,507 |
| Construction in progress | | 313,317 | | 313,317 | 530,661 | | 530,661 |
| Total | | 37,403,191 | (22,667,697) | 14,735,494 | 36,221,296 | (19,998,430) | 16,222,866 |
| Average depreciation rates - % | | 10.52 | | | 10.57 | | |
| | | 10,455,765 | | | 8,544,004 | | |

Assets fully
depreciated

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Concession assets

The STFC Concession Agreement in effect ensures the right to its renewal for an additional 20 years, that is, through December 31, 2025. The current STFC Concession Agreement expires on December 31, 2005; the concession is free of charge. The new STFC Concession Agreement will be valid from January 1, 2006 to December 31, 2025, on a chargeable basis, as described below.

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).

FUNTEL (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.

It is expected that, effective in 2006, the obligations will require the payment of 2% of prior-year revenue, net of taxes and social contributions, as concession charges. The first installment will be due on April 30, 2007 and subsequently every 24 months.

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 December 31, 2003, the net book value of reversible assets is estimated at R\$11,850,521 (R\$13,346,578 in 2002), 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 December 31, 2003 and 2002 are comprised as follows:

| | Company | | Consolidated | |
|---------------------------------------|-----------|----------|--------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| Preoperating expenses | 37,192 | 73,143 | 44,596 | 73,143 |
| Cost | 55,788 | 81,735 | 65,240 | 81,735 |
| Accumulated amortization | (18,596) | (8,592) | (20,644) | (8,592) |
| Merged goodwill - Ceterp S.A. | 61,341 | 93,384 | 61,341 | 93,384 |
| Cost | 187,951 | 187,951 | 187,951 | 187,951 |
| Accumulated amortization | (126,610) | (94,567) | (126,610) | (94,567) |
| Goodwill on acquisition of IP network | 65,305 | 71,198 | 65,305 | 71,198 |
| Cost | 72,561 | 71,198 | 72,561 | 71,198 |
| Accumulated amortization | (7,256) | | (7,256) | |
| Other | | | 10,075 | |
| Cost | | | 12,059 | |
| Accumulated amortization | | | (1,984) | |
| | 163,838 | 237,725 | 181,317 | 237,725 |

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

Composition

| | Currency | Annual interest rate - % | Maturity | Consolidated 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 | Variable term | | 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.

CDI - Interbank deposit rates

| | Currency | Annual interest rate - % | Maturity | Company/Consolidated 2002 | | |
|---------------------------------|----------|--------------------------|--------------|---------------------------|------------------|------------------|
| | | | | Current | Long term | Total |
| Mediocrédito | US\$ | 1.75 | 2014 | 13,318 | 111,586 | 124,904 |
| CIDA | CAN\$ | 3.00 | 2005 | 756 | 819 | 1,575 |
| Comtel | US\$ | 10.75 | 2004 | 34,147 | 1,095,323 | 1,129,470 |
| Other loans in foreign currency | | | Through 2005 | 2,006,473 | 907,240 | 2,913,713 |
| Local currency | | CDI | 2003 | 416,735 | | 416,735 |
| Total | | | | 2,471,429 | 2,114,968 | 4,586,397 |

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

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| | <u>Currency</u> | <u>Annual interest rate - %</u> | <u>Principal</u> | <u>Interest</u> | <u>Company/ Consolidated 2003</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 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 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> |

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| | Currency | Annual interest | Principal | Interest | Company/ Consolidated |
|----------------------|----------|----------------------|------------------|----------------|--------------------------|
| | | rate - % | | | 2002 |
| Resolution No. 2,770 | US\$ | 1.00 to 32.55 | 1,476,284 | 100,966 | 1,577,250 |
| Resolution No. 2,770 | Yen | 1.05 | 360,597 | 3,299 | 363,896 |
| Resolution No. 4,131 | US\$ | 7.34 to 8.50 | 205,462 | 11,407 | 216,869 |
| Resolution No. 4,131 | US\$ | Libor + 1.00 to 3.13 | 146,632 | 2,355 | 148,987 |
| Import financing | US\$ | 4.00 to 9.47 | 79,922 | 6,603 | 86,525 |
| Import financing | US\$ | Libor + 0.25 to 1.75 | 80,421 | 3,101 | 83,522 |
| Debt assumption | US\$ | 4.55 to 27.50 | 389,828 | 46,836 | 436,664 |
| | | | <u>2,739,146</u> | <u>174,567</u> | <u>2,913,713</u> |

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

Long-term debt maturities

| Year | 2003 |
|---------------|----------------|
| 2005 | 369,798 |
| 2006 | 142,661 |
| 2007 | 142,661 |
| Starting 2008 | 339,967 |
| Total | <u>995,087</u> |

15. TAXES PAYABLE

| | Company | | Consolidated | |
|---------------------------------|---------|---------|--------------|---------|
| | 2003 | 2002 | 2003 | 2002 |
| Taxes on income: | | | | |
| Income tax payable | 62,680 | 33,226 | 62,680 | 33,812 |
| Social contribution tax payable | 23,409 | 12,387 | 23,409 | 12,606 |
| Deferred taxes payable: | | | | |
| Income tax | 24,799 | 28,871 | 24,820 | 28,892 |
| Social contribution tax | 8,927 | 10,392 | 8,933 | 10,399 |
| Indirect taxes: | | | | |
| Value-added taxes (State taxes) | 551,870 | 448,208 | 552,418 | 448,478 |
| Taxes on revenue | 53,935 | 47,834 | 55,907 | 48,193 |

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| | | | | |
|-----------|-------------------|-------------------|-------------------|-------------------|
| Other | 14,988 | 12,423 | 15,771 | 13,012 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | 740,608 | 593,341 | 743,938 | 595,392 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Current | 709,262 | 556,503 | 712,565 | 558,527 |
| Long term | 31,346 | 36,838 | 31,373 | 36,865 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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16. PAYROLL AND RELATED CHARGES

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Wages, salaries and other compensation | 17,738 | 18,397 | 17,929 | 18,446 |
| Payroll charges | 54,813 | 60,660 | 55,495 | 60,846 |
| Accrued benefits | 4,581 | 4,588 | 4,606 | 4,593 |
| Employee profit sharing | 73,620 | 40,701 | 74,071 | 40,862 |
| Total | 150,752 | 124,346 | 152,101 | 124,747 |

17. PROFIT PARTICIPATION PAYABLE

| | Company/Consolidated | |
|----------------------------------|----------------------|----------------|
| | 2003 | 2002 |
| Interest on capital | 1,087,709 | 649,875 |
| Telefónica Internacional S.A. | 624,534 | 327,402 |
| SP Telecomunicações Holding S.A. | 194,347 | 107,866 |
| Minority shareholders | 268,828 | 214,607 |
| Dividends | 188,954 | 128,057 |
| Telefónica Internacional S.A. | | 76,704 |
| SP Telecomunicações Holding S.A. | | 13,809 |
| Minority shareholders | 188,954 | 37,544 |
| Total | 1,276,663 | 777,932 |

18. 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 but not probable and remote, as follows:

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

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| Nature | 2003 | 2002 | 2003 | 2002 |
|-----------|---------|---------|---------|---------|
| Labor | 179,095 | 116,568 | 179,208 | 116,640 |
| Tax | 484,517 | 241,607 | 484,517 | 241,607 |
| Civil | 62,149 | 46,414 | 62,157 | 46,414 |
| | | | | |
| Total | 725,761 | 404,589 | 725,882 | 404,661 |
| | | | | |
| Current | 49,390 | 37,502 | 49,408 | 37,502 |
| Long term | 676,371 | 367,087 | 676,474 | 367,159 |
| | | | | |

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18.1. Labor contingencies

The Company has various labor contingencies, with R\$179,095 (R\$179,208 - consolidated) reserved to cover probable losses. The amounts involved and respective degree of risk are as follows:

| Risk | Amount | | |
|--------------|------------------|--------------|------------------|
| | Telesp | Assist | Total |
| Remote | 1,453,756 | 2,904 | 1,456,660 |
| Possible | 76,444 | | 76,444 |
| Probable | 179,095 | 113 | 179,208 |
| Total | 1,709,295 | 3,017 | 1,712,312 |

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.

18.2. Tax contingencies

Regarding tax issues, the following aspects should be considered:

- (i) The possible existence of differences as regards the interpretation of the application of taxes to certain types of revenue.
- (ii) Recognition of the principal taxes, pending future approval by the tax authorities, is subject to the full extinguishment of the tax obligation after the five-year expiration period from the date of such recognition.
- (iii) The lack of agreement in the interpretation of tax legislation may lead to litigation which, if concluded by the judiciary in favor of the taxpayer, may result in amounts receivable for the Company.

| Risk | Amount | | |
|----------|-----------|--------|-----------|
| | Telesp | Assist | Total |
| Remote | 1,119,556 | 1,924 | 1,121,480 |
| Possible | 1,997,522 | 10,866 | 2,008,388 |
| Probable | 266,562 | | 266,562 |

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| | | | |
|-------|-----------|--------|-----------|
| Total | 3,383,640 | 12,790 | 3,396,430 |
|-------|-----------|--------|-----------|

Management recognized a reserve of R\$484,517 to cover eventual losses on contingencies classified by management as probable risk, as well as for certain cases related to lawsuits filed by the Company, even when the risks are classified as possible (items k and n).

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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\$688,195, 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\$349,896. Due to a partially unfavorable decision, management classified R\$124,967 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\$124,079, 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 of the contingency as a probable risk, and recognized a reserve in the same amount to cover possible losses.
- 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\$51,861 and R\$1,286, 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\$161,073, for which the risk is considered possible but not probable. This process is at the second administrative level.

Claims by the Finance Secretary of the State of São Paulo, totaling R\$643,449, 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\$146,399 for the period from November to December 1996 and from January 1997 to March 1998, considered as a possible risk, and to R\$156,494 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\$248,394, considered as a remote risk. The claim is at the first administrative level.

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- g) Assessment, on July 2, 2001, demanding the difference in ICMS paid without late-payment penalty, amounting to R\$5,218, 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\$26,816, 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\$9,728, for which the risk is considered possible. The claim is at the second administrative level.
- j) Infraction notice related to the non-reversal of ICMS credits in proportion to sales and exempt and non-taxed 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.

Litigation at the Federal and Municipal levels in the amount of R\$338,743:

- 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\$209,605, 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\$20,630, considered as a possible loss. The claim is in the higher court.
- 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\$68,911. The claim is in the higher court.

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- 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\$8,350. 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\$420, 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\$8,948. The Company did not reserve for this contingency, since the lawyers responsible for this case believe that the risk is possible but not probable. The claim is at the first administrative level.
- q) There are other contingencies that have also been accrued, for which the involved amount is R\$21,879; the risk is considered probable by management.

18.3. Civil contingencies

| Risk | Amount | | |
|--------------|------------------|--------------|------------------|
| | Telesp | Assist | Total |
| Remote | 900,251 | 1,532 | 901,783 |
| Possible | 903,435 | 10 | 903,445 |
| Probable | 62,149 | 8 | 62,157 |
| Total | 1,865,835 | 1,550 | 1,867,385 |

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\$534,537. The risks involved are considered possible by legal counsel. The claim is in the higher court.

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19. OTHER LIABILITIES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Accrual for post-retirement benefit plans (Note 30) | 82,394 | 145,084 | 82,396 | 145,084 |
| Payables to affiliates | 77,148 | 56,810 | 77,500 | 60,120 |
| Consignments on behalf of third parties | 212,247 | 144,049 | 212,614 | 144,577 |
| Collateral and deposits | 6,521 | 3,780 | 6,521 | 3,780 |
| Amounts collected from users | 104,770 | 70,285 | 104,770 | 70,285 |
| Retentions | 98,904 | 67,373 | 99,272 | 67,424 |
| Other consignments | 2,052 | 2,611 | 2,051 | 3,088 |
| Advances from customers | 46,575 | 27,213 | 46,575 | 27,213 |
| Amounts to be refunded to subscribers | 53,746 | 47,051 | 57,254 | 47,237 |
| Other debtors | 21,899 | 24,242 | 33,926 | 24,242 |
| Advance revenues | | | 2,550 | |
| Total | 494,009 | 444,449 | 512,815 | 448,473 |
| Current | 335,407 | 257,372 | 339,054 | 258,086 |
| Long term | 158,602 | 187,077 | 173,761 | 190,387 |

20. SHAREHOLDERS EQUITY

a) Capital

Capital as of December 31, 2003 and 2002 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 |
| Total outstanding shares | 493,592,279,341 |
| Book value per thousand shares outstanding - R\$ | 24.86 |

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, 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.

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Pursuant to the minutes of the 15th Extraordinary Shareholders Meeting on August 14, 2003, the shareholders approved the cancellation of 803,447,299 treasury shares, of which 721,629,917 were registered common shares and 81,817,382 registered preferred shares, all without par value. This cancellation did not result in a reduction in the Company's capital, since repayment was made using the capital reserve.

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b) Capital reserves

Premium on subscription of shares

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

Donations and investment grants

Represents amounts received as donations concerning property additions resulting from plant expansion for telecommunication services.

Tax incentives

Represented by tax incentive investments.

c) Profit reserves

Legal reserve

This reserve is mandatorily established by the Company at 5% of annual net income, up to 20% of capital. This reserve may only be used to increase capital or to offset an accumulated deficit.

d) Retained earnings

Net income was fully allocated to profit reserves and dividends. As a result of this allocation, part of retained earnings from prior years, in the amount of R\$2,291,398, has been used.

Under Law No. 10,303/01, net income for the year shall be fully allocated under the situations prescribed in Law No. 6,404/76. The balance of retained earnings as of December 31, 2003 was determined prior to the amendment to the referred law.

e) Dividends

The Company's bylaws provide for the distribution of dividends, in each fiscal year ended December 31, of at least 25% of adjusted net income, provided that there are available amounts.

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Dividends are calculated pursuant to the Company's bylaws and in conformity with corporate law. For 2003 and 2002, dividends and interest on capital were calculated, as follows:

| | 2003 | 2002 |
|---|-----------|-----------|
| Statutory minimum dividends based on adjusted net income: | | |
| Net income | 1,588,002 | 1,075,872 |
| Allocation to legal reserve | (79,400) | (53,795) |
| Adjusted net income | 1,508,602 | 1,022,077 |
| Statutory minimum dividends of 25% | 377,151 | 255,519 |
| Interest on capital, net of income tax on minimum dividends | 935,000 | 497,486 |
| Additional dividends proposed | 2,700,000 | 441,513 |
| Total dividends paid and declared | 3,635,000 | 938,999 |

| Amounts per thousand shares - R\$ | 2003 | | 2002 (*) | |
|--|-----------|-----------|-----------|-----------|
| | Gross | Net | Gross | Net |
| Interest on capital - common shares | 2,089,588 | 1,776,150 | 1,185,751 | 1,007,889 |
| Interest on capital - preferred shares | 2,298,547 | 1,953,765 | 1,185,751 | 1,007,889 |

(*) In 2002, interest on capital of preferred shares 10% higher than that attributable to common shares was credited as supplementary dividends, pursuant to article 7 of the Company's bylaws.

| Amounts per thousand shares - R\$ | 2003 | |
|--|-----------|-----------|
| | Common | Preferred |
| Interest on capital - net of income tax | 1,776,150 | 1,953,765 |
| Interim dividends declared in April 2003 | 1,703,964 | 1,874,360 |
| Interim dividends declared in October 2003 | 3,425,025 | 3,767,527 |
| | 6,905,139 | 7,595,652 |

| Amounts per thousand shares - R\$ | 2002 | |
|-----------------------------------|--------|-----------|
| | Common | Preferred |
| | | |

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| | | |
|--|-----------------|-----------------|
| Interest on capital - net of income tax | 1,007889 | 1,007889 |
| Interim dividends declared in October 2002 | 0,686700 | 0,686700 |
| Additional dividends | 0,089062 | 0,089062 |
| | <u>1,783651</u> | <u>1,783651</u> |
| Additional dividends - 10% higher than common shares - article 7 of the bylaws | | 0,178365 |
| | <u>1,783651</u> | <u>1,962016</u> |

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| | 2003 | 2002 |
|---|-------------|-------------|
| Number of outstanding shares - in thousands | 493,592,279 | 493,592,279 |
| Common shares | 165,320,206 | 165,320,206 |
| Preferred shares | 328,272,073 | 328,272,073 |

f) Interest on capital

As proposed by management, in December 2003 and 2002, interest on capital fully attributed to mandatory minimum dividends was credited, pursuant to article 9 of Law No. 9249/95, net of withholding income tax.

This was determined as follows:

| | 2003 | 2002 |
|---|-----------|----------|
| Interest on capital | 1,100,000 | 585,278 |
| Common shares | 345,451 | 196,029 |
| Preferred shares | 754,549 | 389,249 |
| Withholding tax at source | (165,000) | (87,792) |
| Interest on capital included in dividends | 935,000 | 497,486 |

Tax exempt shareholders will receive interest on capital in full, not subject to withholding tax.

Dividends and interest on capital credited in 2003 and 2002 are higher than the mandatory minimum dividend established by the Company's bylaws and article 202 of Law No. 6,404/76. Additional dividends of 10% more than common shares are credited to preferred shareholders, as prescribed by article 17 of Law No. 6,404/76, amended by Law No. 10,303/01.

g) Payment of dividends and interest on capital

On April 4, 2003, the Board of Directors approved the distribution of interim dividends in the amount of R\$897,000 based on net income as of December 31, 2002, to shareholders included in the records on that date. Additionally, on March 27, 2003, the Annual Shareholders Meeting approved the payment of interest on capital and supplementary dividends related to 2002. These amounts started being paid on April 23, 2003, as follows: payment of interest on capital in the amount of R\$585,278 (R\$497,486, net of income tax) to shareholders at record as of December 23, 2002, and payment of supplementary dividends related to 2002 in the amount of R\$102,513 to shareholders at record as of March 27, 2003.

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On October 2, 2003, the Board of Directors approved the payment of interim dividends based on the financial statements as of June 30, 2003 to shareholders at record as of October 2, 2003, in the amount of R\$1,803,000 which started being paid on October 20, 2003.

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On December 11, 2003, the Board of Directors approved the payment of interest on capital related to 2003, in the amount of R\$935,000, to shareholders at record as of December 29, 2003. This amount will be paid by the end of 2004.

h) Unclaimed dividends

Dividends and interest on capital not claimed by shareholders within three years from declaration are reversed to retained earnings, in conformity with Law No. 6,404, article 287, II, item a, of December 15, 1976.

21. OPERATING REVENUE, NET

| | Company | | Consolidated | |
|-----------------------------------|-------------|-------------|--------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| Monthly charges | 4,242,340 | 3,785,676 | 4,242,106 | 3,785,574 |
| Installation | 104,301 | 110,567 | 104,301 | 110,567 |
| Local service | 3,017,552 | 2,636,976 | 3,017,552 | 2,636,976 |
| Domestic long distance | 2,459,954 | 1,602,988 | 2,459,954 | 1,602,988 |
| Intraregional | 1,821,252 | 1,347,506 | 1,821,252 | 1,347,506 |
| Interregional | 638,702 | 255,482 | 638,702 | 255,482 |
| International long distance | 100,901 | 39,525 | 100,901 | 39,525 |
| Network | 3,557,789 | 2,913,249 | 3,557,789 | 2,913,249 |
| Use of network | 1,096,553 | 1,263,046 | 1,096,553 | 1,263,046 |
| Public telephones | 246,861 | 186,568 | 246,861 | 186,568 |
| Business communication | 591,874 | 437,553 | 585,404 | 437,553 |
| Other | 699,798 | 626,355 | 810,546 | 701,051 |
| Gross operating revenue | 16,117,923 | 13,602,503 | 16,221,967 | 13,677,097 |
| Taxes on gross revenue | (4,313,553) | (3,564,045) | (4,321,402) | (3,571,921) |
| State VAT (ICMS) | (3,717,981) | (3,056,963) | (3,718,408) | (3,060,087) |
| PIS and COFINS (taxes on revenue) | (587,110) | (497,476) | (592,372) | (500,255) |
| Municipal Services Tax (ISS) | (8,462) | (9,606) | (10,606) | (10,896) |
| IPI (Federal VAT) | | | (16) | (683) |
| Discounts | (95,806) | (17,062) | (95,806) | (17,062) |
| Net operating revenue | 11,708,564 | 10,021,396 | 11,804,759 | 10,088,114 |

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.

22. COST OF SERVICES PROVIDED

| | Company | | Consolidated | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Depreciation and amortization | 2,608,796 | 2,646,847 | 2,616,455 | 2,646,847 |
| Personnel | 254,536 | 296,312 | 255,521 | 297,243 |
| Materials | 41,875 | 35,742 | 42,124 | 35,784 |
| Network interconnection | 2,835,853 | 1,979,067 | 2,835,853 | 1,979,067 |
| Outside services | 757,350 | 599,758 | 786,365 | 614,355 |
| Other | 178,626 | 185,120 | 178,181 | 196,486 |
| Total | 6,677,036 | 5,742,846 | 6,714,499 | 5,769,782 |

23. SELLING EXPENSES

| | Company | | Consolidated | |
|---------------------------------|------------------|----------------|------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Depreciation and amortization | 7,111 | 2,162 | 7,111 | 2,162 |
| Personnel | 152,189 | 132,328 | 155,289 | 132,585 |
| Materials | 47,529 | 43,257 | 47,589 | 43,292 |
| Outside services | 543,745 | 422,756 | 595,935 | 434,977 |
| Provision for doubtful accounts | 436,849 | 366,636 | 441,796 | 371,188 |
| Other | 38,285 | 25,635 | 38,457 | 25,700 |
| Total | 1,225,708 | 992,774 | 1,286,177 | 1,009,904 |

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24. GENERAL AND ADMINISTRATIVE EXPENSES

| | Company | | Consolidated | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Depreciation and amortization | 196,630 | 160,089 | 199,212 | 160,708 |
| Personnel | 251,046 | 168,288 | 252,782 | 169,619 |
| Materials | 11,410 | 17,354 | 11,473 | 17,414 |
| Outside services | 458,672 | 469,390 | 459,803 | 478,436 |
| Other | 39,505 | 12,229 | 40,655 | 13,690 |
| Total | 957,263 | 827,350 | 963,925 | 839,867 |

25. FINANCIAL EXPENSES, NET

| | Company | | Consolidated | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Financial income | 1,377,428 | 1,735,900 | 1,387,006 | 1,739,941 |
| Income from temporary cash investments | 146,699 | 42,172 | 150,349 | 43,252 |
| Gains on derivative operations | 332,067 | 1,548,372 | 332,067 | 1,550,891 |
| Interest | 76,645 | 92,113 | 74,089 | 92,427 |
| Other | 17,695 | 22,098 | 20,167 | 22,226 |
| Monetary/exchange variations | 804,322 | 31,145 | 810,334 | 31,145 |
| Financial expenses | (3,099,833) | (3,076,138) | (3,117,202) | (3,080,088) |
| Interest on capital | (1,100,000) | (585,278) | (1,100,000) | (585,278) |
| Interest on liabilities | (403,534) | (408,792) | (420,634) | (409,121) |
| Losses on derivative operations | (1,514,273) | (331,600) | (1,514,273) | (332,865) |
| Expenses on financial transactions | (80,618) | (65,402) | (79,630) | (65,965) |
| Monetary/exchange variations | (1,408) | (1,685,066) | (2,665) | (1,686,859) |
| Net | (1,722,405) | (1,340,238) | (1,730,196) | (1,340,147) |

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26. OTHER OPERATING EXPENSES, NET

| | Company | | Consolidated | |
|--|-----------|-----------|--------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Income | 442,563 | 301,365 | 442,769 | 299,654 |
| Technical and administrative services | 47,504 | 41,717 | 45,237 | 38,775 |
| Income from supplies | 30,458 | 21,139 | 31,379 | 21,162 |
| Dividends | 7,691 | 7,945 | 8,975 | 8,759 |
| Fines on telecommunication services | 91,696 | 78,095 | 91,795 | 78,201 |
| Recovered expenses | 31,529 | 27,127 | 31,629 | 27,147 |
| Reversal of reserve for contingencies | 130,199 | 66,690 | 130,263 | 66,690 |
| Other | 103,486 | 58,652 | 103,491 | 58,920 |
| Expenses | (767,551) | (671,258) | (834,283) | (672,528) |
| Supplies, including write-offs and adjustments to realizable value | (42,901) | (255,616) | (57,720) | (256,338) |
| Goodwill amortization - Ceterp | (32,043) | (32,043) | (32,043) | (32,043) |
| Donations and sponsorships | (16,438) | (20,956) | (16,451) | (20,977) |
| Taxes (other than on income) | (224,099) | (141,690) | (224,208) | (141,820) |
| Provision for contingencies | (317,013) | (86,017) | (317,051) | (86,087) |
| Commissions on voice and data communication services (a) | (90,541) | (98,248) | (90,541) | (98,248) |
| Other | (44,516) | (36,688) | (96,269) | (37,015) |
| Net | (324,988) | (369,893) | (391,514) | (372,874) |

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

27. NONOPERATING INCOME (EXPENSES), NET

| | Company | | Consolidated | |
|--|----------|-----------|--------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Income | 127,478 | 106,972 | 127,743 | 107,069 |
| Proceeds from sale of property, plant and equipment | 64,460 | 45,741 | 64,576 | 45,838 |
| Proceeds from investments sold | 222 | 20,766 | 222 | 20,766 |
| Gain on change in equity interest - Companhia Aix de Participações | 25,449 | | 25,449 | |
| Unidentified taxes collected | 32,890 | 24,884 | 32,890 | 24,884 |
| Other | 4,457 | 15,581 | 4,606 | 15,581 |
| Expenses | (77,621) | (140,009) | (77,718) | (140,068) |
| Cost of property, plant and equipment disposals | (77,246) | (71,535) | (77,343) | (71,594) |
| Cost of investments sold | | (18,706) | | (18,706) |

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| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Provision for losses on capitalizable investments | | (48,800) | | (48,800) |
| Other | (375) | (968) | (375) | (968) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net | 49,857 | (33,037) | 50,025 | (32,999) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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28. 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 2003 and 2002.

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|-------------|---------------------|-------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Income before taxes | 787,820 | 736,074 | 767,461 | 738,250 |
| <u>Social contribution tax</u> | | | | |
| Charge | (70,904) | (66,247) | (69,071) | (66,443) |
| Permanent differences: | | | | |
| Equity in subsidiaries | (5,688) | 1,873 | (92) | 1,414 |
| Nonoperating gain on investments | 2,290 | | 2,290 | |
| Expired interest on capital | (2,322) | | (2,322) | |
| Allowance for losses on investments | (4,392) | | (4,392) | |
| Difference in merged tax credit rate (Note 6) | 7,988 | | 7,988 | |
| Nondeductible expenses, gifts, incentives and dividends received | (1,148) | 12 | (3,188) | 85 |
| Social contribution tax charge in the statement of income | (74,176) | (64,362) | (68,787) | (64,944) |
| <u>Income tax</u> | | | | |
| Charge | (196,955) | (184,018) | (191,865) | (184,563) |
| Permanent differences: | | | | |
| Equity in subsidiaries | (15,800) | 5,204 | (253) | 3,927 |
| Nonoperating gain on investments | 6,362 | | 6,362 | |
| Expired interest on capital | (6,450) | | (6,450) | |
| Allowance for losses on investments | (12,200) | | (12,200) | |
| Nondeductible expenses, gifts, incentives and dividends received | (3,350) | (4,202) | (9,017) | (3,974) |
| <u>Other items:</u> | | | | |
| Incentives (cultural, employee meals and transport) | 2,751 | 1,898 | 2,751 | 1,898 |
| Income tax charge in the statement of income | (225,642) | (181,118) | (210,672) | (182,712) |
| Total income and social contribution tax expenses | (299,818) | (245,480) | (279,459) | (247,656) |

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

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29. TRANSACTIONS AND BALANCES WITH RELATED COMPANIES

The principal balances with related parties are as follows:

| Consolidated | Atento Brasil S.A. | Grupo Brasilcel (VIVO) | Emergia Brasil Ltda. | Telefônica Factoring do Brasil Ltda. | SP Telecom. Holding Ltda. | Telefônica de Argentina S.A. | Telefônica de España S.A. | Telefônica Empresas S.A. |
|----------------------------|-------------------------------|---------------------------------------|---------------------------------|---|--------------------------------------|---|--------------------------------------|-------------------------------------|
| ASSETS | | | | | | | | |
| Current assets | 10,657 | 108,999 | 422 | 7 | | 2,768 | 931 | 8,481 |
| Trade accounts receivable | 1,573 | 89,962 | 160 | | | 2,768 | 931 | 51 |
| Other | 9,084 | 19,037 | 262 | 7 | | | | 8,430 |
| Noncurrent assets | 267 | 2,003 | 422 | 1 | | | | 75,556 |
| Total assets | 10,924 | 111,002 | 844 | 8 | | 2,768 | 931 | 84,037 |
| LIABILITIES | | | | | | | | |
| Current liabilities | 23,507 | 134,125 | 7 | 23,654 | 194,347 | 3,469 | 2,608 | 3,929 |
| Accounts payable | 23,505 | 134,123 | | 23,654 | | 3,469 | 2,608 | 3,684 |
| Other | 2 | 2 | 7 | | 194,347 | | | 245 |
| Long-term liabilities | 536 | | 4,377 | | | | | 53,075 |
| Total liabilities | 24,043 | 134,125 | 4,384 | 23,654 | 194,347 | 3,469 | 2,608 | 57,004 |
| STATEMENT OF INCOME | | | | | | | | |
| Revenue | 6,781 | 229,596 | 1,328 | | | 2,625 | 1,053 | 166,853 |
| Telecommunication services | 6,428 | 229,596 | 880 | | | 2,625 | 1,053 | 111,619 |
| Financial income | 353 | | | | | | | |
| Other operating income | | | 448 | | | | | 55,234 |
| Costs and expenses | (149,256) | (1,577,360) | | | | (3,664) | (3,669) | (95,956) |
| Cost of services provided | (29,990) | (1,577,360) | | | | (3,664) | (3,669) | (8,882) |
| Selling | (116,152) | | | | | | | |
| General and administrative | (3,114) | | | | | | | |
| Financial expenses | | | | | | | | |
| Other operating expenses | | | | | | | | (87,074) |
| Nonoperating expenses | | | | | | | | |

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| Consolidated | Terra Networks Brasil S.A. | Telefônica Gestão de Serv. Comp. do Brasil Ltda. | Telefônica. Internacional S.A. | Telefônica Procesos y Tecnologia de la Información S.A. | Others | Total 2003 | 2002 |
|----------------------------|---------------------------------------|---|---|--|---------------|-------------------|----------------|
| ASSETS | | | | | | | |
| Current assets | 879 | 19,106 | 9,176 | | 7,269 | 168,695 | 40,452 |
| Trade accounts receivable | 875 | | | | 1,479 | 97,799 | 18,876 |
| Other | 4 | 19,106 | 9,176 | | 5,790 | 70,896 | 21,576 |
| Noncurrent assets | 641 | 1,226 | 2,393 | | 3,230 | 85,739 | 94,769 |
| Total assets | 1,520 | 20,332 | 11,569 | | 10,499 | 254,434 | 135,221 |
| LIABILITIES | | | | | | | |
| Current liabilities | 12,505 | 12,677 | 643,864 | 27,389 | 22,278 | 1,104,359 | 616,226 |
| Accounts payable | 12,499 | 12,132 | | 27,389 | 19,024 | 262,087 | 140,297 |
| Other | 6 | 545 | 643,864 | | 3,254 | 842,272 | 475,929 |
| Long-term liabilities | | 1,326 | | | 33 | 59,347 | 26,654 |
| Total liabilities | 12,505 | 14,003 | 643,864 | 27,389 | 22,311 | 1,163,706 | 642,880 |
| STATEMENT OF INCOME | | | | | | | |
| Revenue | 5,439 | 996 | 587 | | 2,753 | 418,011 | 246,944 |
| Telecommunication services | 5,439 | 996 | | | 2,624 | 361,260 | 227,171 |
| Financial income | | | 587 | | 129 | 1,069 | 15,801 |
| Other operating income | | | | | | 55,682 | 3,972 |
| Costs and expenses | (1,539) | (83,329) | (21,246) | | (2,301) | (1,938,320) | (1,922,648) |
| Cost of services provided | | (33,606) | | | (2,175) | (1,659,346) | (1,193,647) |
| Selling | | (15) | | | | (116,167) | (127,211) |
| General and administrative | | (49,708) | (21,246) | | | (74,068) | (89,576) |
| Financial expenses | (1,539) | | | | (126) | (1,665) | (365,166) |
| Other operating expenses | | | | | | (87,074) | (98,248) |
| Nonoperating expenses | | | | | | | (48,800) |

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Revenue from telecommunication services comprise mainly billings to Telefônica Empresas S.A., for telephony services, rent of data circuits, DDR, backbone network, saba (giga ADSL), infrastructure, last mile, internet links, and commissions on sales of voice and data; to Atento Brasil S.A., for telephony services, Speedy and others; to Terra Networks Brasil S.A., for telephony and DDG services, Speedy and rent of infrastructure; to Brasilcel Group companies (VIVO), for services related to the use of media in calls made from cell phones to fixed line phones, as well as the supply of media (EILD), sharing of infrastructure and sale of voice services (DDR and RDSI), etc. Most telecommunication services are subject to tariffs and conditions regulated by ANATEL. For services not subject to a regulated tariff, prices equivalent to those available to third parties are applied.

Cost of services provided and selling expenses refer mainly to services provided by Atento Brasil S.A. for Callcenter services related to answering of customers calls and sale of products and services, retention and collection of past-due bills, etc., by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., related to management of assets, logistics, transportation and security services, and by Terra Networks Brasil S.A., related to placement of ads and sales commissions. Also worth mentioning are expenses for network connection provided by Brasilcel Group companies (VIVO). Inputs related to telecommunication services are regulated by ANATEL. Other inputs are acquired under conditions equivalent to those practiced by other companies operating in the respective sectors.

General and administrative expenses refer to management services provided by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., in the accounting, financial, HR, and IT areas and management fees calculated up to the limit of 0.2% of net revenue, payable to Telefônica Internacional S.A. The contracts and conditions related to management fees were negotiated at the time of the Company's privatization auction.

Other operating expenses refer to voice and data communication services provided to Telefônica Empresas S.A.'s customers, at commissions ranging from 5% to 15% of billed amounts.

30. 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.

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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 41.4% of payroll of employees covered by the plan, of which 39.9% 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 the costs of 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 2003, the Company made contributions to the PBS Telesp Plan in the amount of R\$244 (R\$209 in 2002) and the Visão Telesp Plan in the amount of R\$22,389 (R\$21,382 in 2002).

Assist individually sponsors a defined contribution plan similar to that of Telesp, the Visão Assist Benefit Plan, which covers about 44% of its employees. Assist's contributions to that plan totaled R\$133 (R\$27 in 2002).

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 September 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 December 31, 2003 and 2002 is as follows:

| Plan | 2003 | 2002 |
|---------------------------|---------------|----------------|
| PBS/Visão Telesp/CTB | 33,398 | 48,806 |
| PAMA | 48,996 | 96,278 |
| Total Company | 82,394 | 145,084 |
| Visão Assist | 2 | (13) |
| Total consolidated | 82,396 | 145,071 |



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a) Reconciliation between assets and liabilities

| | 2003 | | | |
|-----------------------------|-------------------------|-------------|-------------------|-----------------|
| | PBS/Visão Telesp/CTB | PAMA (i) | PBS-A (i) (ii) | Visão Assist |
| Total actuarial liabilities | 120,699 | 112,414 | 746,492 | 150 |
| Fair value of assets | 87,301 | 63,418 | 891,936 | 148 |
| Liabilities (assets), net | 33,398 | 48,996 | (145,444) | 2 |

| | 2002 | | | |
|-----------------------------|-------------------------|-------------|-------------------|-----------------|
| | PBS/Visão Telesp/CTB | PAMA (i) | PBS-A (i) (ii) | Visão Assist |
| Total actuarial liabilities | 117,983 | 173,262 | 624,904 | 38 |
| Fair value of assets | 69,177 | 76,984 | 780,620 | 51 |
| Liabilities (assets), net | 48,806 | 96,278 | (155,716) | (13) |

- (i) Refers to the proportional share of Telesp in the assets and liabilities of the multisponsored plans PAMA and PBS-A.
- (ii) Despite the surplus of PBS-A as of December 31, 2003 and 2002, no asset was recognized by the sponsor in view of the legal impossibility of reimbursement of such surplus, in addition to the fact that this is a noncontributory plan, which prevents a reduction of the sponsor's contributions in the future.

b) Expenses recognized in income

| | 2003 | | |
|--|-------------------------|----------|-----------------|
| | PBS/Visão Telesp/CTB | PAMA | Visão Assist |
| Service cost | 2,679 | 99 | 11 |
| Interest cost | 11,505 | 19,220 | 3 |
| Expected return on assets | (6,632) | (10,671) | (5) |
| Employees' contributions | (272) | | |
| Companies' contributions for 2003 | (1,912) | (33) | (24) |
| Recognition of (gains) losses for the year | (20,777) | (55,897) | 30 |
| | (15,409) | (47,282) | 15 |

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| | 2002 | | |
|--|-------------------------|-----------------|-----------------|
| | PBS/Visão Telesp/CTB | PAMA | Visão Assist |
| Service cost | 2,798 | | 8 |
| Interest cost | 7,162 | 12,112 | 3 |
| Expected return on assets | (6,847) | (3,735) | (11) |
| Employees' contributions | (281) | | |
| Companies' contributions for 2002 | (1,682) | (27) | (5) |
| Recognition of (gains) losses for the year | 43,097 | (51,691) | 74 |
| | <u>44,247</u> | <u>(43,341)</u> | <u>69</u> |

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c) Change in net actuarial liabilities (assets)

| | PBS/Visão Telesp/CTB | PAMA | Visão Assist |
|--|---------------------------------|---------------|-------------------------|
| Liabilities (assets), net - December 31, 2001 | 4,559 | 139,619 | (82) |
| Expenses for 2002 | 2,832 | 8,377 | |
| Companies' contributions for 2002 | (1,682) | (27) | (5) |
| Recognition of (gains) losses for the year | 43,097 | (51,691) | 74 |
| Liabilities (assets), net - December 31, 2002 | 48,806 | 96,278 | (13) |
| Expenses for 2003 | 7,281 | 8,648 | 9 |
| Companies' contributions for 2003 | (1,912) | (33) | (24) |
| Recognition of (gains) losses for the year | (20,777) | (55,897) | 30 |
| Actuarial liabilities, net | 33,398 | 48,996 | 2 |

d) Change in actuarial liabilities

| | PBS/Visão Telesp/CTB | PAMA | PBS-A | Visão Assist |
|--|---------------------------------|----------------|----------------|-------------------------|
| Actuarial liability as of December 31, 2001 | 73,248 | 205,851 | 599,305 | 32 |
| Cost of current service | 2,798 | | | 8 |
| Interest on actuarial liabilities | 7,161 | 12,112 | 65,103 | 3 |
| Benefits paid during the year | (3,504) | (6,239) | (53,300) | |
| Actuarial (gains) losses for the year | 38,280 | (38,462) | 13,796 | (5) |
| Actuarial liability as of December 31, 2002 | 117,983 | 173,262 | 624,904 | 38 |
| Cost of current service | 2,679 | 99 | | 12 |
| Interest on actuarial liabilities | 11,505 | 19,220 | 67,772 | 3 |
| Benefits paid during the year | (8,923) | (5,220) | (58,557) | |
| Actuarial (gains) losses for the year | (2,545) | (74,947) | 112,373 | 97 |
| Actuarial liability as of December 31, 2003 | 120,699 | 112,414 | 746,492 | 150 |

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e) Change in plan assets

| | PBS/Visão Telesp/CTB | PAMA | PBS-A | Visão Assist |
|---|---------------------------------|---------------|----------------|-------------------------|
| Fair value of plan assets at December 31, 2001 | 68,689 | 66,232 | 646,129 | 114 |
| Benefits paid in the year | (3,504) | (6,239) | (53,300) | |
| Sponsor's contributions in the year | 1,807 | 27 | | 4 |
| Return on plan assets in the year | 2,185 | 16,964 | 187,791 | (67) |
| Fair value of plan assets at December 31, 2002 | 69,177 | 76,984 | 780,620 | 51 |
| Benefits paid in the year | (8,923) | (5,220) | (58,557) | |
| Sponsor's contributions in the year | 2,139 | 33 | | 25 |
| Return on plan assets in the year | 24,908 | (8,379) | 169,873 | 72 |
| Fair value of plan assets at December 31, 2003 | 87,301 | 63,418 | 891,936 | 148 |

f) Expenses estimated for 2004

| | PBS/Visão Telesp/CTB | PAMA | Visão Assist |
|---------------------------|---------------------------------|--------------|-------------------------|
| Cost of current service | 2,932 | 77 | 17 |
| Interest cost | 13,006 | 12,395 | 15 |
| Expected return on assets | (9,855) | (6,860) | (17) |
| Employees' contributions | (367) | | |
| | 5,716 | 5,612 | 15 |

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g) Actuarial assumptions

| | 2003 | | |
|---|---|-------------------------|---|
| | PBS/Visão | | |
| | Telesp/Visão | PAMA | PBS-A |
| | Assist/CTB | | |
| Rate used for present value discount of actuarial liabilities | 11.30%p.a. | 11.30%p.a. | 11.30% p.a. |
| Expected return on plan assets | 11.83% p.a. | 11.30%p.a. | 11.30% p.a. |
| Future salary increase rate | 7.10% p.a. | 7.10% p.a. | 7.10% p.a. |
| Inflation | 5.00% p.a. | 5.00% p.a. | 5.00% p.a. |
| Medical cost increase rate | Not applicable | 8.15% p.a. | Not applicable |
| Increase in use of medical services for each additional year of age | Not applicable | 4.00% p.a. | Not applicable |
| Benefit growth rate | 5.00% p.a. | 5.00% p.a. | 5.00% p.a. |
| Capacity factor - salaries | 98.00% | Not applicable | Not applicable |
| Capacity factor - benefits | 98.00% | Not applicable | Not applicable |
| Mortality rate | UP84 with 1 year of aggravation segregated by sex | UP84 + 1 | UP84 with 1 year of aggravation segregated by sex |
| Disability mortality rate | IAPB-57 | Not applicable | Not applicable |
| Disability rate | Mercer Disability Table | Mercer Disability Table | Not applicable |
| Turnover table | 0.15/(Employment time + 1) up to 50 years old - zero | Not applicable | Not applicable |
| Retirement age | Age at which participants are first entitled to one of the benefits | Not applicable | Not applicable |
| Percentage of married active participants on retirement date | 95.00% | Not applicable | Not applicable |
| Age difference between participants and spouses | Wives four years younger than husbands | Not applicable | Not applicable |
| Number of active participants and dependents | | 78 | |
| Number of participants beneficiaries | | 4,188 | 5,378 |
| Number of PBS Telesp Plan/CTB active participants | 128 | | |
| Number of PBS Telesp Plan/CTB retired participants | 628 | | |
| Number of dependent groups of retirees - PBS Telesp/CTB | 193 | | |
| Number of active participants of Visão Telesp Plan (including self-sponsored) | 7,527 | | |
| Number of active participants of Visão Assist Plan | 30 | | |

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| | 2002 | | |
|---|---|---------------------------------------|---------------------------------------|
| | PBS/Visão Telesp/Visão Assist/CTB | PAMA | PBS-A |
| Rate used for present value discount of actuarial liabilities | 10.24% p.a. | 11.30% p.a. | 11.30% p.a. |
| Expected return on plan assets | 10.24% p.a. | 14.45% p.a. | 14.45% p.a. |
| Future salary increase rate | 6.08% p.a. | 8.15% p.a. | 8.15% p.a. |
| Inflation | 4.00% p.a. | 5.00% p.a. | 5.00% p.a. |
| Medical cost increase rate | Not applicable | 10.62% p.a. | Not applicable |
| Increase in use of medical services for each additional year of age | Not applicable | 4.00% p.a. | Not applicable |
| Benefit growth rate | 4.00% p.a. | 5.00% p.a. | 5.00% p.a. |
| Capacity factor - salaries | 100.00% | | |
| Capacity factor - benefits | 100.00% | | |
| Mortality rate | GAM-71 | UP84 with 1 year of aggravation | UP84 with 1 year of aggravation |
| Disability mortality rate | RRB1944 | | |
| Disability rate | RRB1944 | Mercer Disability Table | Not applicable |
| Percentage of married active participants on retirement date | 95% | | |
| Number of active participants and dependents | | 96 | |
| Number of participants beneficiaries | | 5,754 | 5,420 |
| Number of PBS Telesp Plan/CTB active participants | 139 | | |
| Number of PBS Telesp Plan/CTB retired participants | 676 | | |
| Number of dependent groups of retirees - PBS Telesp/CTB | 177 | | |
| Number of active participants of Visão Telesp Plan (including self-sponsored) | 9,266 | | |
| Number of active participants of Visão Assist Plan | 7 | | |

31. COMMITMENTS

a) Capital expenditures

The Company will submit to the Board of Directors the capital expenditure budget for 2004, in the amount of R\$1,410,859 - consolidated, which will then be submitted for approval at the Annual Shareholders Meeting. The source will be funds generated by operations.

b) ANATEL commitments

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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.

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32. INSURANCE

TGP Brasil Corretora de Seguros e Resseguros Ltda., the Group's in-house broker in Brazil, and a branch of Pleyade Peninsular Correduria de Seguros Y Reaseguros del Grupo Telefónica S.A., both directly responsible to Subdirección General de Riesgos y Seguros Corporativos, is responsible for the implementation of corporate insurance policies and presently analyzes insurance coverage needs, performs research, contracts and manages all the insurance coverage for the Company, also performing risk and loss management.

The principal coverages are:

Operating risks, covering physical damages and business interruption for the entire plant.

General civil liability (RCG).

Car fleet liability (RCF-V).

ANATEL guarantee insurance.

Other risks.

Domestic and international freight.

Group life insurance.

Health insurance.

The policy of the Company and its subsidiaries, as well as that of the Telefónica Group, includes the maintenance of insurance coverage for all assets and liabilities involving significant amounts and high risks based on management's judgment, following Telefónica S.A.'s corporate program guidelines.

33. 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 December 31 are as follows:

| | Consolidated | | | |
|---|-----------------------|-------------------------|-----------------------|-------------------------|
| | 2003 | | 2002 | |
| | Book value | Market value | Book value | Market value |
| Loans and financing | (2,977,149) | (3,006,402) | (4,586,397) | (4,235,193) |
| Derivatives | (359,482) | (178,393) | 890,520 | 436,716 |
| Cash and cash equivalents | 214,932 | 214,932 | 490,640 | 490,640 |
| Portugal Telecom - direct/indirect interest through Aliança Atlântica | 146,939 | 310,515 | 147,931 | 258,404 |
| | (2,974,760) | (2,659,348) | (3,057,306) | (3,049,433) |

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 December 2003 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to 7.98 euros (6.55 euros in December 2002):

| | Consolidated | | | |
|--|-----------------------|-------------------------|-----------------------|-------------------------|
| | 2003 | | 2002 | |
| | Book value | Market value | Book value | Market value |
| Portugal Telecom - direct interest | 75,362 | 232,886 | 75,362 | 193,803 |
| Portugal Telecom - indirect interest through Aliança Atlântica | 71,577 | 77,629 | 72,569 | 64,601 |
| | 146,939 | 310,515 | 147,931 | 258,404 |

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 December 31, 2003, 99% of the debt was denominated in foreign currency (U.S. dollar, Canadian dollar and yen); 99% 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. In 2003, these transactions generated a net loss of R\$1,182,206 (consolidated). The Company has recorded a liability of R\$359,482 as of December 31, 2003 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 December 31, 2003 and 2002 are as follows:

| | Consolidated | | | |
|------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | 2003 | | 2002 | |
| | Book value | Market value | Book value | Market value |
| Liabilities: | | | | |
| Loans and financing | 2,945,795 | 2,975,048 | 4,169,662 | 3,818,458 |
| Purchase commitments | 40,846 | 40,846 | 74,857 | 74,857 |
| Asset position on swaps | 2,983,462 | 3,020,168 | 4,244,132 | 3,790,553 |
| Net excess (exposure) | (3,179) | 4,274 | (387) | (102,762) |

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 December 31, 2003, the Company had R\$2,945,795 (R\$4,169,662 as of December 31, 2002) of loans and financing in foreign currency, of which R\$1,950,577 (R\$3,937,153 as of December 31, 2002) was at fixed interest rates and R\$995,218 (R\$232,509 as of December 31, 2002) 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\$214,932 (R\$490,640 as of December 31, 2002), 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 December 31, 2003, the Company had swap transactions - CDI x fixed rate - to partially hedge against internal interest rate fluctuations. Hedged operations mature in September 2004 and January 2005, totaling R\$1,117,359.

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.

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c) Debt acceleration risk

As of December 31, 2003, 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 December 31, 2003, 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 first line financial institutions.

34. MANAGEMENT COMPENSATION

For the year ended December 31, 2003, the Company paid approximately R\$13,000 as management compensation to the Board of Directors and Statutory Directors, of which R\$9,800 refers to salaries and benefits and R\$3,200 to bonus.

SIGNATURE

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

TELESP HOLDING COMPANY

Date: April 28, 2004.

By: /s/ Charles E. Allen

Name: Charles E. Allen

Title: Investor Relations Director