

TELESP HOLDING CO  
Form 6-K  
October 28, 2005

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 6-K

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Report of Foreign Issuer

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

For the month of October, 2005

Commission File Number: 001-14475

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# TELESP HOLDING COMPANY

(Translation of registrant's name into English)

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Rua Martiniano de Carvalho, 851 - 21<sup>th</sup> floor

São Paulo, S.P.

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**Federative Republic of Brazil**

(Address of principal executive office)

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

Form 20-F  Form 40-F

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

Yes No

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

Yes No

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

Yes No

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

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**TELESP HOLDING COMPANY**

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1. Press Release entitled "*Telecomunicações de São Paulo S.A. - Telesp Announces the Quarterly Information ended June 30, 2005 with Special Review Report of Independent Auditors* (A free translation of the original report in Portuguese containing Quarterly Information prepared in accordance with the accounting practices emanating from Brazil's Corporation Law)" dated on October 27, 2005.

## ***Quarterly Information***

### ***Telecomunicações de São Paulo S.A. -TELESP***

***Quarter ended June 30, 2005 with Special Review Report of Independent Auditors***

***(A free translation of the original report in Portuguese containing Quarterly Information prepared in accordance with the accounting practices emanating from Brazil's Corporation Law)***

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

QUARTERLY INFORMATION

June 30, 2005

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**SPECIAL REVIEW REPORT OF INDEPENDENT AUDITORS**

(A free translation of the original issued in Portuguese)

To the Board of Directors and Shareholders

**Telecomunicações de São Paulo S.A. - TELESP**

São Paulo - SP

1. We have conducted a special review of the Quarterly Information (ITR) of Telecomunicações de São Paulo S.A and its subsidiaries for the quarter ended June 30, 2005, which comprised the balance sheets, statements of income, the performance report and other relevant information, prepared under responsibility of the Company's management and in accordance with the accounting practices adopted in Brazil.
2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Public Accountants - IBRACON, in conjunction with the Federal Accounting Council, mainly comprising: (a) inquiries of and discussions with the officials responsible for the Company's Accounting, Financial and Operational areas, as to the main criteria adopted in preparing the quarterly information; and (b) review of information and subsequent events that had or might have had relevant effects on the Company and its subsidiaries' financial position and operations.
3. Based on our special review, we are not aware of any relevant change that should be made to the above mentioned quarterly information, in order for it to be in conformity with the accounting practices adopted in Brazil and standards established by the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM), specifically applicable to the preparation of quarterly information.
4. The individual and consolidated balance sheets as of March 31, 2005, presented for comparative purposes and the individual and consolidated statements of income for the quarter ended March 31, 2005 were reviewed by other independent auditors, who issued an unqualified special review report dated May 2, 2005. The individual and consolidated statements of income for the quarter and six-month period ended June 30, 2004, also presented for comparative purposes, were reviewed by the same independent auditors, who issued an unqualified special review report dated July 26, 2004.

São Paulo (SP), July 22, 2005

ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Luiz Carlos Marques

Accountant CRC-1SP147.693/O -5

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP****BALANCE SHEETS**

June 30 and March 31, 2005

(In thousands of reais □ R\$)

(A free translation of the original issued in Portuguese)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06/30/05</b>	<b>03/31/05</b>	<b>06/30/05</b>	<b>03/31/05</b>
<b>Assets</b>				
Current assets	<b>4,554,219</b>	4,670,215	<b>4,610,792</b>	4,725,698
Cash and cash equivalents	<b>499,349</b>	690,911	<b>541,152</b>	743,971
Trade accounts receivable, net	<b>2,734,019</b>	2,846,822	<b>2,754,269</b>	2,857,437
Deferred and recoverable taxes	<b>903,061</b>	739,677	<b>926,228</b>	759,921
Inventories	<b>85,009</b>	88,965	<b>85,866</b>	90,336
Other recoverable amounts	<b>108,780</b>	114,278	<b>110,520</b>	115,851
Other	<b>224,001</b>	189,562	<b>192,757</b>	158,182
Non-current assets	<b>845,732</b>	767,937	<b>947,186</b>	868,338
Deferred and recoverable taxes	<b>390,558</b>	381,738	<b>420,900</b>	410,068
Escrow deposits	<b>418,584</b>	348,725	<b>419,085</b>	349,222
Other	<b>36,590</b>	37,474	<b>107,201</b>	109,048
Permanent assets	<b>13,069,166</b>	13,399,644	<b>12,980,966</b>	13,306,416
Investments	<b>469,465</b>	492,736	<b>261,106</b>	278,445
Property, plant and equipment, net	<b>12,511,548</b>	12,806,141	<b>12,617,588</b>	12,912,518
Deferred charges	<b>88,153</b>	100,767	<b>102,272</b>	115,453
Total assets	<b>18,469,117</b>	18,837,796	<b>18,538,944</b>	18,900,452

See accompanying notes.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP****BALANCE SHEETS**

June 30 and March 31, 2005

(In thousands of reais □ R\$)

(A free translation of the original issued in Portuguese)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06/30/05</b>	<b>03/31/05</b>	<b>06/30/05</b>	<b>03/31/05</b>
<b>Liabilities and shareholders' equity</b>				
Current liabilities	<b>4,583,629</b>	3,877,928	<b>4,615,550</b>	3,900,089
Loans and financing	<b>322,433</b>	392,272	<b>325,727</b>	396,446
Trade accounts payable	<b>1,262,412</b>	1,269,823	<b>1,292,735</b>	1,296,172
Taxes payable	<b>1,194,523</b>	958,415	<b>1,213,035</b>	972,515
Dividends and interest on capital	<b>890,551</b>	502,596	<b>890,551</b>	502,596
Reserve for contingencies	<b>58,047</b>	54,918	<b>58,105</b>	54,967
Payroll and related charges	<b>145,348</b>	121,392	<b>150,898</b>	125,605
Temporary losses on derivatives	<b>344,287</b>	229,797	<b>346,164</b>	230,737
Other	<b>366,028</b>	348,715	<b>338,335</b>	321,051
Non-current liabilities	<b>3,186,432</b>	3,069,606	<b>3,206,868</b>	3,092,631
Loans and financing	<b>2,221,464</b>	2,121,627	<b>2,239,350</b>	2,142,160
Taxes payable	<b>24,249</b>	25,171	<b>24,249</b>	25,171
Reserve for contingencies	<b>858,069</b>	827,054	<b>858,222</b>	827,235
Other	<b>82,650</b>	95,754	<b>85,047</b>	98,065
Deferred income	-	-	<b>17,470</b>	17,470
Shareholders' equity	<b>10,697,442</b>	11,888,648	<b>10,697,442</b>	11,888,648
Capital	<b>5,978,074</b>	5,978,074	<b>5,978,074</b>	5,978,074
Capital reserves	<b>2,745,529</b>	2,745,386	<b>2,745,529</b>	2,745,386
Profit reserves	<b>659,556</b>	659,556	<b>659,556</b>	659,556
Retained earnings	<b>1,314,283</b>	2,505,632	<b>1,314,283</b>	2,505,632
Funds for capitalization	<b>1,614</b>	1,614	<b>1,614</b>	1,614
Total liabilities and shareholders' equity	<b>18,469,117</b>	18,837,796	<b>18,538,944</b>	18,900,452



See accompanying notes.

TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP  
STATEMENTS OF INCOME

Quarter ended June 30, 2005 and 2004

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

(A free translation of the original issued in Portuguese)

	Company		Consolidated	
	06/30/05	06/30/04	06/30/05	06/30/04
Telecommunications services	<b>4,919,960</b>	4,362,805	<b>4,989,488</b>	4,390,893
Revenue deductions	<b>(1,429,889)</b>	(1,214,042)	<b>(1,456,425)</b>	(1,219,965)
Net operating revenue	<b>3,490,071</b>	3,148,763	<b>3,533,063</b>	3,170,928
Cost of services provided	<b>(1,893,337)</b>	(1,764,261)	<b>(1,923,796)</b>	(1,771,646)
Gross profit	<b>1,596,734</b>	1,384,502	<b>1,609,267</b>	1,399,282
Operating expenses	<b>(664,000)</b>	(653,499)	<b>678,073)</b>	(669,659)
Selling	<b>(414,248)</b>	(355,909)	<b>(425,569)</b>	(376,116)
General and administrative	<b>(206,438)</b>	238,072)	<b>(216,987)</b>	(238,199)
Equity in subsidiaries	<b>(19,234)</b>	1,635	<b>(12,852)</b>	4,331
Other, net	<b>(24,080)</b>	(61,153)	<b>(22,665)</b>	(59,675)
Income from operations before financial expenses, net	<b>932,734</b>	731,003	<b>931,194</b>	729,623
Financial expenses, net	<b>(480,469)</b>	(408,698)	<b>(482,315)</b>	(409,546)
Nonoperating income, net	<b>452,265</b>	322,305	<b>448,879</b>	320,077
	<b>20,364</b>	7,866	<b>20,428</b>	7,881
Income before taxes	<b>472,629</b>	330,171	<b>469,307</b>	327,958
Income and social contribution taxes	<b>(163,978)</b>	(107,814)	<b>(160,656)</b>	(105,601)
Reversal of interest on capital	<b>359,000</b>	295,800	<b>359,000</b>	295,800
Net income	<b>667,651</b>	518,157	<b>667,651</b>	518,157

Number of shares outstanding at the end

of quarter (in thousands)	<b>493,592</b>	493,592,279
Earning per thousand shares □ R\$	<b>1.35264</b>	0.00105

See accompanying notes.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP****STATEMENTS OF INCOME**

Six-month period ended June 30, 2005 and 2004

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

(A free translation of the original issued in Portuguese)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06/30/05</b>	<b>06/30/04</b>	<b>06/30/05</b>	<b>06/30/04</b>
Telecommunications services	<b>9,643,159</b>	8,860,225	<b>9,770,623</b>	8,911,312
Revenue deductions	<b>(2,804,130)</b>	(2,464,284)	<b>(2,852,595)</b>	(2,474,221)
Net operating revenue	<b>6,839,029</b>	6,395,941	<b>6,918,028</b>	6,437,091
Cost of services provided	<b>(3,750,657)</b>	(3,601,825)	<b>(3,788,109)</b>	(3,614,591)
Gross profit	<b>3,088,372</b>	2,794,116	<b>3,129,919</b>	2,822,500
Operating expenses	<b>(1,309,895)</b>	(1,346,035)	<b>(1,354,505)</b>	(1,379,144)
Selling	<b>(798,483)</b>	(741,909)	<b>(838,820)</b>	(785,911)
General and administrative	<b>(404,301)</b>	(474,324)	<b>(428,499)</b>	(477,529)
Equity in subsidiaries	<b>(36,915)</b>	(9,936)	<b>(16,181)</b>	3,123
Other, net	<b>(70,196)</b>	(119,866)	<b>(71,005)</b>	(118,827)
Income from operations before financial expenses, net	<b>1,778,477</b>	1,448,081	<b>1,775,414</b>	1,443,356
Financial expenses, net	<b>(581,934)</b>	(490,240)	<b>(586,763)</b>	(491,980)
Nonoperating income, net	<b>1,196,543</b>	957,841	<b>1,188,651</b>	951,376
	<b>28,721</b>	17,055	<b>29,108</b>	17,102
Income before taxes	<b>1,225,264</b>	974,896	<b>1,217,759</b>	968,478
Income and social contribution taxes	<b>(426,711)</b>	(333,958)	<b>(419,206)</b>	(327,540)
Reversal of interest on capital	<b>359,000</b>	295,800	<b>359,000</b>	295,800
Net income	<b>1,157,553</b>	936,738	<b>1,157,553</b>	936,738

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Number of shares outstanding at the end of the six-month period (in thousands)	<b>493,592</b>	493,592,279
Earning per thousand shares □ R\$	<b>2.34516</b>	0.00190

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION

June 30, 2005

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

**1. Operations and Background**

a) Ownership control and operations

Telecomunicações de São Paulo S.A. - Telesp, hereinafter referred to as the "Company" or "Telesp", is controlled by Telefónica S.A. that, as of June 30, 2005, holds directly and indirectly 84.71% of the common shares and 88.90% of the preferred shares of the Company.

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

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

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

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

As provided for in the agreement, at June 30, 2003, the Company declared to Anatel an interest in the renewal of the concession. As such, as from January 1, 2006, Telesp will be governed by a concession agreement, which was submitted in 2002 to a Public Inquiry, showing the Company's comments and pronouncements.



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**1. Operations and Background** (Continued)

b) Telecommunications service providers and subsidiaries

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

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

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

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

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



intranet services, and sale, rent and representation of telecommunication systems and related equipment.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**2. Presentation of the Quarterly Information**

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

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

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions have been eliminated.

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

**3. Summary of Principal Accounting Practices**

The interim financial statements as of June 30, 2005 have been prepared in accordance with the principles, practices and criteria consistently applied to the financial statements for the prior year and should be analyzed together with those financial statements.

**4. Cash and Cash Equivalents**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Cash and banks	8,477	8,489	19,842	21,484
Temporary cash investments	490,872	682,422	521,310	722,487
Total	499,349	690,911	541,152	743,971

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**5. Trade Accounts Receivable, Net**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Billed amounts	<b>2,225,143</b>	2,398,410	<b>2,245,400</b>	2,407,337
Unbilled amounts	<b>1,068,610</b>	1,005,204	<b>1,074,069</b>	1,011,778
Gross accounts receivable	<b>3,293,753</b>	3,403,614	<b>3,319,469</b>	3,419,115
Allowance for doubtful accounts	<b>(559,734)</b>	(556,792)	<b>(565,200)</b>	(561,678)
Total	<b>2,734,019</b>	2,846,822	<b>2,754,269</b>	2,857,437
Current	<b>2,141,749</b>	2,249,726	<b>2,139,116</b>	2,246,687
Past-due ☐ 1 to 30 days	<b>462,164</b>	461,554	<b>473,383</b>	470,643
Past-due ☐ 31 to 60 days	<b>130,677</b>	129,905	<b>136,658</b>	132,466
Past-due ☐ 61 to 90 days	<b>64,215</b>	65,101	<b>66,186</b>	66,099
Past-due ☐ 91 to 120 days	<b>31,316</b>	34,659	<b>33,044</b>	35,766
Past-due ☐ more than 120 days	<b>463,632</b>	462,669	<b>471,082</b>	467,454
Total	<b>3,293,753</b>	3,403,614	<b>3,319,469</b>	3,419,115

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

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**6. Deferred and Recoverable Taxes**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Withholding taxes	<b>40,410</b>	32,317	<b>41,473</b>	33,254
Prepaid income tax	<b>269,566</b>	160,216	<b>270,968</b>	161,154
Prepaid social contribution tax	<b>97,025</b>	56,006	<b>97,371</b>	56,031
Deferred taxes	<b>669,397</b>	643,042	<b>711,967</b>	683,576
Tax loss carryforwards □ Income tax	-	-	<b>22,245</b>	20,762
Tax loss carryforwards □ Social contribution tax	-	-	<b>8,009</b>	7,475
Reserve for contingencies	<b>298,044</b>	286,435	<b>298,115</b>	286,513
Postretirement benefit plans	<b>15,255</b>	15,218	<b>15,290</b>	15,251
Income tax on other temporary differences	<b>261,837</b>	251,021	<b>270,815</b>	259,982
Social contribution tax on other temporary differences	<b>94,261</b>	90,368	<b>97,493</b>	93,593
ICMS (state VAT) (*)	<b>216,001</b>	229,404	<b>223,474</b>	234,931
Other	<b>1,220</b>	430	<b>1,875</b>	1,043
Total	<b>1,293,619</b>	1,121,415	<b>1,347,128</b>	1,169,989
Current	<b>903,061</b>	739,677	<b>926,228</b>	759,921
Non current	<b>390,558</b>	381,738	<b>420,900</b>	410,068

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

Deferred income and social contribution taxes

Considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable income discounted to present value based on a technical

feasibility study, as provided for in CVM Instruction No. 371/2002, the Company estimates the realization of the deferred taxes as of June 30, 2005 as follows:

Year	Company	Consolidated
2005	200,390	211,627
2006	181,012	183,259
2007	65,292	71,342
2008	65,292	74,119
2009 and thereafter	157,411	171,620
Total	669,397	711,967

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

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**7. Other Reverable Amounts**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Advances to employees	<b>14,748</b>	5,914	<b>15,173</b>	6,069
Advances to suppliers	<b>31,999</b>	42,470	<b>32,523</b>	43,065
Other recoverable amounts	<b>62,033</b>	65,894	<b>62,824</b>	66,717
Total current	<b>108,780</b>	114,278	<b>110,520</b>	115,851

The balance of other recoverable amounts comprises the amount of R\$42,597 referring to recoverable FUST □ Contribution for the Fund for Universal Access to pronouncement 280/2004 issued by Anatel. The tax credit realization is expected to occur in less than 12 months.

**8. Inventories**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Consumption materials	<b>97,233</b>	102,089	<b>97,280</b>	102,138
Resale items	<b>109,382</b>	122,963	<b>110,432</b>	129,360
Public telephone prepaid cards	<b>10,467</b>	8,362	<b>10,467</b>	8,362
Scraps	<b>918</b>	543	<b>918</b>	543
Allowance for reduction to market value and obsolescence	<b>(132,991)</b>	(144,992)	<b>(133,231)</b>	(150,067)
Total current	<b>85,009</b>	88,965	<b>85,866</b>	90,336

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP****NOTES TO THE QUARTERLY INFORMATION (Continued)**

June 30, 2005

(In thousands of reais, unless otherwise stated)

**9. Other**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Prepaid expenses	<b>106,442</b>	85,540	<b>104,123</b>	82,395
Receivables from Barramar S.A. (*)	-	-	<b>73,772</b>	75,138
Intercompany receivables - current	<b>102,425</b>	105,836	<b>70,336</b>	75,327
Onlending of foreign currency loans	<b>3,620</b>	4,098	<b>3,620</b>	4,098
Tax incentives, net of allowance	<b>411</b>	411	<b>411</b>	411
Amounts linked to National Treasury securities	<b>8,640</b>	8,449	<b>8,640</b>	8,449
Receivables - sale of scraps	<b>25,004</b>	4,720	<b>25,004</b>	4,720
Other assets	<b>3,907</b>	8,419	<b>4,549</b>	7,628
Total	<b>250,449</b>	217,473	<b>290,455</b>	258,166
Current	<b>224,001</b>	189,562	<b>192,757</b>	158,182
Non current	<b>26,448</b>	27,911	<b>97,698</b>	99,984

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

**10. Escrow Deposits**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Civil litigation	<b>39,619</b>	37,416	<b>39,655</b>	37,452
Tax litigation	<b>292,529</b>	232,483	<b>292,890</b>	232,841
Labor claims	<b>86,436</b>	78,826	<b>86,540</b>	78,929

Total non current	<u>418,584</u>	<u>348,725</u>	<u>419,085</u>	<u>349,222</u>
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**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**11. Investments**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Investments carried under the equity method	<b>281,628</b>	299,607	-	-
Aliança Atlântica Holding B.V.	<b>61,978</b>	72,381	-	-
Assist Telefônica S.A.	<b>151,133</b>	157,412	-	-
Companhia AIX de Participações	<b>68,491</b>	69,789	-	-
Companhia ACT de Participações	<b>26</b>	25	-	-
Negative and positive goodwill on acquisition of investments	<b>96,359</b>	99,355	<b>113,829</b>	116,825
Negative goodwill on acquisition of shares □ Companhia AIX de Participações	<b>(17,470)</b>	(17,470)	-	-
Goodwill on acquisition □ Santo Genovese Participações Ltda.	<b>119,820</b>	119,820	<b>119,820</b>	119,820
Amortization of goodwill □ Santo Genovese Participações Ltda.	<b>(5,991)</b>	(2,995)	<b>(5,991)</b>	(2,995)
Investments carried at cost	<b>91,478</b>	93,774	<b>147,277</b>	161,620
Portugal Telecom	<b>75,362</b>	75,362	<b>131,161</b>	143,209
Other companies	<b>26,840</b>	29,136	<b>26,840</b>	29,135
Other investments	<b>3,359</b>	3,359	<b>3,359</b>	3,359
Tax incentives	<b>15,164</b>	15,164	<b>15,164</b>	15,164
Allowance for losses	<b>(29,247)</b>	(29,247)	<b>(29,247)</b>	(29,247)
Total	<b>469,465</b>	492,736	<b>261,106</b>	278,445

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

Investment acquisition - Santo Genovese Participações Ltda.

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

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

Such operation will allow extending the offer of higher value-added services in the domestic market, through the management of the rendering of telecommunication services.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**11. Investments** (Continued)

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

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

The principal financial information on the subsidiaries as of June 30, 2005 and March 31, 2005 is as follows:

	<b>June 2005</b>				
	<b>Aliança Atlântica</b>	<b>Assist Telefônica</b>	<b>Companhia AIX</b>	<b>Companhia ACT</b>	<b>Santo Genovese (a)</b>
Paid-up capital	<b>113,834</b>	<b>254,000</b>	<b>460,929</b>	<b>1</b>	<b>51,850</b>
Capital reserves	-	-	-	-	<b>450</b>
Retained earnings (accumulated deficit)	<b>10,122</b>	<b>(102,867)</b>	<b>(323,948)</b>	<b>50</b>	<b>(61,180)</b>
Shareholders' equity	<b>123,956</b>	<b>151,133</b>	<b>136,981</b>	<b>51</b>	<b>(8,880)</b>
Shares (million)					
Number of subscribed and paid-up shares	<b>88</b>	<b>367,977</b>	<b>298,562</b>	<b>1,000</b>	<b>51,850</b>
Number of common shares owned	<b>44</b>	<b>367,977</b>	<b>149,281</b>	<b>500</b>	<b>51,850</b>
Ownership percentage	<b>50%</b>	<b>100%</b>	<b>50%</b>	<b>50%</b>	<b>100%</b>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**11. Investments** (Continued)

March 2005

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

- a) The Company recorded a provision for shareholders' deficit in the amount of R\$8,880 (R\$7,626 as of March 31, 2005), under the caption "Other liabilities".

	June 2005				June 2004			
	<b>Aliança Atlântica</b>	<b>Assist Telefônica</b>	<b>Cia AIX</b>	<b>Cia ACT (c)</b>	<b>Santo Genovese (b) (c)</b>	<b>Aliança Atlântica</b>	<b>Assist Telefônica</b>	<b>Cia AIX</b>
Net profit (loss) in the period	4,909	(15,062)	(6,385)	1	(4,934)	3,970	(12,812)	(4,464)

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



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP****NOTES TO THE QUARTERLY INFORMATION (Continued)**

June 30, 2005

(In thousands of reais, unless otherwise stated)

**11. Investments (Continued)**

The Company's equity in subsidiaries is as follows:

	<u>June 2005</u>	<u>June 2004</u>
Aliança Atlântica	<b>(13,726)</b>	5,108
Assist Telefônica	<b>(15,062)</b>	(12,812)
Companhia AIX de Participações	<b>(3,193)</b>	(2,232)
Santo Genovese Participações Ltda.	<b>(4,934)</b>	-
	<u><b>(36,915)</b></u>	<u>(9,936)</u>

**12. Property, Plant and Equipment, Net**

	<u>Company</u>				
			<u>June 2005</u>		
	<u>Annual depreciation %</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Cost</u>
Property, plant and equipment in service		<b>38,287,016</b>	<b>(26,140,361)</b>	<b>12,146,655</b>	38,002,562
Switching and transmission equipment	12.50	<b>15,616,085</b>	<b>(11,881,161)</b>	<b>3,734,924</b>	15,503,214
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	<b>11,343,823</b>	<b>(8,088,546)</b>	<b>3,255,277</b>	11,316,598
Transmission equipment - modems	20.00	<b>574,550</b>	<b>(430,313)</b>	<b>144,237</b>	559,093
Underground and undersea cables, poles and towers	5.00 to 6.67	<b>389,188</b>	<b>(206,932)</b>	<b>182,256</b>	388,883
Subscriber, public and booth equipment	12.50	<b>1,871,391</b>	<b>(1,089,103)</b>	<b>782,288</b>	1,840,791
IT equipment	20.00	<b>470,279</b>	<b>(401,653)</b>	<b>68,626</b>	465,948

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Buildings and underground cables	4.00	<b>6,343,427</b>	<b>(3,285,564)</b>	<b>3,057,863</b>	6,322,154
Vehicles	20.00	<b>47,793</b>	<b>(35,781)</b>	<b>12,012</b>	47,406
Land	-	<b>257,645</b>	-	<b>257,645</b>	258,185
	10.00 to				
Other	20.00	<b>1,372,835</b>	<b>(721,308)</b>	<b>651,527</b>	1,300,290
Property, plant and equipment in progress	-	<b>364,893</b>	-	<b>364,893</b>	321,765
		<hr/>	<hr/>	<hr/>	<hr/>
Total		<b>38,651,909</b>	<b>(26,140,361)</b>	<b>12,511,548</b>	38,324,327
		<hr/>	<hr/>	<hr/>	<hr/>
Average annual depreciation rates - %		<b>10.55</b>			10.55
		<hr/>			<hr/>
Assets fully depreciated		<b>13,116,022</b>			12,698,535
		<hr/>			<hr/>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP****NOTES TO THE QUARTERLY INFORMATION (Continued)**

June 30, 2005

(In thousands of reais, unless otherwise stated)

**12. Property, Plant and Equipment, Net (Continued)**

<b>Consolidated</b>					
<b>June 2005</b>					
	<b>Annual depr. rates %</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Cost</b>
Property, plant and equipment in service		<b>38,447,312</b>	<b>(26,196,612)</b>	<b>12,250,700</b>	38,150,646
Switching and transmission equipment	12.50	<b>15,619,450</b>	<b>(11,881,447)</b>	<b>3,738,003</b>	15,503,264
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	<b>11,361,151</b>	<b>(8,090,128)</b>	<b>3,271,023</b>	11,327,731
Transmission equipment - modems	20.00	<b>594,431</b>	<b>(440,227)</b>	<b>154,204</b>	578,025
Underground and undersea cables, poles and towers	5.00 to 6.67	<b>402,220</b>	<b>(207,862)</b>	<b>194,358</b>	401,915
Subscriber, public and booth equipment	12.50	<b>1,871,397</b>	<b>(1,089,106)</b>	<b>782,291</b>	1,840,797
IT equipment	20.00	<b>480,163</b>	<b>(404,952)</b>	<b>75,211</b>	469,348
Buildings and underground cables	4.00	<b>6,343,478</b>	<b>(3,285,581)</b>	<b>3,057,897</b>	6,322,205
Vehicles	20.00	<b>48,279</b>	<b>(35,888)</b>	<b>12,391</b>	47,745
Land	-	<b>257,686</b>	-	<b>257,686</b>	258,225
Other	10.00 to 20.00	<b>1,469,057</b>	<b>(761,421)</b>	<b>707,636</b>	1,401,391
Property, plant and equipment in progress	-	<b>366,888</b>	-	<b>366,888</b>	329,795
<b>Total</b>		<b>38,814,200</b>	<b>(26,196,612)</b>	<b>12,617,588</b>	38,480,441
Average annual depreciation rates - %		<b>10.59</b>			10.58
Assets fully depreciated		<b>13,118,096</b>			12,699,731



Returnable assets

Pursuant to the Concession Agreement, all assets pertaining to the Company's equity and indispensable to the provision of the services described in said agreement are considered returnable and are part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the Concession Agreement. As of June 30, 2005, the net book value of such returnable assets is estimated at R\$9,607,947 (9,953,474 as of March 31, 2005), comprised of switching and transmission equipment, public use terminals, external network equipment, energy equipment, and system and operation support equipment.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**13. Deferred Charges**

Deferred charges as of June 30 and March 31, 2005 are as follows:

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Pre-operating expenses	<b>20,456</b>	23,245	<b>26,472</b>	29,499
Cost	<b>55,788</b>	55,788	<b>65,279</b>	65,279
Accumulated amortization	<b>(35,332)</b>	(32,543)	<b>(38,807)</b>	(35,780)
Merged goodwill □ Ceterp S.A.	<b>13,276</b>	21,287	<b>13,276</b>	21,287
Cost	<b>187,951</b>	187,951	<b>187,951</b>	187,951
Accumulated amortization	<b>(174,675)</b>	(166,664)	<b>(174,675)</b>	(166,664)
Goodwill on acquisition of the IP network	<b>54,421</b>	56,235	<b>54,421</b>	56,235
Cost	<b>72,561</b>	72,561	<b>72,561</b>	72,561
Accumulated amortization	<b>(18,140)</b>	(16,326)	<b>(18,140)</b>	(16,326)
Other	-	-	<b>8,103</b>	8,432
Cost	-	-	<b>12,059</b>	12,059
Accumulated amortization	-	-	<b>(3,956)</b>	(3,627)
Total	<b>88,153</b>	100,767	<b>102,272</b>	115,453

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

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

The goodwill on acquisition of the IP network in December 2002 refers to the acquisition of the assets for the Switched IP and Speedy Link services of Telefônica Empresas S.A. The portion considered as goodwill and recorded in deferred charges corresponds to the customer portfolio of the business. According to an appraisal report, the economic grounds of the goodwill is the expected future profitability, for an amortization period of 120 months.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**14. Loans, Financing and Debentures**

	Consolidated			Balance as of June 2005		
	Currency	Annual interest rate %	Maturity	Current	Long-term	Total
Mediocrédito	US\$	1.75%	2014	7,525	56,555	64,080
CIDA	CAN\$	3.00%	2005	1,361	-	1,361
Loans in local currency	R\$	6% + 3.75% spread and CDI + 0.40% per month	Through 2006	2,977	846	3,823
Loans in foreign currency			Through 2009	290,387	681,949	972,336
Debentures	R\$	103.50% of CDI	Through 2007	23,477	1,500,000	1,523,477
Total				325,727	2,239,350	2,565,077

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

Total				396,446	2,142,160	2,5
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Loans in foreign currency are as follows:

<u>Consolidated</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance as of June 2005</u>
Resolution 2770	USD	3.00% to 6.90%	469,998	9,200	<b>479,198</b>
□Untied Loan□ □JBIC	JPY	Libor + 1.25%	473,090	2,692	<b>475,782</b>
DEG □ Deutschdnvestitions	USD	Libor + 6%	15,865	1,491	<b>17,356</b>
			<u>958,953</u>	<u>13,383</u>	<u><b>972,336</b></u>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**14. Loans, Financing and Debentures (Continued)**

<u>Consolidated</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance as of March 2005</u>
		2.00% to			
Resolution 2770	USD	6.90%	312,021	13,739	325,760
Resolution 2770	JPY	1.40%	22,126	-	22,126
		8.62% to			
Debt assumption	USD	27.50%	8,611	4,356	12,967
		Libor +			
Untied Loan □ JBIC	JPY	1.25%	555,257	1,316	556,573
DEG □ Deutsche					
Investitions	USD	Libor + 6%	17,997	1,885	19,882
			<u>916,012</u>	<u>21,296</u>	<u>937,308</u>

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

Long-term debt maturities

<u>Year</u>	<u>Amount</u>
2006	56,946
2007	1,629,241
2008	409,151
2009	112,200
Thereafter	31,812
	<u>2,239,350</u>
Total	2,239,350

Debentures

On September 3, 2004, the Company announced a Securities Distribution Program (□Program□) and, under the Program, the first issue of Telesp debentures (□Offering□). The Program amounts to R\$3.0 billion for a period of two years from the filing with the CVM on October 15, 2004, and contemplates the issuance of simple nonconvertible debentures, unsecured or subordinated, and/or promissory notes. The Offering consisted of the issue of

150,000 simple nonconvertible unsecured debentures, with a face value of R\$10, in the total amount of R\$1,500,000, of a single series, maturing on September 1, 2010 (six years). The debentures bear interest with quarterly payments, equivalent to 103.5% of the DI (interbank deposit) average daily rate calculated and published by the CETIP (Clearing House for the Custody and Financial Settlement of Securities).

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**14. Loans, Financing and Debentures** (Continued)

The adjustment to the interest rate of debentures is estimated for September 1, 2007. On a conservative basis, the Company included, in the consolidated schedule of long-term debt maturities shown above, the principal of the debentures in the year 2007, date of adjustment of interest rates.

**15. Taxes Payable**

	<b>Company</b>		<b>Consolidated</b>	
	<b>June 2005</b>	<b>March 2005</b>	<b>June 2005</b>	<b>March 2005</b>
Taxes on income				
Income tax	<b>351,678</b>	211,252	<b>351,854</b>	212,436
Social contribution tax	<b>126,996</b>	76,119	<b>127,061</b>	76,549
Deferred taxes				
Income tax	<b>19,582</b>	20,260	<b>19,582</b>	20,260
Social contribution tax	<b>7,048</b>	7,292	<b>7,048</b>	7,292
Indirect taxes				
ICMS (state VAT)	<b>621,898</b>	586,560	<b>634,604</b>	593,228
PIS and COFINS (taxes on revenue)	<b>70,733</b>	65,464	<b>74,000</b>	69,383
Other	<b>20,837</b>	16,639	<b>23,135</b>	18,538
Total	<b>1,218,772</b>	983,586	<b>1,237,284</b>	997,686
Current	<b>1,194,523</b>	958,415	<b>1,213,035</b>	972,515
Non current	<b>24,249</b>	25,171	<b>24,249</b>	25,171

**16. Payroll and Related Charges**

	<b>Company</b>		<b>Consolidated</b>	
	<b>June 2005</b>	<b>March 2005</b>	<b>June 2005</b>	<b>March 2005</b>



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Salaries and fees	<b>17,800</b>	22,374	<b>19,167</b>	23,259
Payroll charges	<b>79,265</b>	66,276	<b>82,772</b>	68,845
Accrued benefits	<b>3,768</b>	3,452	<b>3,809</b>	3,736
Employee profit sharing	<b>44,515</b>	29,290	<b>45,150</b>	29,765
Total	<b>145,348</b>	121,392	<b>150,898</b>	125,605

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**17. Consignments on Behalf of Third Parties**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Collateral for deposits	<b>1,853</b>	1,899	<b>1,853</b>	1,899
Amounts charged to users	<b>95,896</b>	91,287	<b>86,146</b>	81,369
Retentions	<b>67,663</b>	79,214	<b>68,634</b>	80,121
Other consignments	<b>1,138</b>	1,601	<b>1,138</b>	1,601
Total	<b>166,550</b>	174,001	<b>157,771</b>	164,990

**18. Dividends and Interest on Own Capital**

	Company/Consolidated	
	June 2005	March 2005
Interest on own capital	<b>503,050</b>	198,954
Telefônica Internacional S.A.	<b>203,825</b>	-
SP Telecomunicações Holding Ltda.	<b>63,428</b>	-
Minority shareholders	<b>235,797</b>	198,954
Dividends	<b>387,501</b>	303,642
Minority shareholders	<b>387,501</b>	303,642
Total	<b>890,551</b>	502,596

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



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies**

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

<b>Consolidated</b>	<b>Nature</b>			<b>Total</b>
	<b>Labor</b>	<b>Tax</b>	<b>Civil</b>	
Balances as of March 31, 2005	290,553	551,342	40,307	882,202
Additions	13,165	2,843	9,447	25,455
Write-offs	(8,876)	(2,181)	(1,598)	(12,655)
Monetary restatement	10,300	10,346	679	21,325
Balances as of June 30, 2005	305,142	562,350	48,835	916,327
Current	34,346	16,198	7,561	58,105
Non current	270,796	546,152	41,274	858,222

*19.1 Labor contingencies*

The Company has various labor contingencies and recorded a provision of R\$305,142, consolidated, to cover probable losses. The amounts involved and respective degrees of risk are as follows:

<b>Risk</b>	<b>Amount Involved</b>		<b>Total</b>
	<b>Telesp</b>	<b>Assist</b>	
Remote	1,806,650	3,595	1,810,245
Possible	94,317	-	94,317
Probable	304,945	197	305,142

Total	<u>2,205,912</u>	<u>3,792</u>	<u>2,209,704</u>
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These contingencies involve a number of lawsuits, mainly related to salary differences, salary equalization, overtime, employment relationship with employees of outsourced companies and hazardous duty premium, among others.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies** (Continued)*19.2 Tax contingencies*

Risk	Amount Involved		
	Telesp	Assist	Total
Remote	1,476,409	-	1,476,409
Possible	1,111,447	11,940	1,123,387
Probable	562,350	-	562,350
Total	3,150,206	11,940	3,162,146

Based on the assessment of the Company's legal counsel and management, a reserve amounting to R\$562,350 was recorded as of June 30, 2005. The principal tax contingencies, assessed as remote, possible and probable risk, are as follows:

- Claims by the National Institute of Social Security (INSS), amounting to R\$795,271, referring to:
  - a) Legal proceedings for the collection of Workers' Compensation Insurance (SAT) and joint liability of the Company for payment of social security contributions allegedly not made by contractors, considered possible risk, in the amount of R\$277,252. Based on a partially unfavorable court decision, management decided to provide for R\$96,904 relating to the portion of the total amount for which the likelihood of loss is probable.
  - b) Discussion regarding social security contribution on certain amounts paid for compensation of salary losses resulting from economic plans ("Plano Verão" and "Plano Bresser"), in the approximate amount of R\$128,470 for which an unfavorable outcome is considered possible. Based on higher court decisions and an unfavorable court decision in a similar case involving another company of the group, the Company's management decided to provide for R\$89,872 to cover potential losses, despite the legal counsel's classification of possible risk.
  - c) Notification demanding social security contributions, SAT and amounts for third parties (National Institute for Agrarian Reform and Colonization (INCRA) and Brazilian Mini and Small Business Support Agency (SEBRAE)) on the payment of various salary amounts for the period from January 1999 to December 2000, in the amount of

approximately R\$53,090, considered as possible risk. These lawsuits are in the 1st lower court and at the last administrative level, respectively. No provision was recorded based on the risk classification of this matter.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies** (Continued)

19.2 *Tax contingencies*(Continued)

- d) Notification demanding social security contributions for joint liability in 1993, in the amount of approximately R\$174,477, for which the risk is considered possible. This process is at the 2nd administrative level. No provision was made based on the risk classification of this matter.
- e) Legal proceedings imposing fines of R\$161,982 for payment of dividends when the Company had allegedly a debt to the INSS. No provision was made for the balance, for which the likelihood of loss is deemed possible. This process is at the 2nd administrative level. No provision was made based on the risk classification of this matter.
- Claims by the Finance Secretary of the State of São Paulo, totaling R\$718,161, referring to:
- f) Tax assessments on October 31 and December 13, 2001, related to ICMS (state VAT) allegedly due on international long-distance calls, amounting to approximately R\$18,887 for November and December 1996 and amounting to R\$140,747 from January 1997 to March 1998, at the second administrative level, assessed as possible risk, and R\$172,036 for the period from April 1998 to December 1999, at the second administrative level, assessed as remote risk.
- No provision was recorded based on the risk classification of these matters.
- g) Tax assessment on February 29, 2000 demanding payment of the ICMS allegedly due on cell phone activation tariff in the period from January 1995 to December 1997, plus fines and interest, amounting to approximately R\$270,424, assessed as remote risk. The claim is at the 1st administrative level. No provision was recorded based on the risk classification of this matter.
- h) Tax assessment on July 2, 2001 demanding the difference in ICMS paid without late-payment fine, amounting to



R\$5,517, assessed as possible risk.

The claim is at the higher court. No provision was recorded based on the risk classification of this matter.

- i) Tax assessment notice related to the untimely used credits in the period from January to April 2002, in the amount of R\$28,806, for which the risk is considered possible. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies** (Continued)

19.2 *Tax contingencies* (Continued)

- j) Tax assessment notice related to the use of ICMS credits on acquisition of consumption materials, in the amount of R\$10,512, for which the risk is considered possible. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
- k) Tax assessment notice related to the non-reversal of ICMS credits in proportion to tax-exempt and non-taxed sales and services in the period from January 1999 to June 2000, in addition to an ICMS credit unduly taken in March 1999. The total amount involved is R\$59,356. The risk is considered possible by legal counsel. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
- l) Notifications of around R\$7,762 regarding the former Ceterp's loss of the tax benefit established by State Decree No. 48237/03, due to underpayment for an error in the calculation of the debt, assessed as possible risk. The claim is at the 2nd administrative level. No provision was recorded based on the risk classification of this matter.
- m) Tax collection lawsuits demanding about R\$4,114 of ICMS differences for the period from May 1999 to June 2003. The Company is gathering the documents to prove that the amounts have been effectively paid. Guarantee is being provided and defense is being prepared for presentation in the lower court. The risk is assessed as possible. No provision was recorded based on the risk classification of this matter.

Litigation at the Federal and Municipal levels in the amount of R\$361,144:

- n) The Company filed a lawsuit challenging the increase of the COFINS and PIS (taxes on revenue) tax basis (COFINS until February 2004 tax basis and PIS until November 2002 tax basis), requiring the inclusion of financial and securitization income and exchange gains, instead of only operating revenues.

Despite the injunction obtained suspending the change in the calculation method and the risk assessed as possible, the Company recognized a provision of R\$246,931, in case it receives an unfavorable judgment.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies** (Continued)

19.2 *Tax contingencies* (Continued )

- o) FINSOCIAL, currently COFINS, was a tax on gross operating revenues, originally established at a rate of 0.5% and gradually and subsequently raised to 2.0%. Such rate increases were judicially challenged with success by several companies, which resulted in tax credits from overpayments. These credits were offset by CTBC (company merged into the Company in November 1999) against current amounts of COFINS due. Claiming that those offsets made by CTBC were improper, the Federal Government made an assessment in the amount of R\$15,843, considered as a possible loss. The claim is at the higher court. No provision was recorded based on the risk classification of this matter.
  
- p) Litigation contesting the levy of corporate income tax, social contribution tax, PASEP and COFINS on telecommunications services of Centrais Telefônicas de Ribeirão Preto S.A. - CETERP, merged in November 2000, based on paragraph 3 of Article 155 of the Federal Constitution, according to which, with the exception of ICMS (state VAT) and taxes on exports and imports, no other taxation applies to services. The Company assesses this case as probable loss and has recorded a reserve of R\$70,344. The claim is in the higher court.
  
- q) Lawsuit seeking a court decision declaring the nonexistence of a legal tax relationship between Telesp and the Federal Government, the defendant, that would require the Company to pay the Federal Economic Intervention Contribution (CIDE) on remittances to be made based on contracts with foreign residents, since the unconstitutionality of said tax is clear. The lawsuit also seeks offset against other taxes payable, in the amount of R\$2,190, monetarily

restated, related to the CIDE payment made in March 2002. The Company made an escrow deposit of R\$2,178 related to the remittance made on October 18, 2002. Despite the risk considered to be possible, the Company recognized a reserve for the unpaid amounts, in the amount of R\$12,508. The claim is at the lower court.

- r) Tax collection claim demanding differences regarding income tax, based on DCTF's (Declaration of Federal Tax Credits and Debits) for the first half of 1999, amounting to approximately R\$4,915, assessed as possible risk. These claims are at the 1st administrative level and no provision was recorded based on the risk classification.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies** (Continued)*19.2 Tax contingencies*(Continued)

- s) At the municipal level, the Company has contingencies related to the IPTU (municipal real estate tax), ISS (municipal service tax), fine and interest in the amount of R\$1,626, which have all been accrued due to the existence of favorable and unfavorable decisions regarding this matter.
- t) The Municipal Government of São Paulo assessed the Company, alleging differences in the payment of the ISS (municipal service tax), a fine of 20% not paid in the amount of R\$8,977. No reserve has been recorded for this contingency, since the attorneys responsible for this case believe that the risk is possible. The claim is at the second administrative level.

There are other contingencies that have also been accrued, in the amount of R\$44,165, for which the risk is assessed by management as probable.

*19.3 Civil contingencies***Amount involved**

<b>Risk</b>	<b>Telesp</b>	<b>Assist</b>	<b>Total</b>
Remote	1,422,274	1,736	1,424,010
Possible	756,120	154	756,274
Probable	48,821	14	48,835
Total	2,227,215	1,904	2,229,119

These contingencies assessed as possible risk involve various matters unacknowledged title to telephone line, indemnity for material and personal damages, and other, in the amount of approximately R\$110,070.

In addition, the Company is also involved in civil class actions related to the Community Telephone Plan (PCT), where the telephone expansion plan buyers who did not receive shares in return for their financial investments seek an indemnity, in the municipalities of Diadema, São Caetano do Sul, São Bernardo do Campo, Ribeirão Pires and Mauá, involving a total amount of approximately R\$391,249. The risks involved were assessed as possible by legal counsel. The claims are in the higher court.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**19. Provision for Contingencies** (Continued)

## 19.3

*Civil contingencies* (Continued)

The Association of the Participants of the Sistel in the State of São Paulo - ASTEL moved against the Company, Fundação Sistel de Seguridade Social and others, a class action questioning subjects related to the Plan of Medical Assistance for Retirees - PAMA, considering in synthesis: (i) prohibition of the collection of contribution of the retirees included in the PAMA; (ii) the registration in the PAMA of the retirees and assisted people whose registrations were suspended for insolvency; (iii) reevaluation of the economic necessities of the PAMA; (iv) restoration of the basis of incidence of the contributions on the total and gross amount of the payroll of all the employees of the company; (v) reaccreditation of all the hospitals, clinics, laboratories and doctors disaccredited by Sistel and (vi) review of the accounting distribution of shareholders' equity. At the moment it is not possible to estimate the amount involved in this claim. Company Management, based on the opinion of its legal council, assess this suit as a possible risk. Based on the risk classification, no provision was recorded.

**20. Other Liabilities**

	Company		Consolidated	
	June 2005	March 2005	June 2005	March 2005
Provision for post-retirement benefit plans (Note 31)	<b>44,867</b>	44,759	<b>44,972</b>	44,855
Advances from customers	<b>60,138</b>	48,051	<b>60,138</b>	48,051
Amounts to be refunded to subscribers	<b>33,896</b>	35,586	<b>32,191</b>	30,951
Installments payable □ acquisition of Santo Genovese Participações Ltda. (Atrium Telecomunicações Ltda.)	<b>6,160</b>	5,594	<b>6,160</b>	5,594
Subsidiaries □ shareholders □ deficit (Santo Genovese)				



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Participações Ltda.)	<b>8,880</b>	7,626	-	-
Other	<b>48,400</b>	40,071	<b>58,224</b>	50,562
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>202,341</b>	181,687	<b>201,685</b>	180,013
	<hr/>	<hr/>	<hr/>	<hr/>
Current	<b>133,414</b>	117,441	<b>130,365</b>	113,343
Non current	<b>68,927</b>	64,246	<b>71,320</b>	66,670
	<hr/>	<hr/>	<hr/>	<hr/>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**21. Shareholders' Equity a) Capital**

Capital as of June 30 and March 31, 2005 is R\$5,978,074. Subscribed and paid-up capital is represented by shares without par value, as follows:

Common shares	165,320,206
Preferred shares	328,272,072
	<hr/>
Total shares	493,592,278
	<hr/>
Book value per share □ R\$	21.67
	<hr/>

Preferred shares are nonvoting but have priority in the reimbursement of capital and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's bylaws and clause II, paragraph 1, article 17, of Law No. 6404/76, with wording of Law No. 10303/01.

*Grouping of shares*

On February 22, 2005, the Company, represented by the Board of Directors, following Instruction CVM 358 dated January 3, 2002, published a significant event notice and on May 11, 2005, submitted a proposal for grouping the totality of the shares representing the Company's capital at the Extraordinary Shareholders' Meeting, as provided for in article 12 of Law No. 6404, dated December 15, 1976.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**21. Shareholders' Equity** (Continued)

a) Capital (Continued)

*Grouping of shares*

The proposal for grouping the totality of the former 165,320,206,602 (one hundred and sixty-five billion, three hundred and twenty million, two hundred and six thousand, six hundred and two) common shares and 328,272,072,739 (three hundred and twenty-eight billion, two hundred and seventy-two million, seventy-two thousand, seven hundred and thirty-nine) preferred shares representing the Company's capital was unanimously approved in voting, as provided for in article 12 of Law No. 6404/76, at a ratio of 1,000 (one thousand) existing shares to 1 (one) of the related type, with no capital reduction, resulting in 493,592,278 shares, 165,320,206 of which are common and 328,272,072 preferred. The authorized capital limit will now be of 700,000,000 common or preferred shares.

The Company shareholders were granted the period from May 12, 2005 to June 24, 2005 to adjust, at their free and exclusive discretion, their shareholding positions, by type, in multiple lots of 1,000 (one thousand) shares, by means of negotiation via brokerage firms authorized to operate on the São Paulo Stock Exchange (BOVESPA), as well as so that the measures with the Securities and Exchange Commission - SEC may be taken. As from June 27, 2005, the representative shares of the Company's capital are being traded exclusively by group and by unit quotation.

The shares of the remaining fractions of the grouping were sold in their entirety in a BOVESPA auction on July 15, 2005. The net value obtained with the sale of shares in the auction were made available to the related shareholder, after the conclusion of the auction, as per significant event notice published on July 21, 2005.

As from June 27, 2005 each ADR represents 1 (one) preferred share.

b) Dividends and interest on shareholders' equity

On April 2 and 4, 2005, the Company published a statement of interim dividends and interest on shareholders' equity for 2005, determined in the Board of Directors' meeting held on April 1, 2005, following the General Shareholders' meeting:

*Interim dividends - 2005 financial year*

The Company declared interim dividends in the amount of R\$1,500,000 (one billion, five hundred million reais) based on retained earnings from the previous balance sheet, as per article 28 of the Company bylaws and articles 204 and 205 of Law No. 6404/76.



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**21. Shareholders' Equity** (Continued) b) Dividends and interest on shareholders' equity (Continued)

Type of share	Common	Preferred (*)
Value per lot of a thousand shares □ R\$	2.849438	3.134382
(*) 10% greater than for each common share, as per article 7 of the Company bylaws.		

The interim dividends will be attributed to the minimum mandatory dividends for the 2005 financial year, following the General Shareholders' Meeting, in accordance with article 28 of the Company bylaws.

The payment of these dividends began on April 20, 2005 to common and preferred shareholders included in the Company records at the end of April 1<sup>st</sup>, 2005.

*Interest on shareholders' equity □ 2005 financial year*

The Company declared interest on shareholders' equity in the amount of R\$359,000 (three hundred and fifty-nine million reais), withholding income tax at a 15% rate, resulting in net interest of R\$305,150 (three hundred and five million, one hundred and fifty thousand reais), in accordance with article 9 of Law No. 9249/95 and CVM Resolution No. 207/96.

Amount per lot of thousand shares (R\$)	Immune or exempt corporate entities (gross amount)	Income tax withheld at source (15%)	Corporate entities and individuals (net amount)
Common shares	0.681965	0.102294	0.579670
Preferred shares (*)	0.750162	0.112524	0.637637

(\*)10% greater than for each common share, as per article 7 of the Company bylaws.

The credits to the corresponding shareholders were recorded in the Company's book records on April 30, 2005, individually by shareholder, based on the share position at the end of April 29<sup>th</sup>, 2005, and the payment of such interest will be made until the end of the 2005 financial year.

As provided for in article 29 of the Company bylaws, interest on shareholders' equity may be attributed to the 2005 minimum mandatory dividends. Shareholders immune or exempt from income tax will receive the credits by their gross amounts, as per current legislation, evidencing such conditions, pursuant to shareholders' notice published on April 2 and 4, 2005.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**22. Operating Revenue, Net**

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Subscription (i)	<b>2,756,575</b>	2,345,702	<b>2,756,203</b>	2,345,702
Activation	<b>41,425</b>	46,139	<b>41,425</b>	46,139
Local service	<b>1,511,336</b>	1,523,138	<b>1,511,336</b>	1,523,138
Domestic long distance	<b>1,572,388</b>	1,444,285	<b>1,572,388</b>	1,444,285
Intraregional	<b>1,160,940</b>	1,082,709	<b>1,160,940</b>	1,082,709
Interregional	<b>411,448</b>	361,576	<b>411,448</b>	361,576
International long distance	<b>65,750</b>	51,280	<b>65,750</b>	51,280
Network	<b>2,025,558</b>	2,017,016	<b>2,025,558</b>	2,017,016
Use of network (i)	<b>381,248</b>	396,718	<b>381,248</b>	396,718
Public telephones	<b>210,247</b>	160,285	<b>210,247</b>	160,285
Business communication	<b>607,537</b>	413,022	<b>603,498</b>	413,154
Assignment of means (i)	<b>195,621</b>	191,408	<b>195,621</b>	191,408
Other (i)	<b>275,474</b>	271,232	<b>407,349</b>	322,187
Gross operating revenue	<b>9,643,159</b>	8,860,225	<b>9,770,623</b>	8,911,312
Taxes on gross revenue	<b>(2,540,000)</b>	(2,397,821)	<b>(2,584,730)</b>	(2,407,758)
ICMS (state VAT)	<b>(2,168,181)</b>	(2,069,331)	<b>(2,198,366)</b>	(2,070,985)
PIS and COFINS (taxes on revenue)	<b>(359,038)</b>	(326,198)	<b>(371,547)</b>	(332,537)
ISS (municipal service tax)	<b>(12,781)</b>	(2,292)	<b>(14,775)</b>	(4,235)
IPI (federal value-added tax)	-	-	<b>(42)</b>	(1)
Discounts	<b>(264,130)</b>	(66,463)	<b>(267,865)</b>	(66,463)
Net operating revenue	<b>6,839,029</b>	6,395,941	<b>6,918,028</b>	6,437,091

(i) For the better presentation of Operating Revenue to the market and regulating agency, ANATEL, the Company made reclassifications in the amounts of March 2004. The main reclassifications were made in

the captions [subscription], [use of network], [assignment of means] and [other].

On June 30, 2005, through Acts No.51300 and 51301, ANATEL approved tariff adjustment percentages for fixed-switch telephone service (STFC), based on the criteria established in the local and domestic long-distance concession contracts, effective July 3, 2005, Average increases were as follows:

Local: 7.27% Long distance: 2.94%

Network usage fee for local interconnection (TU-RL): (-13.32%) Network usage fee for long distance interconnection (TU-RIU): 2.94%

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**22. Operating Revenue, Net** (Continued)

On June 29, 2004, through Acts No. 45011 and 45012, ANATEL approved tariff adjustment percentages for fixed-switch telephone service (STFC), based on the criteria established in the local and domestic long-distance concession contracts, effective July 2, 2004, except for Region 32 (former CETERP), effective from July 3, 2004. On July 2, approved percentages were applied on tariff bases determined by injunction. Average adjustments were the following:

Local: 6.89% Long-distance: 3.20%

Network usage fee for local interconnection (TU-RL): (-10.47%) Network usage fee for long distance interconnection (TU-RIU): 3.20%

On June 26, 2003, through Acts No. 37166 and 37167, ANATEL approved tariff adjustments for fixed-switch telephone service (STFC), based on the criteria established in the local and domestic long-distance concession contracts, effective June 30, 2003 and for the former CETERP's Region 33, July 3, 2003. The local basic plan had an average increase of 28.75%, including a productivity gain of 1%, while the 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. 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.

After the judgment of the injunction by the Superior Court of Justice and reestablishment of IGP-DI as the index to be used in the calculation, the approved percentages, according to ANATEL's published acts, were applied to the tariff bases approved in June 2003, without retroactive effects, divided in two amounts, the first of which becoming effective September 1, 2004. On September 1, 2004, the following tariff adjustment percentages were applied:

Pulse: on average 3.22%;

Domestic Long-distance service: on average 5.22%;

Non-residential subscription and branch exchange: on average 7.75%; Residential subscription charges: 3.14%; Activation: on average 14.14%.



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**22. Operating Revenue, Net** (Continued)

The second amount was applied from November 1, 2004, with the following tariff adjustment percentages:

Pulse: on average 3.13%;

Domestic long-distance service: on average 4.97%;

Non-residential subscription and branch exchange: on average 7.20%; Residential subscription: 3.05%; Activation: on average 12.40%;

**23. Cost of Services Provided**

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Depreciation and amortization	<b>(1,199,366)</b>	(1,255,770)	<b>(1,207,217)</b>	(1,261,713)
Personnel	<b>(100,440)</b>	(89,633)	<b>(103,596)</b>	(90,835)
Materials	<b>(26,227)</b>	(18,419)	<b>(26,538)</b>	(18,572)
Network interconnection	<b>(1,737,199)</b>	(1,719,432)	<b>(1,743,480)</b>	(1,719,432)
Outside services	<b>(558,535)</b>	(421,111)	<b>(574,138)</b>	(426,526)
Other	<b>(128,890)</b>	(97,460)	<b>(133,140)</b>	(97,513)
Total	<b>(3,750,657)</b>	(3,601,825)	<b>(3,788,109)</b>	(3,614,591)

**24. Selling Expenses**

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Depreciation and amortization	<b>(3,757)</b>	(3,738)	<b>(3,757)</b>	(3,738)
Personnel	<b>(110,454)</b>	(86,416)	<b>(113,978)</b>	(88,517)
Materials	<b>(32,024)</b>	(26,190)	<b>(32,090)</b>	(26,275)

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Outside services	<b>(441,625)</b>	(387,544)	<b>(474,678)</b>	(426,909)
Allowance for doubtful accounts	<b>(188,627)</b>	(218,971)	<b>(192,257)</b>	(221,198)
Other	<b>(21,996)</b>	(19,050)	<b>(22,060)</b>	(19,274)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>(798,483)</b>	(741,909)	<b>(838,820)</b>	(785,911)
	<hr/>	<hr/>	<hr/>	<hr/>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**25. General and Administrative Expenses**

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Depreciation and amortization	<b>(126,211)</b>	(111,754)	<b>(132,967)</b>	(114,803)
Personnel	<b>(67,768)</b>	(92,641)	<b>(76,735)</b>	(94,267)
Materials	<b>(5,125)</b>	(5,512)	<b>(5,324)</b>	(5,552)
Outside services	<b>(187,555)</b>	(252,419)	<b>(195,182)</b>	(250,476)
Other	<b>(17,642)</b>	(11,998)	<b>(18,291)</b>	(12,431)
Total	<b>(404,301)</b>	(474,324)	<b>(428,499)</b>	<u>(477,529)</u>

**26. Financial Expenses, Net**

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Financial income	<b>308,281</b>	285,059	<b>312,073</b>	285,817
Income from temporary cash investments	<b>25,034</b>	29,726	<b>28,468</b>	31,118
Gains on derivative transactions	<b>38,073</b>	194,004	<b>38,073</b>	194,004
Interest	<b>37,742</b>	33,965	<b>35,044</b>	33,087
Monetary/exchange variations	<b>204,394</b>	25,712	<b>207,122</b>	25,713
Other	<b>3,038</b>	1,652	<b>3,366</b>	1,895
Financial expenses	<b>(890,215)</b>	(775,299)	<b>(898,836)</b>	(777,797)
Interest on shareholders' equity	<b>(359,000)</b>	(295,800)	<b>(359,000)</b>	(295,800)
Interest	<b>(192,425)</b>	(125,607)	<b>(196,425)</b>	(127,668)
Losses on derivative transactions	<b>(293,891)</b>	(95,597)	<b>(297,652)</b>	(95,597)
Expenses on financial transactions	<b>(40,288)</b>	(38,690)	<b>(41,068)</b>	(39,126)
Monetary/exchange variations	<b>(4,611)</b>	(219,605)	<b>(4,691)</b>	(219,606)

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Total	<b>(581,934)</b>	(490,240)	<b>(586,763)</b>	(491,980)
	<hr/>	<hr/>	<hr/>	<hr/>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**27. Other Operating Expenses, Net**

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Income	<b>205,985</b>	179,102	<b>207,436</b>	179,812
Technical and administrative services	<b>18,488</b>	27,207	<b>17,089</b>	25,682
Income from supplies	<b>27,257</b>	9,326	<b>27,257</b>	9,332
Dividends	<b>10,350</b>	5,915	<b>12,806</b>	7,917
Fines on telecommunication services	<b>55,993</b>	49,851	<b>55,993</b>	49,851
Recovered expenses	<b>40,207</b>	41,716	<b>40,261</b>	41,748
Reversal of reserve for contingencies	<b>10,705</b>	9,309	<b>10,714</b>	9,309
Reversal of provision for inventory adjustment	<b>10,597</b>	5,434	<b>10,597</b>	5,434
Lease of shared infrastructure	<b>25,329</b>	23,621	<b>25,329</b>	23,621
Other	<b>7,059</b>	6,723	<b>7,390</b>	6,918
Expenses				
Write-offs and adjustments to realizable value of supplies	<b>(276,181)</b>	(298,968)	<b>(278,441)</b>	(298,639)
Goodwill amortization □ Ceterp and Santo Genovese	<b>(4,797)</b>	(9,738)	<b>(4,799)</b>	(9,739)
Donations and sponsorships	<b>(22,012)</b>	(16,022)	<b>(22,012)</b>	(16,022)
Taxes (except for income and social contribution taxes)	<b>(2,609)</b>	(7,411)	<b>(2,640)</b>	(7,414)
Reserve for contingencies	<b>(107,519)</b>	(114,981)	<b>(107,772)</b>	(114,608)
Commissions on voice and data communication services(a)	<b>(52,797)</b>	(48,571)	<b>(52,839)</b>	(48,589)
Other	<b>(50,871)</b>	(50,208)	<b>(50,905)</b>	(50,208)
Income	<b>(35,576)</b>	(52,037)	<b>(37,474)</b>	(52,059)
Total	<b>(70,196)</b>	(119,866)	<b>(71,005)</b>	(118,827)

(a) This balance refers mainly to commissions to Telefônica Empresas S.A.

**28. Non Operating Income, Net**

	<b>Company</b>		<b>Consolidated</b>	
	<b>June 2005</b>	<b>June 2004</b>	<b>June 2005</b>	<b>June 2004</b>
Income	<b>38,946</b>	24,100	<b>39,350</b>	24,153
Proceeds from sale of property, plant and equipment and investments	<b>15,494</b>	6,646	<b>15,543</b>	6,646
Unidentified revenue	<b>18,014</b>	15,377	<b>18,043</b>	15,377
Other	<b>5,438</b>	2,077	<b>5,764</b>	2,130
Expenses	<b>(10,225)</b>	(7,045)	<b>(10,242)</b>	(7,051)
Cost of sale of property, plant and equipment and investments	<b>(10,206)</b>	(7,026)	<b>(10,223)</b>	(7,032)
Other	<b>(19)</b>	(19)	<b>(19)</b>	(19)
Total	<b>28,721</b>	17,055	<b>29,108</b>	17,102

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**29. Income and Social Contribution Taxes**

The Company recognizes income and social contribution taxes monthly on the accrual basis and pays the taxes on an estimated basis, in accordance with the trial balance for suspension or reduction. The taxes calculated on income as of the date of the financial 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 expenses and standard rates

Reconciliation of the reported tax charges and the amounts calculated by applying 34% (income tax of 25% and social contribution tax of 9%) in March 2005 and 2004 is shown in the table below:

	Company		Consolidated	
	June 2005	June 2004	June 2005	June 2004
Income before taxes	<b>1,225,264</b>	974,896	<b>1,217,759</b>	968,479
<u>Social contribution tax</u>				
Social contribution tax expense	<b>(110,274)</b>	(87,741)	<b>(109,598)</b>	(87,163)
Permanent differences:				
Equity pick-up	<b>(3,322)</b>	(894)	<b>(1,456)</b>	281
Tax rate difference in transferred tax credit (i)	-	3,994	-	3,994
Nondeductible expenses, gifts, incentives and dividends received	<b>333</b>	(1,288)	<b>(224)</b>	(1,344)
Social contribution tax expense in the statement of income	<b>(113,263)</b>	(85,929)	<b>(111,278)</b>	(84,232)
<u>Income tax</u>				
Income tax expense	<b>(306,316)</b>	(243,724)	<b>(304,440)</b>	(242,120)
Permanent differences:				
Equity pick-up	<b>(9,229)</b>	(2,483)	<b>(4,045)</b>	781
Nondeductible expenses, gifts, incentives and dividends received	<b>936</b>	(2,196)	<b>(604)</b>	(2,343)

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Other				
Incentives (cultural, food and transportation)	<b>1,161</b>	374	<b>1,161</b>	374
	<hr/>	<hr/>	<hr/>	<hr/>
Corporate income tax expense in the statement of income	<b>(313,448)</b>	(248,029)	<b>(307,928)</b>	(243,308)
	<hr/>	<hr/>	<hr/>	<hr/>
Total (corporate income tax + social contribution tax)	<b>(426,711)</b>	(333,958)	<b>(419,206)</b>	(327,540)
	<hr/>	<hr/>	<hr/>	<hr/>



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**29. Income and Social Contribution Taxes** (Continued)Reconciliation of tax expenses and standard rates (Continued)

For purposes of calculation of the tax credit arising from the merger, the income tax and social contribution tax rates used were 25% and 8%, respectively, in accordance with the legislation in effect at the date of the merger. As per changes introduced by Law No. 10637/02, beginning 2003, social contribution tax rate is 9%. The amortization of goodwill, net of reversal of accrual and the corresponding tax credit in the first quarter of 2004 increased the net income for the period, and consequently, generated a gain on mandatory minimum dividends.

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

**30. Related Party Transactions**

The principal balances with related parties are as follows:

	<b>Consolidated</b>	
	<b>June 2005</b>	<b>March 2005</b>
<u>ASSETS</u>		
<u>Current assets</u>	<b>314,636</b>	529,740
Trade accounts receivable	<b>237,293</b>	443,804
Other recoverable amounts	<b>7,007</b>	10,609
Other assets	<b>70,336</b>	75,327
<u>Long-term assets</u>	<b>9,503</b>	9,064
Intercompany receivables	<b>9,503</b>	9,064
Total assets	<b>324,139</b>	538,804
<u>LIABILITIES</u>		
<u>Current liabilities</u>	<b>352,248</b>	436,913

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Trade accounts payable	<b>301,232</b>	393,202
Other		
Consignments on behalf of third parties	<b>817</b>	993
Intercompany payables	<b>50,199</b>	42,718
<u>Long-term liabilities</u>	<b>17,169</b>	34,896
	<hr/>	<hr/>
Intercompany payables	<b>13,727</b>	31,395
Other		
Other liabilities	<b>3,442</b>	3,501
	<hr/>	<hr/>
Total liabilities	<b>369,417</b>	471,809
	<hr/>	<hr/>

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**30. Related Party Transactions** (Continued)

	<b>Consolidated</b>	
	<b>June 2005</b>	<b>June 2004</b>
<u>STATEMENT OF INCOME</u>		
<u>Revenue</u>	<b>212,520</b>	193,137
Telecommunications services	<b>193,012</b>	171,950
Financial income	<b>593</b>	-
Other operating revenue	<b>18,915</b>	21,187
<u>Costs and expenses</u>	<b>(1,189,987)</b>	(1,250,452)
Cost of services provided	<b>(927,649)</b>	(959,120)
Selling	<b>(167,496)</b>	(192,534)
General and administrative	<b>(50,934)</b>	(50,827)
Other operating expenses	<b>(43,908)</b>	(47,971)

Trade accounts receivable include receivables for telecommunications services, principally from Telerj Celular S.A., Celular CRT S.A., TeleBahia Celular S.A., Teleleste Celular S.A., Telefônica Empresas S.A., Atento Brasil S.A., Terra Networks Brasil S.A., Global Telecom S.A., Tele Centro Oeste Celular Participações S.A. and subsidiaries, and Telesp Celular S.A., principally for long-distance services, with some amounts under negotiation for which a solution will be achieved in the short term, and also for international long-distance services, principally from Compañía de Telecomunicaciones de Chile Transmisiones Regionales S.A., Telefónica de Argentina S.A. and Telefónica de España S.A.

Other recoverable amounts in current assets refer principally to advances to Telefônica Gestão de Serviços Compartilhados do Brasil Ltda.

Intercompany receivables in current and non current assets comprise credits from Telefônica Empresas S.A., Telefónica Internacional S.A., Telefónica S.A., Tele Sudeste Celular Participações S.A., Telefônica Publicidade e Informação Ltda., Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., Atento Brasil S.A., Telefônica Data do Brasil Ltda. and other group companies, corresponding to services rendered, advisory fees, expenses with salaries and other expenses paid by the Company to be refunded by the related companies.

Trade accounts payable include services provided primarily by Atento Brasil S.A., Telerj Celular S.A., TeleBahia Celular S.A., Teleleste Celular S.A., Telefônica Empresas S.A., TIWS América, Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., Terra Networks Brasil S.A., Telefônica Pesquisa e Desenvolvimento Ltda., Global Telecom S.A., Celular CRT S.A., Telesp Celular S.A., and for international long-distance services Compañia de Telecomunicaciones de Chile Transmisiones Regionales S.A., Telefónica de Argentina S.A. e Telefónica de España S.A.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**30. Related Party Transactions** (Continued)

Intercompany payables in current and long-term liabilities are comprised mainly of consulting fees and management fee payable to Telefónica Internacional S.A., administrative services in the accounting, financial, human resources, equity, logistics and IT areas payable to Telefônica Gestão de Serviços Compartilhados do Brasil Ltda., and voice and data communication services payable to Telefônica Empresas S.A. Revenue from telecommunications services comprises mainly billings to Telesp Celular S.A., Telefônica Empresas S.A., Terra Networks Brasil S.A. and Atento Brasil S.A.

Other operating revenues are mainly from network infrastructure leased to Telesp Celular S.A.

Cost of services provided refers mainly to expenses of interconnection services provided by Telesp Celular S.A., Tele-sudeste S.A., CRT Celular S.A., Teleleste Celular S.A., Tele Centro Oeste Celular Participações S.A. and their subsidiaries, call center management services provided by Atento Brasil S.A., traffic services (mobile terminal) provided by Telesp Celular S.A. and internet □ IP Network traffic services provided by Telefônica Empresas S.A.

Selling expenses refer mainly to data transmission services provided by Telefônica Empresas S.A., marketing services by Atento Brasil S.A., Internet services by Terra Networks Brasil S.A. and commissions paid to cellular telephone operators, mainly to Telesp Celular S.A., Celular CRT S.A., Tele Centro Oeste Celular Participações S.A. and Tele Sudeste Celular Participações S.A.

General and administrative expenses refer to administrative services provided by Telefônica Gestão de Serviços Compartilhados do Brasil Ltda. and management fee payable to Telefónica Internacional S.A.

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

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**31. Post Retirement Benefit Plans**

Telesp, together with other companies of the former Telebrás System, sponsors private pension benefit plans and health care plans for retirees, managed by Fundação Sistel de Seguridade Social (Sistel). Until December 1999, the plans managed by Sistel were multiemployer benefit plans. 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 multiemployer 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 Secretariat for Pension Plans on January 13, 2000.

In December 2004, the entity Visão Prev Sociedade de Previdência Complementar was formed to manage the Visão and PBS Telesp plans, which were transferred from Sistel to new entity. The process of transfer was approved by the Secretariat for Pension Plans (currently Previc) through Official Letter No. 123, of October 7, 2004. The transfer of assets and liabilities of the plans was made on February 18, 2005.

The transfer of plans did not result in any charge to the plan participants, because the wording of the regulations and all rights of the participants were maintained. Sistel will continue to manage the PBS-A and PAMA plans, and Telesp will continue to sponsor these plans jointly with other Sistel's sponsors.

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 to the PBS Telesp Plan are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The funding method is the capitalization method and the sponsor's contribution is 6.83% of payroll of employees covered by the plan, of which 5.33% is allocated to fund the PBS Telesp Plan and 1.5% to the PAMA Plan. In addition of this actuarially calculated contribution, the sponsor is making a contribution in Brazilian reais to amortize the past service cost, adjusted monthly based on accumulated INPC (national consumer price index), which amounted to R\$ 126 (R\$ 62 in the first quarter of 2005).

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## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**31. Post Retirement Benefit Plans** (Continued)

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 funded by contributions made by the participants (employees) and by the sponsor which are credited to participants' individual accounts. Telesp is responsible for bearing all plan administrative and maintenance expenses, 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 the contribution salary, based on the percentage chosen by the participant.

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

In the period from January to June 2005, the Company made contributions to the PBS Telesp Plan in the amount of R\$214 (R\$141 in the same period in 2004) and to the Visão Telesp Plan in the amount of R\$10,675 (R\$ 9,239 in the same period in 2004). Assist individually sponsors a defined contribution plan similar to that of Telesp, the Visão Assist Benefit Plan, which covers about 46% of its employees, Assist's contributions to that plan totaled R\$139 (R\$99 in the same period in 2004).

The actuarial valuation of the plans was made in December 2004 based on the employees' data as of September 2004 and the projected unit credit method was adopted. Actuarial gains or losses for each year were immediately recognized. The plans assets relate to November 30, 2004. For multiemployer plans (PAMA and PSB-A), the apportionment of the plan assets was made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

The status of the plans as of June 30 and March 31, 2005, whose liabilities are recorded in the caption

Other (Note 20), is as follows:

<b>Plan</b>	<b>June 2005</b>	<b>March 2005</b>
PBS / CTB	<b>26,259</b>	25,996
PAMA	<b>18,608</b>	18,763
Total - Company	<b>44,867</b>	44,759
Visão Assist liability	<b>105</b>	96

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Total consolidated	<u>44,972</u>	<u>44,855</u>
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## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**31. Post Retirement Benefit Plans** (Continued)

Shown below are expenses estimated for 2005 as per actuaries' report:

	<b>PBS /Visão Telesp/CTB</b>	<b>PAMA</b>	<b>Visão Assist</b>
Current service cost	120	41	32
Interest cost	8,875	8,321	26
Expected return on plan assets	(7,718)	(8,979)	(22)
Employees' contributions	(229)	-	-
Total expenses (reversals) for 2005	1,048	(617)	36

**32. 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. In this context, Telecomunicações de São Paulo S,A ' Telesp complies with the Brazilian legislation for contracting insurance coverage.

**Type****Insurance Coverage**

Operating risks (loss of profits)	US\$7,262,620 thousand
Optional third-party liability - vehicles	R\$1,000
ANATEL guarantee insurance	R\$5,420

**33. Financial Instruments**

In compliance with the terms of CVM Instruction No. 235/95, the Company and its subsidiaries made a valuation of their assets and liabilities based on fair 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 realizable 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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## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**33. Financial Instruments (Continued)**

Carrying and fair values of financial instruments as of March 31, 2005 and June 30, 2005 are as follows:

	<b>Consolidated</b>			
	<b>June 2005</b>		<b>March 2005</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Loans and financing	<b>(2,565,077)</b>	<b>(2,585,346)</b>	(2,538,606)	(2,554,733)
Derivatives	<b>(346,164)</b>	<b>(260,811)</b>	(230,737)	(137,284)
Cash and cash equivalents	<b>541,152</b>	<b>541,152</b>	743,971	743,971
	<b>(2,370,089)</b>	<b>(2,305,005)</b>	(2,025,372)	(1,948,046)

The Company has a direct interest of 0.69% and, through the subsidiary Aliança Atlântica, an indirect interest of 0.23% in Portugal Telecom (same percentage as of March 31, 2005), carried at cost. The investment, at market value, is based on the last quotation of June 2005 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to 7.84 euros (9.04 euros in March 2005):

	<b>Consolidated</b>			
	<b>June 2005</b>		<b>March 2005</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Portugal Telecom □ direct investment	<b>75,362</b>	<b>178,364</b>	75,362	250,071
Portugal Telecom □ indirect investment through Aliança Atlântica	<b>55,799</b>	<b>59,455</b>	67,847	83,357

<u>131,161</u>	<u>237,819</u>	<u>143,209</u>	<u>333,428</u>
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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.

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## NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**33. Financial Instruments** (Continued)a) Exchange rate risk (Continued)

The Company's indebtedness and the results of operations are significantly affected by the foreign exchange rate risk. As of June 30, 2005, 40.46% (39.83% on March 31, 2005) of the debt was denominated in foreign currency (U.S. dollar, Canadian dollar and yen); 99.96% (99.97% on March 31, 2005) of this debt was covered by asset positions on currency hedge transactions (swaps for CDI). Gains or losses on these operations are recorded in income. As of June 30, 2005, these transactions generated a net loss of R\$ 259,579 (consolidated). As of June 30, 2005, the Company has recorded a liability of R\$ 346,164 to reflect the unrealized temporary loss.

The carrying value and fair value of the Company's net excess (exposure) to the exchange rate risk as of June 30, 2005 and March 31, 2005 are as follows:

	<b>Consolidated</b>			
	<b>June 2005</b>		<b>March 2005</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Liabilities				
Loans and financing	<b>1,037,777</b>	<b>1,042,657</b>	1,011,246	1,010,062
Purchase commitments	<b>53,775</b>	<b>53,775</b>	56,634	56,634
Asset position on swaps	<b>1,088,898</b>	<b>1,101,752</b>	1,067,582	1,075,800
Net excess (exposure) (a)	<b>(2,654)</b>	<b>5,320</b>	(298)	9,104

The valuation method used to calculate the fair value of loans, financing and hedge instruments (foreign exchange swaps) was the discounted cash flow method, considering expected settlement or realization 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.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**33. Financial Instruments** (Continued)

b) Interest rate risk (Continued)

As of June 30, 2005, the Company had R\$ 1,037,777 (R\$ 1,011,246 as of March 31, 2005) of loans and financing in foreign currency, of which R\$544,639 (R\$434,791 as of March 31, 2005) was at fixed interest rates and R\$ 493,138 (R\$ 576,455 as of March 31, 2005) 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 (inter bank deposit rate), in a way that the Company's financial result is affected by the CDI. The balance of loans and financing also includes debentures issued in 2004 with interest based on the variation of the CDI of R\$1,523,477 (R\$ 1,522,535 on March 31, 2005), as described in Note 14. On the other hand, the Company invests its excess cash (temporary cash investments) of R\$ 541,152 (R\$ 743,971 as of March 31, 2005) mainly in short-term instruments, based on the CDI variation, which also reduces this risk. The carrying values of these instruments approximate fair 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.

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

c) Debt acceleration risk

As of June 30, 2005, the Company's loan and financing agreements contain restrictive covenants, typically

applicable to such agreements, relating to cash generation, indebtedness ratios and other. These restrictive covenants have been complied with by the Company and did not restrict the Company's capacity to conduct its regular business.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO THE QUARTERLY INFORMATION (Continued)

June 30, 2005

(In thousands of reais, unless otherwise stated)

**33. Financial Instruments** (Continued)

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 bill has been overdue for more than 30 days. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

As of June 30, 2005, the Company's customer portfolio had no subscribers whose receivables were individually higher than 1% of the total trade accounts receivable.

The Company is also subject to credit risk related to temporary cash investments and receivables from swap transactions. The Company reduces this exposure by dispersing it among creditworthy financial institutions.



**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**  
**MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE**

June 30, 2005

(In millions of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

	<b>Variation</b>			
	<b>June 2005</b>	<b>June 2004</b>	<b>%</b>	<b>R\$</b>
Gross Operating Revenue	9,770.6	8,911.3	9.6	859.3
Net Operating Revenue	6,918.0	6,437.1	7.5	480.9
Cost of Services Rendered	(3,788.1)	(3,614.6)	4.8	(173.5)
Financial Expenses, net	(586.8)	(492.0)	19.3	(94.8)
Operating Expenses, net	(1,354.5)	(1,379.1)	(1.8)	24.6
Income from Operations	1,188.6	951.4	24.9	237.2
Net Income	1,157.6	936.7	23.6	220.9

1. The net operating revenue for the six-month period ended June 30, 2005 amounted R\$6,918.0. When compared to the revenue of R\$ 6,437.1 registered in the same period of the prior year, there was an increase of R\$480.9, or 7.5%, due to the tariff readjustment in 2004, to the launch of the "linha econômica" (economy line) campaign, the growth of the SPEEDY service, the long-distance service, the revenues from the facilities of the "linha inteligente" (intelligent line) (i.e. Detecta) and the revenues from the management of telecommunication services in commercial buildings, rendered by the Company's subsidiaries Assist Telefônica and Atrium Telecom.
2. The cost of services rendered grew R\$173.5 or 4.8%, mainly due to the increase in costs of outsourcing, in light of the increase in operating services for productive plant, Internet IP network traffic, administrative technical services and interconnection charges basically due to the increase in the fixed-to-mobile network usage, transportation and fixed-to-fixed network usage. Additionally, there was an increase in the payroll expenses due to the salary readjustment of 6% in September 2004 and the Career Plan that benefited an average of 3,000 employees in the first quarter of 2005.
3. The net financial expenses for the six-month period ended June 30, 2005 increased R\$94.8 million when compared to same period of the prior year, excluding the interest on own capital expenses, there was an increase of R\$31.6 million, mainly due to the growth in the local interest rates (Certificate for Interbank Deposits - CDI) from 7,57% in the first semester of 2004 to 8,93% in the first semester of 2005. The indebtedness and the results from operations are substantially exposed to the exchange rate variation risk.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**  
**MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE**  
 June 30, 2005  
 (In millions of reais, unless otherwise stated)

<b>Net Financial Result</b> YTD □ R\$	<b>June 2005</b>	<b>June 2004</b>	<b>Variation</b>	
			<b>%</b>	<b>R\$</b>
Results of financial operations	30.3	32.0	5.3	(1.7)
Results of hedge operations	(259.6)	98.4	363.8	(358.0)
CPMF (tax on financial transactions)	(39.5)	(38.1)	3.7	(1.4)
Interest revenues	35.0	33.1	5.7	1.9
Interest expenses	(196.4)	(127.7)	53.8	(68.7)
Monetary/exchange rate variation	202.4	(193.9)	204.4	396.3
Interest on own capital	(359.0)	(295.8)	21.4	(63.2)
<b>Net financial result</b>	<b>(586.8)</b>	<b>(492.0)</b>	<b>19.3</b>	<b>(94.8)</b>

4. The operational income increased 24.9% when compared to the same period in the prior year, mainly as a result of the revenues increase and the tight expenses control.

5. **Operating Data (\*)**

Evolution of the main operating data:

	<b>Unit</b>	<b>June 2005</b>	<b>June 2004</b>	<b>Variation %</b>
Installed lines and lines in process of installation	Line	14,333,778	14,319,703	0.1
Fixed lines in service	Line	12,442,081	12,220,787	1.8
Local traffic				
Pulses □ registered	Thousand pulses	15,878,320	17,004,492	(6.6)
Pulses □ exceeding	Thousand pulses	10,783,464	12,005,409	(10.2)
Public telephones	Sets	330,939	330,844	0.0

(\*) Not reviewed by independent auditors.

**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**  
**MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE**

June 30, 2005

(In millions of reais, unless otherwise stated)

**6. Expansion and investment project**

The Company submitted for the consideration of the Board of Directors the capital budget for 2005, in the amount of R\$1,717,757 thousand - consolidated, which was subsequently forwarded and approved by the Ordinary Shareholders' Meeting on March 30, 2005. The funds will be provided by the operations.

In the first semester of 2005, the Company invested the consolidated amount of R\$587,980 thousand and the new commitments for the capital expenditures for June 2005 are:

Year of expenditure	Total Committed	Total Forecasted
2005	863,914	956,240

**6.1 Sales of Telephone Lines (\*)**

At the end of June 2005, the Company had a total of 12,442,081 lines in service, from which 75% are residential, 11% non-residential and 9% business customers, and the remaining ones are lines for the Company's use and public telephones.

**6.2 Public Telephones (\*)**

The Company has a Public Telephone plant of 330.939 units to meet the needs of the population of the State of São Paulo and to achieve the requirements established by the regulatory agency.

(\*) Not reviewed by independent auditors.

**7. Anatel**  
**7.1 Targets**

The quality and universalization targets for Switched Fixed Telephone Services (STFC) are available at ANATEL's website: [www.anatel.gov.br](http://www.anatel.gov.br).

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(In millions of reais, unless otherwise stated)

**7.2 Domestic and International Long-distance Licenses**

ANATEL recognized that the Company had achieved the universalization targets two years in advance, which allowed the Company to receive the licenses to provide STFC services for local, domestic and international long-distance throughout Brazil, thus expanding its bounds. Subsequently, ANATEL announced that the Company was authorized to provide STFC services throughout Brazil, for local and domestic long-distance in Regions I, II and Sector 33 of the Region III and international long-distance in all three regions. A legal injunction was granted by Embratel suspending the domestic long-distance calls originated in its concession areas to Regions I (Telemar) and II (Brasil Telecom); however, this legal injunction was later declared not valid by ANATEL, allowing the Company to provide services throughout Brazil.

In May 2003, the Company started to offer local call services in more than six states, in addition to São Paulo, its original concession area. Afterwards, the Company's operations expanded to the cities of Duque de Caxias, Nova Iguaçu and São Gonçalo (in the state of Rio de Janeiro), Aracajú (Sergipe), Vitória (Espírito Santo), Porto Alegre (Rio Grande do Sul), Curitiba (Paraná) and Florianópolis (Santa Catarina).

The operation in these cities starts of the progressive achievement of the targets established by ANATEL, as a result of the concession that was granted to provide local services in regions outside the State of São Paulo, representing an advance in the accomplishment of universalization targets based on which the Company has become the first concessionaire to offer local telephony services outside its original concession area.

On July 6, 2003, the wireless operators implemented the carrier selection code - CSC on domestic (VP2 and VP3) and international long-distance calls, under the SMP rules. The Company began to account the revenues from these services, and pay wireless operators for usage of their networks.

**8. iTelefônica**

The Company, by means of its subsidiary Assist Telefônica, started to provide Internet access services in the State of São Paulo (the list of cities is available on the website [www.itelefonica.com.br](http://www.itelefonica.com.br)).

**9. Alternative fixed telephony plans**

On March 21, 2005, Telesp announced the "Linha Economia Família" (Family Economic Line). In this plan, the customer pays a monthly fee of R\$ 18.91 (R\$ 26.50 including tax - promotional) and habilitation of R\$ 62.80 (R\$ 88.01 including tax). Can make local calls (fixed-to-fixed) and gets 50 pulses including. Since the launch of this promotion, 350,000 terminals were installed in the State of São Paulo. Solution for customers with low budget, this product allows an expenditure control because the long-distance or fixed-to-mobile calls are made through a prepaid card. More than 82% of the customers, who acquired this line never were subscribed of a fixed line before.

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On May 12, 2005, Telefonica announced the "Plano Internet Ilimitada" (Unlimited Internet Access Plan). In this plan the customer pays a monthly fee of R\$ 29.90 (promotional fee to residencial subscribers) and gets dial access to the web for unlimited time, any day and any time of the week. In this plan the user surf the web as long as he wants and achieve a simple and efficient way for expenditure control. Among other results, the monthly connection time increased 3.5 times.

The alternative fixed telephony plans yield the installed capacity of Telesp and attend segments that did not have economic options to telephony access. It reflects the commitment of Telesp to the universalization of telecommunication services in the State of São Paulo, higher than the regulatory targets, and to the socialization of the communication and information access.

**10. Additional Information**

For further details about the Company's performance, consult the "Press Release" which is available at the website [www.telefonica.com.br](http://www.telefonica.com.br).

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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: October 27, 2005

By:           /s/ Daniel de Andrade Gomes          

Name: Daniel de Andrade Gomes

Title: Investor Relations Director

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