

TELESP HOLDING CO  
Form 6-K  
June 11, 2007

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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 June, 2007

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 andar

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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**Item**

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1. Press Release entitled "*Telecomunicações de São Paulo S.A. - Telesp - Announces the Quarterly Information ended March 31, 2007 with Special Review Report of Independent Auditors*" dated on March 31, 2007.

***Quarterly Information***

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

***Quarter ended March 31, 2007 with Special Review Report of Independent Auditors***

***(A free translation of the original issued in Portuguese)***

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

QUARTERLY INFORMATION

March 31, 2007

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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) (Parent Company and Consolidated) of Telecomunicações de São Paulo S.A □ TELESP and its subsidiaries for the quarter and three-months period ended March 31, 2007, which comprised the balance sheet, the statements of income, the performance report and other relevant information, prepared under responsibility of the Company and subsidiaries□ 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 and subsidiaries□ 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 material modifications that should be made to the above mentioned Quarterly Information (Parent Company and Consolidated), for it to be in conformity with the accounting practices adopted in Brazil, applied consistently with the standards established by the Brazilian Securities Commission (Comissão de Valores Mobiliários □ CVM), specifically applicable to the preparation of Quarterly Information.

São Paulo (SP), May 2, 2007  
Ernst & Young  
Auditores Independentes S.S.  
CRC-2SP015199/O-6

Luiz Carlos Marques  
Accountant CRC-1SP147693/O-5

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

BALANCE SHEETS

March 31, 2007 and December 31, 2006

(In thousands of reais □ R\$)

(A free translation of the original issued in Portuguese)

	Parent Company		Consolidated	
	03/31/07	12/31/06	03/31/07	12/31/06
<b>Assets</b>				
Current assets	<b>4,883,131</b>	4,516,884	<b>5,031,224</b>	4,679,051
Cash and cash equivalents	<b>406,352</b>	112,256	<b>478,364</b>	213,036
Trade accounts receivable, net	<b>3,089,958</b>	3,220,205	<b>3,196,479</b>	3,278,047
Deferred and recoverable taxes	<b>871,246</b>	868,040	<b>918,784</b>	911,624
Inventories	<b>86,601</b>	81,391	<b>86,896</b>	81,655
Other recoverable amounts	<b>64,017</b>	77,406	<b>74,411</b>	81,979
Other assets	<b>364,957</b>	157,586	<b>276,290</b>	112,710
Noncurrent assets	<b>13,144,049</b>	13,469,693	<b>13,195,844</b>	13,466,829
Noncurrent assets	<b>1,284,281</b>	1,175,656	<b>1,366,923</b>	1,267,370
Deferred and recoverable assets	<b>547,300</b>	533,240	<b>574,628</b>	563,039
Capitalizable investments	<b>263,138</b>	200,000	<b>263,138</b>	200,000
Escrow deposits	<b>392,259</b>	382,236	<b>393,407</b>	383,194
Other	<b>81,584</b>	60,180	<b>135,750</b>	121,137
Investments	<b>579,540</b>	577,216	<b>237,107</b>	241,697
Property, plant and equipment, net	<b>10,172,490</b>	10,566,944	<b>10,426,759</b>	10,748,563
Intangible assets, net	<b>830,319</b>	854,310	<b>877,483</b>	902,913
Deferred charges	<b>277,419</b>	295,567	<b>287,572</b>	306,286
Total assets	<b>18,027,180</b>	17,986,577	<b>18,227,068</b>	18,145,880

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	Parent Company		Consolidated	
	03/31/07	12/31/06	03/31/07	12/31/06
<b>Liabilities and shareholders' equity</b>				
Current liabilities	<b>6,579,225</b>	6,122,664	<b>6,762,051</b>	6,261,573
Loans and financing	<b>375,292</b>	314,026	<b>375,292</b>	314,026

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Debtentures	<b>1,515,540</b>	1,514,514	<b>1,515,540</b>	1,514,514
Trade accounts payable	<b>1,273,297</b>	1,541,189	<b>1,392,373</b>	1,645,770
Taxes payable	<b>961,467</b>	914,399	<b>1,011,785</b>	956,415
Dividends and interest on shareholders' equity	<b>1,356,119</b>	653,222	<b>1,356,119</b>	653,222
Reserves, net	<b>92,405</b>	100,597	<b>93,250</b>	100,661
Payroll and related charges	<b>145,478</b>	186,620	<b>157,059</b>	202,233
Temporary losses on derivatives	<b>315,055</b>	316,318	<b>315,055</b>	316,318
Other	<b>544,572</b>	581,779	<b>545,578</b>	558,414
<b>Noncurrent liabilities</b>	<b>950,563</b>	1,253,799	<b>967,625</b>	1,274,193
<b>Noncurrent liabilities</b>	<b>950,563</b>	1,253,799	<b>952,339</b>	1,256,723
Loans and financing	<b>166,447</b>	509,618	<b>166,447</b>	509,618
Debtentures	-	-	-	-
Taxes payable	<b>45,935</b>	45,953	<b>45,935</b>	45,953
Reserves, net	<b>609,913</b>	576,605	<b>611,895</b>	576,718
Reserve for post-retirement benefit plans	<b>76,768</b>	74,930	<b>76,861</b>	75,023
Other	<b>51,500</b>	46,693	<b>51,201</b>	49,411
Deferred income	-	-	<b>15,286</b>	17,470
<b>Shareholders' equity</b>	<b>10,497,392</b>	10,610,114	<b>10,497,392</b>	10,610,114
Capital	<b>6,575,198</b>	6,575,198	<b>6,575,198</b>	6,575,198
Capital reserves	<b>2,669,811</b>	2,669,729	<b>2,669,811</b>	2,669,729
Income reserves	<b>659,556</b>	659,556	<b>659,556</b>	659,556
Retained earnings	<b>592,827</b>	705,631	<b>592,827</b>	705,631
<b>Total liabilities and shareholders' equity</b>	<b>18,027,180</b>	17,986,577	<b>18,227,068</b>	18,145,880

See accompanying notes.

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

STATEMENTS OF INCOME

Quarters ended March 31, 2007 and 2006

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

(A free translation of the original issued in Portuguese)

Parent Company

Consolidated



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	Quarter ended 03/31/07	Quarter ended 03/31/06	Quarter ended 03/31/07	Quarter ended 03/31/06
Gross operating revenue	<b>5,107,706</b>	5,013,088	<b>5,340,804</b>	5,110,937
Revenue deductions	<b>(1,562,427)</b>	(1,460,018)	<b>(1,634,244)</b>	(1,493,114)
Net operating revenue	<b>3,545,279</b>	3,553,070	<b>3,706,560</b>	3,617,823
Cost of services provided	<b>(1,867,830)</b>	(1,932,349)	<b>(1,967,925)</b>	(1,954,180)
Gross profit	<b>1,677,449</b>	1,620,721	<b>1,738,635</b>	1,663,643
Operating expenses	<b>(783,179)</b>	(667,632)	<b>(833,029)</b>	(706,079)
Selling	<b>(529,742)</b>	(454,746)	<b>(543,547)</b>	(470,198)
General and administrative	<b>(261,121)</b>	(227,038)	<b>(282,933)</b>	(239,271)
Equity in subsidiaries	<b>3,135</b>	9,826	<b>(1,541)</b>	(2,716)
Other operating income (expenses), net	<b>4,549</b>	4,326	<b>(5,008)</b>	6,106
Income from operations before financial expenses, net	<b>894,270</b>	953,089	<b>905,606</b>	957,564
Financial expenses, net	<b>(86,128)</b>	(86,443)	<b>(85,762)</b>	(87,678)
Nonoperating income, net	<b>101,011</b>	5,905	<b>101,287</b>	5,916
Income before taxes	<b>909,153</b>	872,551	<b>921,131</b>	875,802
Income and social contribution taxes	<b>(316,326)</b>	(285,550)	<b>(328,304)</b>	(288,801)
Reversal of interest on shareholders' equity	-	-	-	-
Net income	<b>592,827</b>	587,001	<b>592,827</b>	587,001
Number of shares outstanding at the end of quarter (in thousands)	<b>505,841</b>	492,030		
Earnings per share □ R\$	<b>1.1719</b>	1.1930		

See accompanying notes.

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

NOTES TO QUARTERLY INFORMATION March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 1. Operations and Background

a) Shareholding control

Telecomunicações de São Paulo S.A. - Telesp, hereinafter referred to as the "Company" or "Telesp", is headquartered at Rua Martiniano de Carvalho, 851, in the capital of the State of São Paulo. Telesp belongs to the Telefónica Group, telecommunications industry leader in Spain and present in several European and Latin American countries. At March 31, 2007, Telefónica S.A., the Group head company, held total indirect shareholding in the Company capital of 87.95%, 85.57% of which are common shares and 89.13% are preferred shares.

b) Operations

The Company renders fixed line telephone services in the São Paulo State under a Fixed Switch Telephone Service Concession Agreement "STFC" granted by the National Telecommunications Agency "Anatel", which is in charge of regulating the telecommunications sector in Brazil (Note 1.c aforementioned). The Company has also authorizations from ANATEL, directly or through its subsidiaries, to provide other telecommunications services, such as data communication to the business market and broadband internet services under the *Speedy* brand. The Company's area of operation reaches approximately 95.0% of the São Paulo State, and approximately 97.8% of its population, including the municipality of São Paulo, the biggest in Brazil.

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).

c) Concession agreement

The Company is a concessionaire of the fixed switch telephone service (STFC) to render local and domestic long-distance calls originated in Region 3, which comprises the State of São Paulo, in Sectors 31, 32 and 34 established in the General Concession Plan (PGO).

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 1. Operations and Background (Continued)

#### c) Concession agreement (Continued)

The STFC Concession Agreement was extended at December 22, 2005, for a period of 20 years, and may be amended at December 31, 2010, December 31, 2015 and December 31, 2020. This condition allows ANATEL to establish new conditions and new universalization and quality goals, under the conditions prevailing at the time.

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 March 31, 2007, the net book value of such returnable assets is estimated at R\$7,746,967 (R\$8,027,464 as of December 31, 2006), comprised of switching and transmission equipment, public use terminals, external network equipment, energy equipment, and system and operation support equipment.

Every two years, over the twenty years of the new period, the public companies shall pay a renewal fee equivalent to 2% (two per cent) of the STFC income for the year prior to payment, net of taxes payable thereon. The first payment of such biannual payment occurred, exceptionally, on April 30<sup>th</sup> 2007, based on STFC net revenues in 2006.

#### d) Controlled Telecommunication service providers and subsidiaries

##### A. **Telecom S.A.**

A. Telecom S.A. (formerly Assist Telefônica S.A.), is a closely held company,

wholly-owned by Telesp. This company is specialized in rendering data communication services and services related to maintenance of the client's internal telephone network, as follows:

- (i) Digital Condominium, integrated equipment and service solution for voice, data and image transmission in commercial buildings;
- (ii) Installation, maintenance, exchange and extension of new internal cable points in homes and companies;

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 1. Operations and Background (Continued)

d) Controlled Telecommunication service providers and subsidiaries  
(Continued)

- (iii) iTefônica, free internet access provider;
- (iv) Speedy Wi-Fi, broadband service for wireless internet access; and
- (v) Speedy Corp, broadband service provider specifically developed for the corporate market.

#### Authorization to provide Satellite Pay-TV Services (DTH)

On May 16, 2006, A. Telecom S.A. applied to ANATEL for a license to provide digital direct-to-home (DTH) pay-TV services. ANATEL granted the license through Authorization No. 64.027 of March 14, 2007. DTH is a special satellite pay-TV service for direct broadcast of television and audio signals to the subscribers' home.

#### 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.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 1. Operations and Background (Continued)

- d) Controlled Telecommunication service providers and subsidiaries (Continued)

#### **Companhia ACT de Participações**

The business purpose is to participate in Refibra Consortium, render technical advisory services for preparation of projects for the conclusion of the Refibra Network, making the necessary studies to render them economically feasible, as well as monitoring of status of activities related to the Consortium. Currently, Telesp holds 50% interest in this company.

#### **Telefônica Empresas S.A.**

The business purpose is to render telecommunications services as well as the development, implementation and installation of projects related to integrated business solutions and telecommunications consulting as well as activities related to rendering of technical assistance and equipment and telecommunications network maintenance services. Telefônica Empresas became a wholly-owned subsidiary of the Company after the capital reorganization process occurred in July 2006 (see Note 2.b).

### 2. Corporate Restructuring in 2006

- a) Merged of Atrium Telecomunicações Ltda. into A. Telecom S.A.

On March 1, 2006 the then subsidiary Santo Genovese Participações Ltda., after having merged into its subsidiary Atrium Telecomunicações Ltda., was acquired by A.Telecom S.A., being extinguished as a result of such operation. A. Telecom remained a wholly-owned subsidiary of Telesp, and also began carrying out the activities

formerly performed by Atrium.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 2. Corporate Restructuring in 2006 (Continued)

b) Acquisition of Telefônica Data Brasil Holding S.A. and partial spin-off of Telefônica Empresas S.A.

On March 9, 2006, the Board of Directors of Telesp and of Telefônica Data Brasil Holding Ltda. (TDBH), both under control of the Telefônica Group, approved the proposal that aims at a restructuring of the Multimedia Communication Services (MCS) of Telefônica Empresas S.A. and Telesp. The operation will have the following steps:

- (i) merger of TDBH by Telesp, whereby TDBH members receive Telesp shares in accordance with the exchange ratio announced. With this operation, Telefônica Empresas S.A. will become a fully-owned subsidiary of Telesp. Telesp will succeed TDBH in all its rights and obligations; and,
- (ii) partial spin-off of Telefônica Empresas, with transfer of the SCM activities and assets to Telesp in the regions in which such services is already provided by Telesp.

The Extraordinary General Shareholders' Meetings of the Companies held on April 28, 2006 approved the proposed corporate reorganization. However, due to a preliminary injunction granted in connection with a judicial proceeding filed by TDBH minority shareholders, revoked on July 25, 2006, the effects of the corporate reorganization were generated as from publication of the judicial proceeding on July 28, 2006.

### 3. Presentation of the Quarterly Reviews

The individual and consolidated interim financial statements as of March 31, 2007 were prepared in accordance with accounting practices adopted in Brazil, which comprise, among others, the rules applicable to public telecommunications service concessionaires as well as the accounting rules and procedures established by the Brazilian Securities Commission - CVM, consistent with the rules adopted to prepare the financial statements for the last fiscal year. Quarterly information shall be analyzed together with the referred to financial statements.

Assets and liabilities are classified under current when the probability of realization or settlement is estimated to occur within the following twelve months. Otherwise, they are recorded under noncurrent items.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 3. Presentation of the Quarterly Reviews (Continued)

The process of preparation of the financial statements involves the use of accounting estimates. Such estimates were based on objective and subjective factors, based on management's judgment to determine the adequate value to be recorded in the financial statements.

Transactions involving estimates could result in amounts different from those recorded in the financial statements when their realization takes place in subsequent periods, due to inaccuracies inherent to estimates. The Company reviews its estimates and assumptions periodically.

The consolidated financial statements include balances and transactions of wholly and jointly-owned subsidiaries, according to the interests described below:

<b>Controlled</b>	<b>Mar/2007</b>	<b>Dec/2006</b>	<b>Mar/2006</b>
A.Telecom S.A.	100%	100%	100%
Telefonica Empresas S.A.	100%	100%	-
Aliança Atlântica Holding B.V.	50%	50%	50%
Companhia AIX de Participações	50%	50%	50%
Companhia ACT de Participações	50%	50%	50%
Santo Genovese Participações Ltda.	-	-	100%

Because the corporate restructuring mentioned in Note 2.b took place on July 28, 2006, the Parent Company and Consolidated results of the Company for the period ended March 31, 2007 consider the results of the split activities and the remaining portion of subsidiary Telefônica Empresas, respectively, this event shall be taken into consideration when comparing this with the results of the same period of the prior year.

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions and equity holdings among consolidated companies have been eliminated.

The quarterly information for the period ended March 31, 2007 take into consideration the requirements of Resolution No. 488/05 for both periods.

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

## NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

**4. Cash and Cash Equivalents**

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Cash and banks	<b>9,601</b>	27,497	<b>21,024</b>	39,871
Temporary cash investments	<b>396,751</b>	84,759	<b>457,340</b>	173,165
Total	<b>406,352</b>	112,256	<b>478,364</b>	213,036

Temporary cash investments are liquid investments restated based on the Interbank Deposit Certificate (CDI) rate variation and are held with first-rated banks.

**5. Trade Accounts Receivable, Net**

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Billed amounts	<b>2,467,716</b>	2,487,206	<b>2,485,134</b>	2,498,982
Unbilled amounts	<b>1,269,039</b>	1,276,821	<b>1,378,854</b>	1,339,943
Gross accounts receivable	<b>3,736,755</b>	3,764,027	<b>3,863,988</b>	3,838,925
Allowance for doubtful accounts	<b>(646,797)</b>	(543,822)	<b>(667,509)</b>	(560,878)
Total	<b>3,089,958</b>	3,220,205	<b>3,196,479</b>	3,278,047
Current	<b>2,244,831</b>	2,386,295	<b>2,409,128</b>	2,511,292
Past due □ 1 to 30 days	<b>474,799</b>	486,366	<b>472,693</b>	482,450



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Past due □ 31 to 60 days	<b>183,643</b>	183,160	<b>173,679</b>	167,145
Past due □ 61 to 90 days	<b>109,568</b>	118,493	<b>106,630</b>	97,949
Past due □ 91 to 120 days	<b>67,009</b>	87,841	<b>73,087</b>	75,856
Past due □ more than 120 days	<b>656,905</b>	501,872	<b>628,771</b>	504,233
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>3,736,755</b>	3,764,027	<b>3,863,988</b>	3,838,925
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**TELECOMUNICAÇÕES DE SÃO PAULO S.A. - TELESP**

NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

**6. Deferred and Recoverable Taxes**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>	<b>Mar/2007</b>	<b>Dec/2006</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Withholding taxes	<b>59,385</b>	84,507	<b>65,744</b>	88,645
Prepaid/recoverable income and social contribution taxes	<b>15,171</b>	9,221	<b>18,705</b>	14,716
Deferred taxes	<b>973,819</b>	944,967	<b>1,013,109</b>	989,171
Tax loss carryforwards □ Income tax	-	-	<b>14,120</b>	15,839
Tax loss carryforwards □ Social contribution tax	-	-	<b>4,949</b>	5,703
Reserve for contingencies	<b>309,847</b>	299,942	<b>310,091</b>	300,030
Postretirement benefit plans	<b>26,101</b>	25,476	<b>26,132</b>	25,508
Allowance for doubtful accounts	<b>166,750</b>	140,403	<b>172,340</b>	144,790
Allowance for reduction of inventory to market value	<b>33,053</b>	33,929	<b>33,099</b>	33,975
Merged tax credit (*)	<b>121,436</b>	128,413	<b>121,436</b>	128,413
Income tax on other temporary differences	<b>232,818</b>	232,944	<b>243,340</b>	246,259
Social contribution tax on other temporary differences	<b>83,814</b>	83,860	<b>87,602</b>	88,654
ICMS (state VAT) (**)	<b>365,437</b>	355,435	<b>385,026</b>	367,696

Other	<b>4,734</b>	7,150	<b>10,828</b>	14,435
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>1,418,546</b>	1,401,280	<b>1,493,412</b>	1,474,663
	<hr/>	<hr/>	<hr/>	<hr/>
Current	<b>871,246</b>	868,040	<b>918,784</b>	911,624
Noncurrent	<b>547,300</b>	533,240	<b>574,628</b>	563,039
	<hr/>	<hr/>	<hr/>	<hr/>

(\*) Amount merged due to split-off of Telefonica Empresas S.A. (Note 2.b).

(\*\*) 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, approved by the Board of Directors on December 18, 2006, as provided for in CVM Instruction No. 371/2002, the Company estimates the realization of the deferred taxes as of March 31, 2007 as follows:

Year	<u>Parent Company</u>	<u>Consolidated</u>
	<hr/>	<hr/>
2007	381,826	398,789
2008	242,808	250,944
2009	158,863	161,968
2010	89,204	92,605
2011	84,452	87,363
After de 2012	16,666	21,440
	<hr/>	<hr/>
Total	973,819	1,013,109
	<hr/>	<hr/>

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### **6. Deferred and Recoverable Taxes (Continued)**

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

Merged tax credit

As mentioned in Note 2.b, as a result of the corporate restructuring of July 28, 2006, the Company merged goodwill generated from the acquisition of investment at Figueira Administração e Participações S.A., which held telecommunications network operating assets of Banco Itaú S.A., in addition to investments in Galáxia Administrações e Participações S.A., a company having authorization for MCS (Multimedia Communication Service).

The book entries maintained for Company's corporate and tax purposes were made in specific goodwill and provision accounts (merged) and the corresponding amortization, reversal of provision and tax credit realization are as follows:

	<b>Parent Company</b>
	<b>Mar/2007</b>
Goodwill, net of accumulated amortization	357,165
Provision, net of reversals	(235,729)
Net amount	121,436
	<b>Parent Company</b>
	<b>Mar/2007</b>
Goodwill amortization during the period	(20.521)
Reversal of provision during the period	13.544
Tax credit during the period	6.977
Effect on result for the year	-

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**6. Deferred and Recoverable Taxes (Continued)**

Merged tax credit (Continued)

For purposes of calculation of the tax credit resulting from the takeover, the income and social contribution tax rates are 25% and 9% respectively.

As shown above, goodwill amortization, net of provision reversal and the related tax credit, did not generate any effects on net income for the period ended March 31, 2007.

For a fair presentation of the Company's financial position and results of its operations, the net amount of R\$121,436 (R\$93,412 in noncurrent assets and R\$28,024 in current assets), which essentially represents the merged tax credit, was reclassified in the balance sheet to deferred and recoverable taxes, in noncurrent assets, in accordance with CVM Instruction No. 349, of March 6, 2001. Goodwill amortization and provision reversal are recognized in the accounting records as operating income and expenses and the corresponding tax credit is recognized in the financial statements as provision for income and social contribution taxes.

**7. Inventories**

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Consumption materials	<b>100,452</b>	94,790	<b>100,596</b>	94,883
Resale items	<b>69,930</b>	72,979	<b>70,217</b>	73,285
Public telephone prepaid cards	<b>13,125</b>	13,063	<b>13,125</b>	13,063
Scraps	<b>308</b>	351	<b>308</b>	351
Allowance for reduction to recoverable value and obsolescence	<b>(97,214)</b>	(99,792)	<b>(97,350)</b>	(99,927)
Total current	<b>86,601</b>	81,391	<b>86,896</b>	81,655

The allowance for reduction to recoverable value and obsolescence takes into consideration timely analyses carried out by the Company.

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

NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

**8. Other Recoverable Taxes**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>	<b>Mar/2007</b>	<b>Dec/2006</b>
Advances to employees	<b>5,534</b>	5,837	<b>6,673</b>	6,859
Advances to suppliers	<b>27,879</b>	45,174	<b>36,399</b>	48,041
Escrow deposits	<b>21,223</b>	19,294	<b>21,261</b>	19,294
Other recoverable amounts	<b>9,381</b>	7,101	<b>10,078</b>	7,785
<b>Total current</b>	<b>64,017</b>	77,406	<b>74,411</b>	81,979

**9. Other Assets**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>	<b>Mar/2007</b>	<b>Dec/2006</b>
Prepaid expenses	<b>96.689</b>	75.597	<b>97.699</b>	75.647
Receivables from Barramar S.A. (*)	-	-	<b>64.212</b>	65.579
Intercompany receivables - current	<b>151.628</b>	104.705	<b>59.258</b>	57.106
Onlending of foreign currency loans	<b>1.073</b>	1.283	<b>1.073</b>	1.283
Tax incentives, net of allowance	<b>411</b>	411	<b>411</b>	411
Amounts linked to National Treasury securities	<b>9.961</b>	9.763	<b>9.961</b>	9.763
Receivables - sale of property/scraps (**)	<b>131.257</b>	1.219	<b>133.191</b>	1.219
Other assets	<b>34.677</b>	6.219	<b>35.436</b>	8.891
<b>Total</b>	<b>425.696</b>	199.197	<b>401.241</b>	219.899
<b>Current</b>	<b>364.957</b>	157.586	<b>276.290</b>	112.710
<b>Noncurrent</b>	<b>60.739</b>	41.611	<b>124.951</b>	107.189

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

(\*\*) On January 15, 2007, Telesp and Windsor Investimentos Imobiliários Ltda., a wholly-owned subsidiary of Tecnisa S.A., entered into a Real Property Sale and Purchase Agreement, totaling R\$134,555, referring to the property situated at Avenida Marques de São Vicente, 2353, corner of Avenida Nicolas Bôer, 301, Barra Funda, city of São Paulo, state of São Paulo, containing a total area of 251,380.81 m<sup>2</sup>, whereby the

net amount of R\$127,300 was received from Windsor on April 16, 2007, when the respective Public Deed of Sale and Purchase was drafted.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 10. Capitalizable Investments

Agreement for Convergence, Purchase and Sale of Businesses, Assets, Shares and Other Interests

As per Material Fact disclosed on October 31, 2006, the Company and Abril Group formalized several commercial and operating contractual relationships. Under said agreement, the Company will purchase 100% of shares representative of the cable TV operators controlled by Abril Group that provides Multichannel Multipoint Distribution Service (MMDS) and broadband operations, within and outside the state of São Paulo, within the limits established by the current legislation.

The effective acquisition of interest and the consequent transfer of shares, particularly the acquisition of control of the company holder of the MMDS license, are conditional upon previous approval by the National Communications Agency (ANATEL) and compliance with the other condition precedents provided for in the Agreement. The Brazilian Antitrust Agency (CADE) must also analyze the transaction from the competitiveness point of view.

In conformity with contractual provisions, on March 31, 2007, the Company made a prepayment in the amount of R\$263,138 (R\$200,000 as of December 2006) to Abril Group, collateralized by assets comprising TVA network.

### 11. Escrow Deposits

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Civil litigation	111,781	115,325	111,817	115,361
Tax litigation	206,694	205,047	207,726	205,861
Labor claims	73,784	61,864	73,864	61,972
<b>Total noncurrent</b>	<b>392,259</b>	382,236	<b>393,407</b>	383,194

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

## NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

**12. Investments**

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Investments carried under the equity method	<b>411,420</b>	408,285	-	-
Aliança Atlântica Holding B.V.	<b>57,904</b>	59,396	-	-
A. Telecom S.A.	<b>241,967</b>	219,457	-	-
Companhia AIX de Participações	<b>60,747</b>	63,696	-	-
Companhia ACT de Participações	<b>25</b>	25	-	-
Telefonica Empresas S.A.	<b>50,777</b>	65,711	-	-
Negative and positive goodwill on acquisition of investments	<b>78,520</b>	79,331	<b>93,806</b>	96,801
Negative goodwill on acquisition of shares □ Companhia AIX de Participações	<b>(17,470)</b>	(17,470)	-	-
Amortization of goodwill □ Companhia AIX de Participações	<b>2,184</b>	-	-	-
Goodwill on merger □ Katalyx Cataloguing do Brasil Ltda.	<b>945</b>	945	<b>945</b>	945
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>(26,959)</b>	(23,964)	<b>(26,959)</b>	(23,964)
Investments carried at cost	<b>89,600</b>	89,600	<b>143,301</b>	144,896
Portugal Telecom	<b>75,362</b>	75,362	<b>129,063</b>	130,658
Other companies	<b>26,781</b>	26,781	<b>26,781</b>	26,781
Other investments	<b>3,360</b>	3,360	<b>3,360</b>	3,360
Tax incentives	-	-	-	-
Allowance for losses	<b>(15,903)</b>	(15,903)	<b>(15,903)</b>	(15,903)
Total	<b>579,540</b>	577,216	<b>237,107</b>	241,697

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 Article 26 of CVM Instruction No. 247/96, it is been amortized straightly in two years, and is fundament in studies for deferred income.

The goodwill on the acquisition of control of Santo Genovese Participações Ltda. (parent company of Atrium Telecomunicações Ltda.), dated December 24, 2004, has been amortized on a straight-line basis over 10 years, and is based on future profitability study.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 12. Investments (Continued)

The main financial information of the subsidiaries, as of March 31, 2007 and December 31, 2006, is as follows:

	Mar/2007				
	Aliança Atlântica	A. Telecom	Companhia AIX	Companhia ACT	Telefonica Empresas
Paid-up capital	109,556	270,969	460,929	1	210,025
Capital reserve	-	-	-	-	1,139
Retained earnings (accumulated deficit)	6,252	(29,002)	(339,434)	50	(160,387)
Shareholders' equity	115,808	241,967	121,495	51	50,777
Shares (thousands)					
Number of subscribed and paid-up shares	88	407,154	298,562	1	215,640
Number of common shares owned	44	407,154	149,281	0,5	215,640
Ownership percentage	50%	100%	50%	50%	100%
			Dec/2006		
	Aliança Atlântica	A. Telecom	Companhia AIX	Companhia ACT	Telefonica Empresas
Paid-up capital	112,809	270,969	460,929	1	210,025
Capital reserve	-	-	-	-	1,137
Retained earnings (accumulated deficit)	5,983	(51,512)	(333,537)	50	(145,453)



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Shareholders' equity	118,792	219,457	127,392	51	65,709
Shares (thousands)					
Number of subscribed and paid-up shares	88	407,154	298,562	1	215,640
Number of common shares owned	44	407,154	149,281	0.5	215,640
Ownership percentage	50%	100%	50%	50%	100%

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**12. Investments** (Continued)

The Company's equity in subsidiaries is as follows:

	<u>Mar/2007</u>	<u>Mar/2006</u>
Aliança Atlântica	<b>(1,492)</b>	(2,723)
A. Telecom	<b>22,510</b>	14,142
Companhia AIX de Participações	<b>(2,949)</b>	(1,594)
Companhia ACT de Participações	-	1
Telefonica Empresas S.A.	<b>(14,934)</b>	-
	<u>                    </u>	<u>                    </u>
Total	<b>3,135</b>	9,826

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

	<u>Parent Company</u>
	<u>Mar/2007</u>
<b>Annual</b>	

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	<b>depreciation rate %</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Cost</b>
Property, plant and equipment		<b>39,328,479</b>	<b>(29,487,936)</b>	<b>9,840,543</b>	39,231,102
Switching and transmission equipment	12.50 to 20.00	<b>16,603,426</b>	<b>(13,798,070)</b>	<b>2,805,356</b>	16,564,227
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	<b>11,974,671</b>	<b>(9,177,625)</b>	<b>2,797,046</b>	11,918,986
Transmission equipment - modems	20.00 and 25.00	<b>913,368</b>	<b>(683,135)</b>	<b>230,233</b>	883,263
Underground and undersea cables, poles and towers	5.00 to 6.67	<b>405,823</b>	<b>(233,956)</b>	<b>171,867</b>	403,135
Subscriber, public and booth equipment	12.50	<b>2,061,688</b>	<b>(1,428,873)</b>	<b>632,815</b>	2,044,732
IT equipment	20.00	<b>561,313</b>	<b>(463,367)</b>	<b>97,946</b>	547,554
Buildings and underground cables	4.00	<b>6,473,524</b>	<b>(3,633,007)</b>	<b>2,840,517</b>	6,512,866
Vehicles	20.00	<b>60,614</b>	<b>(35,465)</b>	<b>25,149</b>	60,713
Land	-	<b>230,938</b>	-	<b>230,938</b>	254,005
Other	4.00 to 20.00	<b>43,114</b>	<b>(34,438)</b>	<b>8,676</b>	41,621
Property, plant and equipment in progress	-	<b>331,947</b>	-	<b>331,947</b>	329,412
<b>Total</b>		<b>39,660,426</b>	<b>(29,487,936)</b>	<b>10,172,490</b>	39,560,514
Average annual depreciation rates - %		<b>10.07</b>			10.09
Assets fully depreciated		<b>16,942,141</b>			16,501,567

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

NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

(In thousands of reais, unless otherwise stated)

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

	Annual depreciation rate %	Mar/2007		Consolidated
		Cost	Accumulated depreciation	Net book value
Property, plant and equipment		<b>39,644,890</b>	<b>(29,588,303)</b>	<b>10,056,587</b>
Switching and transmission equipment	12.50 to 20.00	<b>16,620,571</b>	<b>(13,805,554)</b>	<b>2,815,017</b>
Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture	10.00	<b>12,061,563</b>	<b>(9,192,029)</b>	<b>2,869,534</b>
Transmission equipment - modems	20.00 and 25.00	<b>969,128</b>	<b>(690,729)</b>	<b>278,399</b>
Underground and undersea cables, poles and towers	5.00 to 6.67	<b>419,599</b>	<b>(236,581)</b>	<b>183,018</b>
Subscriber, public and booth equipment	12.50	<b>2,123,267</b>	<b>(1,450,196)</b>	<b>673,071</b>
IT equipment	20.00	<b>591,588</b>	<b>(478,450)</b>	<b>113,138</b>
Buildings and underground cables	4.00	<b>6,474,008</b>	<b>(3,633,086)</b>	<b>2,840,922</b>
Vehicles	20.00	<b>61,134</b>	<b>(35,718)</b>	<b>25,416</b>
Land	-	<b>230,938</b>	-	<b>230,938</b>
Other	4.00 to 20.00	<b>93,094</b>	<b>(65,960)</b>	<b>27,134</b>
Property, plant and equipment in progress	-	<b>370,172</b>	-	<b>370,172</b>
Total		<b>40,015,062</b>	<b>(29,588,303)</b>	<b>10,426,759</b>
Average annual depreciation rates - %		<b>10.13</b>		

Assets fully depreciated

16,986,352**14. Intangible Assets, Net**

			Parent Comp
		Mar/2007	
	Annual depreciation rate %	Cost	Accumulated depreciation
			Net
Trademarks and patents	10.00	1,511	(1,511)
Software	20.00	1,869,956	(1,087,543)
Other	20.00	156,483	(108,577)
Total		2,027,950	(1,197,631)
Average annual depreciation rates %		19.66	
Assets fully depreciated		489,172	

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

NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

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**14. Intangible Assets, Net (Continued)**

<b>Consolidated</b>						
		<b>Mar/2007</b>		<b>Dec/2006</b>		
	<b>Annual depreciation rate %</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Cost</b>	<b>Accumulated depreciation</b>
Trademarks and patents	10.00	1,517	(1,511)	6	1,517	(1,511)
Software	20.00	1,982,793	(1,160,523)	822,270	1,928,952	(1,084,052)
Other	20.00	167,424	(112,217)	55,207	166,334	(108,327)
<b>Total</b>		<b>2,151,734</b>	<b>(1,274,251)</b>	<b>877,483</b>	2,096,803	(1,193,890)
Average annual depreciation rates %		<b>19.63</b>			19.67	
Assets fully depreciated		<b>495,570</b>			417,117	

## 15. Deferred Charges

Deferred charges as of March 31, 2007 and December 31, 2006 are as follows:

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>	<b>Mar/2007</b>	<b>Dec/2006</b>
Pre-operating expenses (a)	<b>,929</b>	3,719	<b>5,278</b>	8,306
Cost	<b>55,788</b>	55,788	<b>65,279</b>	65,279
Accumulated amortization	<b>(54,859)</b>	(52,069)	<b>(60,001)</b>	(56,973)
Goodwill on acquisition of the IP network (b)	<b>41,723</b>	43,537	<b>41,723</b>	43,537
Cost	<b>72,561</b>	72,561	<b>72,561</b>	72,561
Accumulated amortization	<b>(30,838)</b>	(29,024)	<b>(30,838)</b>	(29,024)
Merged goodwill TDBH (c)	<b>234,767</b>	248,311	<b>234,767</b>	248,311
Cost	<b>301,276</b>	301,276	<b>301,276</b>	301,276
Accumulated amortization	<b>(66,509)</b>	(52,965)	<b>(66,509)</b>	(52,965)

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Other	<u>,00-</u>	<u>,00-</u>	<u>5,804</u>	<u>6,132</u>
Cost	<u>,00-</u>	<u>,00-</u>	<u>12,059</u>	<u>12,059</u>
Accumulated amortization	<u>,00-</u>	<u>,00-</u>	<u>(6,255)</u>	<u>(5,927)</u>
 Total	 <u>277,419</u>	 <u>295,567</u>	 <u>287,572</u>	 <u>306,286</u>

- (a) Pre-operating expenses in the Company refer to costs incurred in the pre-operating stage of long-distance services; amortization began in May 2002, over a period of 60 months. Pre-operating expenses in subsidiaries are being amortized over 120 months.
- (b) 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 regarded as goodwill and recorded in deferred charges corresponds to the customer portfolio of the business. According to an appraisal report, the economic basis for the goodwill is the expected future profitability, for an amortization period of 120 months.
- (c) The goodwill resulting from takeover of Telefonica Data Brasil Holding S.A. (TDBH) refers to the corporate restructuring that took place in July 2001, with the split-off of Figueira. According to the Company business plans, such goodwill is recoverable in future operations, within a maximum period of 60 (sixty) months from the takeover date.

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

NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

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**16. Loans and Financing**

	<u>Parent Company and Consolidated</u>			
	<u>Currency</u>	<u>Annual interest rate</u>	<u>Maturity</u>	<u>Curr</u>
		%		
Mediocrédito	US\$	1.75%	2014	<b>6,</b>
Loans in local currency	R\$	130% of CDI rate	In 2007	<b>1,</b>
Loans in foreign currency (*)			Up to 2009	<b>367,</b>

	<b>Parent Company and Consolidated</b>			<b>Balance</b>
	<b>Currency</b>	<b>Annual interest rate</b>	<b>Maturity</b>	<b>Currency</b>
		<b>%</b>		
Total				375,000
Mediocrédito Loans in local currency	US\$	1.75%	2014	6,770
Loans in foreign currency (*)	R\$	130% of CDI rate	In 2007 Up to 2009	1,040 306,200
Total				314,000

(\*) The breakdown of loans in foreign currency is as follows:

<b>Parent Company and Consolidated</b>	<b>Currency</b>	<b>Interest rate</b>	<b>Principi</b>
Resolution No. 2770	USD	4.80%	256,500
□Untied Loan□ □JBIC	JPY	Libor + 1.25%	215,700
Total			472,300

<b>Parent Company and Consolidated</b>	<b>Currency</b>	<b>Interest rate</b>	<b>Principi</b>
Resolution No. 2770	JPY	0.28% a 5.78%	214,900
Resolution No. 2770	USD	4.80%	267,500
□Untied Loan□ □JBIC	JPY	Libor + 1.25%	267,100
Total			749,500

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

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 16. Loans and Financing (Continued)

The loan from Japan Bank for International Cooperation - JBIC includes restrictive covenants related to the maintenance of certain financial indices, which to date have been met.

#### Long-term debt maturities (Consolidated)

<u>Year</u>	<u>Amount</u>
2008	46,232
2009	92,463
2010	6,167
2011	6,167
Thereafter	15,418
Total	<u>166,447</u>

### 17. Debentures

#### Parent Company and Consolidated

	<u>Currency</u>	<u>Annual interest rate %</u>	<u>Maturity</u>	<u>Mar/2007</u>	<u>Dec/2006</u>
Debentures	R\$	103.50% of CDI rate	2007	<b>1,515,540</b>	1,514,514
Total				<b><u>1,515,540</u></b>	<u>1,514,514</u>



The adjustment to the interest rate of debentures is estimated for September 1, 2007. The Company conservatively considers such date in the maturity schedules.

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

NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

(In thousands of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

**18. Taxes Payable**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>	<b>Mar/2007</b>	<b>Dec/2006</b>
Taxes on income				
Income tax	<b>89,742</b>	60,467	<b>94,196</b>	63,692
Social contribution tax	<b>32,485</b>	15,265	<b>34,045</b>	16,188
Deferred taxes				
Income tax	<b>65,652</b>	62,575	<b>65,652</b>	62,575
Social contribution tax	<b>23,256</b>	22,344	<b>23,256</b>	22,344
Indirect taxes				
ICMS (state VAT)	<b>688,402</b>	696,268	<b>718,322</b>	717,406
PIS and COFINS (taxes on revenue)	<b>71,029</b>	67,133	<b>77,327</b>	73,293
Other	<b>36,836</b>	36,300	<b>44,922</b>	46,870
Total	<b>1,007,402</b>	960,352	<b>1,057,720</b>	1,002,368
Current	<b>961,467</b>	914,399	<b>1,011,785</b>	956,415
Noncurrent	<b>45,935</b>	45,953	<b>45,935</b>	45,953

Tax liabilities, net of escrow deposits, questioned in court are recorded under Taxes payable, as provided for in CVM Resolution No. 489/2005.

The heading "Others" includes FUST amounts payable of R\$74,719 as of March 31, 2007, net of escrow deposits of R\$61.764.

**19. Payroll and Related Charges**

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Salaries and fees	<b>26,555</b>	21,234	<b>27,580</b>	22,493
Payroll charges	<b>81,104</b>	81,480	<b>89,149</b>	89,053
Accrued benefits	<b>16,570</b>	18,551	<b>16,804</b>	18,929
Employee profit sharing	<b>21,249</b>	65,355	<b>23,526</b>	71,758
Total	<b>145,478</b>	186,620	<b>157,059</b>	202,233

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 20. Dividends and Interest on Shareholders' Equity

	Parent Company/Consolidated	
	Mar/2007	Dec/2006
Interest on shareholders' equity	<b>266,826</b>	266,897
Telefónica Internacional S.A.	<b>67,627</b>	67,627
SP Telecomunicações Holding Ltda.	<b>20,685</b>	20,685
Telefônica Data do Brasil Ltda.	<b>1,537</b>	1,537
Minority shareholders	<b>176,977</b>	177,048
Dividends	<b>1,089,293</b>	386,325
Telefónica Internacional S.A.	<b>467,842</b>	-
SP Telecomunicações Holding Ltda.	<b>143,098</b>	-
Telefônica Data do Brasil Ltda.	<b>10,632</b>	-
Minority shareholders	<b>467,721</b>	386,325
Total	<b>1,356,119</b>	653,222

A large portion of the balance of interest on shareholders' equity and dividends payable to minority shareholders refers to amounts declared to be available but not yet claimed, except for the dividends declared in March 2007, as mentioned in Note 23.

## 21. Reserves, Net

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. The table below shows the composition of the provision by nature of the claims and the evolution in the first quarter of 2007:

Consolidated	Nature			Total
	Labor	Tax	Civil	
Balances as of 12/31/2006	415,026	285,183	125,692	825,901
Additions	11,182	6,341	9,421	26,944
Write-offs	(15,669)	(1,256)	(4,072)	(20,997)
Monetary restatement	19,053	2,993	3,170	25,216
Balances as of 3/31/2007	429,592	293,261	134,211	857,064
Escrow deposits	(81,791)	(59,179)	(10,949)	(151,919)
Net amount	347,801	234,082	123,262	705,145
Current	48,221	27,448	17,581	93,250
Noncurrent	299,580	206,634	105,681	611,895

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 21. Provisions for Contingencies (Continued)

#### 21.1. Labor Contingencies and reserves

The Company has various labor contingencies and recorded a provision of R\$429,592, consolidated, to cover probable losses. The amounts involved and respective degrees of risk are as follows:

<b>Risk</b>	<b>Amount Involved</b>		
	<b>Telesp</b>	<b>A. Telecom</b>	<b>Total</b>
Remote	2,471,268	6,274	2,477,542
Possible	10,599	-	10,599
Probable	428,902	690	429,592
<b>Total</b>	<b>2,910,769</b>	<b>6,964</b>	<b>2,917,733</b>

These labor contingencies and reserves involve a number of lawsuits, mainly related to salary differences, salary parity, overtime, employment relationship of employees of outsourced companies and hazardous duty premium, among others.

The Company made escrow deposits in the amount of R\$81,791 for the reserves mentioned above.

## 21.2. Tax Contingencies and reserves

<b>Risk</b>	<b>Amount involved</b>			
	<b>Telesp</b>	<b>AIX</b>	<b>A.Telecom</b>	<b>Total</b>
Remote	1,810,935	-	1,320	1,812,255
Possible	3,049,743	-	10,134	3,059,877
Probable	291,052	2,209	-	293,261
<b>Total</b>	<b>5,151,730</b>	<b>2,209</b>	<b>11,454</b>	<b>5,165,393</b>

Based on the assessment of the Company's legal counsel and management, a reserve for tax contingencies was recorded for the claims considered as probable risk amounting to R\$293.261 as of March 31, 2007. The principal tax contingencies, assessed as remote, possible and probable risk, are as follows:

Claims by the National Institute of Social Security (INSS) referring to:

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**21. Provisions for Contingencies** (Continued)

**21.2. Tax Contingencies and reserves** (Continued)

- a) Collection of Workers' Compensation Insurance (SAT) and charging of joint liability for payment of social security contributions allegedly not made by contractors, in the approximate amount of R\$313,026. Based on a partially unfavorable court decision, management decided to record of R\$102,775 relating to the portion of the total amount for which the likelihood of loss is probable. A judicial amount of R\$549 was made.
- b) Social security contribution on amounts paid for compensation of salary losses resulting from economic plans ("Plano Verão" and "Plano Bresser"), in the approximate amount of R\$138,175. Based on higher court decisions and an unfavorable court decision in a similar case involving another company from the Group, the Company's management assessed the amount of R\$95,904 as probable loss, setting up reserve for such amount.
- c) Notice demanding social security contributions, SAT (Workers' Compensation Insurance) 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\$58,559, considered a possible risk. These lawsuits are in the 1<sup>st</sup> lower court and at the last administrative stage, respectively. No provision was recorded based on the risk classification of this matter.
- d) Notice demanding social security contributions for joint liability in 1993, in the amount of approximately R\$188,637, for which the risk is considered possible.  
  
This process is at the second administrative level. No reserve 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 reserve was made for the balance, for which the likelihood of loss is deemed

possible. This process is at the 2<sup>nd</sup> administrative level.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 21. Provisions for Contingencies (Continued)

#### 21.2. Tax Contingencies and reserves(Continued)

f) On December 20, 2005 notices were drawn concerning the period from May 1995 to December 1998 demanding the payment of social security contributions amounts, through reconstruction of the tax base and considering the existence of joint liability between the Company and the service providers in general and those related to civil construction. The amount of R\$238,929, which refers to the use of inadequate criteria for calculation of the reconstructed tax base, and of R\$180,285, corresponding to the wrong definition of civil construction for reconstruction, as will be shown by means of technical reports requested to Engineering Institutes, were assessed as remote risk of loss by the legal counsel.

The amount of R\$799,516 is classified as possible risk due to the existing judicial arguments that support the procedure adopted by the Company and the removal of the joint liability. The process is at the first administrative stage. No reserve was made based on the risk classification of this matter.

Claims by the São Paulo State Finance Office, referring to:

g) 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\$28,476 for November and December 1996 and amounting to R\$210.287 from January 1997 to March 1998, at the second administrative stage, assessed as possible risk, and R\$189.597 for the period from April 1998 to December 1999, at the second administrative stage, assessed as possible risk. No reserve was recorded based on the risk classification of these matters.

h)

Tax assessment on July 2, 2001 demanding the difference in ICMS paid without late-payment fine, amounting to R\$6,264, assessed as possible risk. The process is at the higher court. No reserve 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\$31,772, for which the risk is considered possible. The claim is at the 2nd administrative stage. No reserve was recorded based on the risk classification of this matter.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 21. Provisions for Contingencies (Continued)

#### 21.2. Tax Contingencies and reserves(Continued)

Claims by the São Paulo State Finance Office, referring to: (Continued)

- j) Tax assessment notices 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 and July 2000 to December 2003, in addition to an ICMS credit unduly taken in March 1999. The total amount involved is R\$114,510. The risk is considered possible by legal counsel. The claim is at the 2nd and 1<sup>st</sup> administrative stage, respectively. No reserve was recorded based on the risk classification of this matter.
- k) Notifications of around R\$8,348 regarding the former Ceterp's loss of the ICMS tax benefit established by State Decree No. 48,237/03, due to underpayment for an error in the calculation of the debt, assessed as possible risk. The claim is at the 2nd administrative stage. No reserve was recorded based on the risk classification of this matter.
- l) Tax assessment notices related to nonpayment of ICMS, in the period from January 2001 to December 2005, on amounts received for lease of personal property (modem), totaling R\$137,227. Related risk is assessed as possible by legal counsel. The claim is at the 2nd

administrative stage. No reserve was recorded based on the risk classification of this matter.

- m) Tax assessment notices related to nonpayment of ICMS in the period from August 2004 to December 2005, for non-inclusion of revenues from rendering of several supplemental services and value added, in the amount of R\$243,100, upon determination of the tax base. Related risk is assessed as possible by legal counsel. The claim is at the 2nd administrative stage. No reserve was recorded based on the risk classification of this matter.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 21. Provisions for Contingencies (Continued)

#### 21.2. Tax Contingencies and reserves(Continued)

Litigation at the Federal and Municipal levels:

- n) 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\$18,855, considered a probable loss. The claim is at the higher court. No reserve was recorded based on the risk classification of this matter.
- o) Tax collection claim demanding differences regarding income tax, based on DCTFs (Declaration of Federal Tax Credits and Debits) for the first quarter of 1999, amounting to approximately R\$5,548, assessed as possible risk. These claims are at the 1st administrative stage and no reserve was recorded based on the risk classification.
- p) At the municipal level, the Company has contingencies related to IPTU (municipal real property tax), ISS (municipal service tax), fine and interest in the amount of R\$4,941 which have all been accrued due to the existence of favorable and unfavorable decisions regarding this matter. The Company made escrow deposits in the amount of R\$1,944 for such questionings.



- q) The Company filed an annulment action with a view to obtaining a court order that fully annuls tax credits resulting from tax assessment notices drawn up by the municipality of São Paulo, alleging differences in payment of the ISS, and charging late payment fine of 20% not paid, in the amount of R\$19,145. A reserve was not set up for this contingency, based on the legal advisor's opinion of a possible unfavorable outcome. The claim is at trial court.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 21. Provisions for Contingencies (Continued)

#### 21.2. Tax Contingencies and reserves(Continued)

Litigation at the Federal and Municipal levels (Continued)

- r) On December 15, 2005, ANATEL issued Pronouncement No. 1 (subsequently renumbered to Pronouncement No. 7), whereby it confirmed the understanding that interconnection expenses are not excluded from FUST tax basis, thus changing the previous position which provided for such exclusion. The Pronouncement is applied retroactively to January 2001. Thus, through ABRAFIX (Brazilian Association of Fixed Telephony Companies), on January 9, 2006, the Company filed for a writ of mandamus with a view to ensuring the possibility of excluding interconnection expenses from the FUST calculation base. The proceeding is at trial court. The contingency risk was assessed as possible by the Company's legal advisors. The amount involved is of R\$123,121. No reserve was recorded based on the risk classification of this matter.
- s) Tax assessment notice drawn up by the IRS demanding payment of Corporate Income Tax (IRPJ), which was offset in 2002 Corporate Income Tax Return (DIPJ) against Withholding Income Tax (IRRF) by Public Agencies for the rendering of services during calendar year 2001. The suit is at the first administrative stage. The risk was classified as probable, and as such, a reserve was set up in the amount of R\$1,398.
- There are other contingencies that have also been accrued for, in the amount of R\$69,388, for which the risk is assessed by management as probable.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**21. Provisions for Contingencies** (Continued)**21.3. Civil Contingencies and reserves**

Risk	Amount Involved		Total
	Telesp	A. Telecom	
Remote	1,005,687	248	1,005,935
Possible	907,464	158	907,622
Probable	134,183	28	134,211
Total	2,047,334	434	2,047,768

These contingencies assessed as possible risk involve various matters: unacknowledged title to telephone line, indemnity for material and personal damages, among others, in the amount of approximately R\$419,221.

In addition, we describe below the most relevant civil contingencies, including their risk assessment:

- 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 and Ribeirão Pires, involving a total amount of approximately R\$295,683. The risks involved were assessed as possible by legal counsel. The claims are at appellate court level.
- 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) revaluation 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. Company Management, based on the opinion of its legal counsel, assessed this suit as a possible risk, and the respective amount involved is estimated to be R\$192,718. Based on the risk classification, no reserve was recorded.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**21. Provisions for Contingencies (Continued)****21.3. Civil Contingencies and reserves (Continued)**

- On June 9, 2000, WCR do Brasil Serviços Ltda. filed a collection suit against the Company, in which it claims the supposed difference between amounts received by Telesp related to use of the "0900 Service" and the amounts which were transferred to WCR. The updated amount claimed in the suit is R\$62,112. On October 1, 2004, a ruling was handed down by the 13th Civil Court of São Paulo - Capital, whereby the claim was judged valid. On December 14, 2004, an appeal was lodged against this ruling, which was distributed to the 26th Panel of Judges of the Capital. On May 26, 2006, a ruling was handed down on the appeal considering it to be partially valid, maintaining the text of the decision. This case involves a probable unfavorable outcome, as such, a reserve was set up.

**22. Other Liabilities**

	Parent Company		Consolidated	
	Mar/2007	Dec/2006	Mar/2007	Dec/2006
Consignments on behalf of third parties	<b>165,450</b>	179,481	<b>158,622</b>	169,792
Collateral for deposits	<b>1,856</b>	1,858	<b>1,856</b>	1,858
Amounts charged to users	<b>96,676</b>	107,903	<b>86,046</b>	96,025
Retentions	<b>65,572</b>	68,501	<b>69,368</b>	70,684
Other	<b>1,346</b>	1,219	<b>1,352</b>	1,225
Advances from customers	<b>43,575</b>	55,388	<b>43,575</b>	55,388
Amounts to be refunded to subscribers	<b>39,442</b>	60,731	<b>40,328</b>	61,667
Concession renewal fee (*)	<b>152,222</b>	121,684	<b>152,222</b>	121,684
Accounts payable - sale of share fractions (**)	<b>115,225</b>	115,585	<b>115,225</b>	115,585
Other	<b>52,032</b>	49,525	<b>59,229</b>	58,215
Total	<b>567,946</b>	582,394	<b>569,201</b>	582,331
Current	<b>525,708</b>	542,020	<b>520,572</b>	535,652

Noncurrent	<b>42,238</b>	40,374	<b>48,629</b>	46,679
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(\*) The total concession renewal fee amount due was paid on April 30, 2007. Under the accrual basis of accounting, said amount refers to the period up to March 2007.

(\*\*) Amounts resulting from the auction of share fractions after the reverse split process in 2005, and TDBH acquisition process in 2006.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 23. Shareholder's Equity

#### Capital

Capital as of March 31, 2007 and December 31, 2006 is R\$6,575,198. Subscribed and paid-up capital is represented by shares without par value, as follows:

	<u>Mar/2007</u>	<u>Dec/2006</u>
Common shares	<b>168,819,870</b>	168,819,870
Preferred shares	<b>337,417,402</b>	337,417,402
<b>Total</b>	<b>506,237,272</b>	506,237,272
Common treasury share	<b>(210,578)</b>	(210,578)
Preferred treasury share	<b>(185,213)</b>	(185,213)
<b>Total</b>	<b>(395,791)</b>	(395,791)
Outstanding shares		
Common shares	<b>168,609,292</b>	168,609,292
Preferred shares	<b>337,232,189</b>	337,232,189
<b>Total</b>	<b>505,841,481</b>	505,841,481
Book value per outstanding share in R\$	<b>20.75</b>	20.98

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.

*Dividends and interest on shareholders' equity*

On March 29, 2007, the General Shareholders' Meeting approved the distribution of dividends based on the accumulated earnings as of December 31, 2006, in the amount of R\$705,631.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**23. Shareholder's Equity** (Continued)

The proposed interest on shareholders' equity was determined as follows:

	<b>Types of shares</b>	
	<b>Common</b>	<b>Preferred</b>
Amounts in R\$ per share	1.307779	1.438557

This dividend was granted to common and preferred shareholders registered as so in the Company's shareholders registry book by the end of the day March 29, 2007. After that date, the shares were considered ex-dividends. The payment of this dividend will start on May 28, 2007.

**24. Net Operating Revenue**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Mar/2006</b>	<b>Mar/2007</b>	<b>Mar/2006</b>
Subscription	<b>1,448,255</b>	1,411,733	<b>1,448,255</b>	1,411,733
Activation	<b>24,920</b>	26,274	<b>24,920</b>	26,274
Local service	<b>775,651</b>	800,715	<b>813,927</b>	811,379
Domestic long distance	<b>759,594</b>	776,523	<b>786,631</b>	788,453
Intraregional	<b>537,957</b>	528,653	<b>556,979</b>	537,226
Interregional	<b>221,637</b>	247,870	<b>229,652</b>	251,227

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International long distance	<b>34,233</b>	39,972	<b>43,456</b>	41,843
Network	<b>967,146</b>	1,070,297	<b>1,009,282</b>	1,086,365
Use of network	<b>103,093</b>	136,707	<b>103,093</b>	136,707
Public telephones	<b>136,066</b>	121,827	<b>136,066</b>	121,827
Business communication	<b>627,968</b>	381,071	<b>690,566</b>	381,242
Assignment of means	<b>83,260</b>	99,098	<b>75,646</b>	99,098
Other	<b>147,520</b>	148,871	<b>208,962</b>	206,016
Gross operating revenue	<b>5,107,706</b>	5,013,088	<b>5,340,804</b>	5,110,937
Taxes on gross revenue	<b>(1,562,427)</b>	(1,460,018)	<b>(1,634,244)</b>	<u>(1,493,114)</u>
ICMS (State VAT)	<b>(1,142,634)</b>	(1,143,597)	<b>(1,187,034)</b>	(1,166,260)
PIS and COFINS (taxes on revenue)	<b>(187,231)</b>	(187,073)	<b>(202,782)</b>	(195,411)
ISS (municipal service tax)	<b>(7,539)</b>	(6,817)	<b>(10,419)</b>	(7,855)
Discounts	<b>(225,023)</b>	(122,531)	<b>(234,009)</b>	(123,588)
Net operating revenue	<b>3,545,279</b>	3,553,070	<b>3,706,560</b>	<u>3,617,823</u>

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

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**24. Net Operating Revenue** (Continued)

*Tariff adjustments affecting recorded revenue*

On July 10 and 14, 2006, through Official Announcements No. 59,517 and 59,665, ANATEL approved tariff adjustment percentages for fixed-switch telephone service (STFC), based on the criteria established in the local and domestic long-distance concession agreements, effective July 14, 2006 for the Basic Local Plan, and July 20, 2006 for the Basic Domestic Long-Distance Plan. Average decreases were as follows:

Basic Local Plan: (-0.38%)

Basic Domestic Long-Distance Plan: (-2.73%)

Beginning January 1, 2007 and 2006, the new interconnection rules became effective, pursuant to the renewal of the Concession Agreements for the Basic Local Plan and for the Basic Domestic Long-Distance Plan, as follows:

- beginning January 1, 2006, the local network tariff (TU-RL) is limited to 50% of the local minute.

- beginning January 1, 2007, the local network tariff (TU-RL) is limited to 40% of the local minute.

## 25. Cost of Services Provided

	Parent Company		Consolidated	
	Mar/2007	Mar/2006	Mar/2007	Mar/2006
Depreciation and amortization	<b>(569,370)</b>	(585,308)	<b>(580,783)</b>	(589,345)
Personnel	<b>(41,513)</b>	(60,890)	<b>(53,179)</b>	(62,911)
Materials	<b>(8,089)</b>	(8,926)	<b>(8,678)</b>	(9,063)
Network interconnection	<b>(889,328)</b>	(900,059)	<b>(902,530)</b>	(901,621)
Outside services	<b>(269,318)</b>	(285,416)	<b>(305,677)</b>	(297,355)
Other	<b>(90,212)</b>	(91,750)	<b>(117,078)</b>	(93,885)
Total	<b>(1,867,830)</b>	<u>(1,932,349)</u>	<b>(1,967,925)</b>	(1,954,180)

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

### NOTES TO QUARTERLY INFORMATION (Continued)

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## 26. Selling Expenses

	Parent Company		Consolidated	
	Mar/2007	Mar/2006	Mar/2007	Mar/2006
Depreciation and amortization	<b>(4,367)</b>	(3,075)	<b>(4,415)</b>	(3,096)
Personnel	<b>(78,827)</b>	(69,420)	<b>(82,933)</b>	(71,656)
Materials	<b>(22,381)</b>	(21,432)	<b>(22,428)</b>	(21,469)
Outside services	<b>(281,371)</b>	(247,180)	<b>(288,953)</b>	(255,793)
Allowance for doubtful accounts	<b>(136,672)</b>	(100,674)	<b>(138,379)</b>	(104,814)
Other	<b>(6,124)</b>	(12,965)	<b>(6,439)</b>	(13,370)
Total	<b>(529,742)</b>	(454,746)	<b>(543,547)</b>	(470,198)

**27. General and Administrative Expenses**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Mar/2006</b>	<b>Mar/2007</b>	<b>Mar/2006</b>
Depreciation and amortization	<b>(66,008)</b>	(66,500)	<b>(69,296)</b>	(70,344)
Personnel	<b>(82,471)</b>	(63,947)	<b>(93,663)</b>	(68,767)
Materials	<b>(3,370)</b>	(1,314)	<b>(3,578)</b>	(1,429)
Outside services	<b>(98,333)</b>	(91,402)	<b>(102,836)</b>	(94,437)
Other	<b>(10,939)</b>	(3,875)	<b>(13,560)</b>	(4,294)
<b>Total</b>	<b>(261,121)</b>	(227,038)	<b>(282,933)</b>	(239,271)

**28. Financial Expenses, Net**

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Mar/2006</b>	<b>Mar/2007</b>	<b>Mar/2006</b>
Financial income	<b>116,541</b>	197,376	<b>120,516</b>	197,237
Income from temporary cash				
Investments	<b>4,752</b>	28,550	<b>7,349</b>	29,297
Gains on derivative				
transactions	<b>62,375</b>	65,093	<b>62,375</b>	65,093
Interest	<b>10,295</b>	15,711	<b>11,422</b>	14,628
Monetary/exchange variations	<b>37,905</b>	86,636	<b>37,966</b>	86,638
Other	<b>1,214</b>	1,386	<b>1,404</b>	1,581
<b>Financial expenses</b>	<b>(202,669)</b>	(283,819)	<b>(206,278)</b>	(284,915)
Interest on capital	<b>(79,083)</b>	(101,522)	<b>(81,479)</b>	(102,241)
Losses on derivative transactions	<b>(103,180)</b>	(150,048)	<b>(103,233)</b>	(150,048)
Expenses on financial				
transactions	<b>(20,385)</b>	(17,852)	<b>(21,486)</b>	(18,218)
Monetary/exchange variations	<b>(21)</b>	(14,397)	<b>(80)</b>	(14,408)
<b>Total</b>	<b>(86,128)</b>	(86,443)	<b>(85,762)</b>	(87,678)



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

## NOTES TO QUARTERLY INFORMATION (Continued)

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**29. Other Operating Expenses, Net**

	Parent Company		Consolidated	
	Mar/2007	Mar/2006	Mar/2007	M
Income	<b>117,225</b>	105,018	<b>119,038</b>	
Technical and administrative services	<b>12,739</b>	13,955	<b>11,858</b>	
Amortization of Goodwill - Companhia AIX de Participações	<b>2,184</b>	,00-	<b>2,184</b>	
Income from supplies	<b>14,560</b>	5,249	<b>14,560</b>	
Dividends	<b>,00-</b>	,029	<b>,00-</b>	
Fines on telecommunication services	<b>29,961</b>	28,192	<b>31,511</b>	
Recovered expenses	<b>20,426</b>	34,952	<b>21,757</b>	
Reversal of reserve for contingencies	<b>24,884</b>	5,860	<b>24,969</b>	
Other	<b>12,471</b>	16,781	<b>12,199</b>	
Expenses	<b>(112,676)</b>	(100,692)	<b>(124,046)</b>	
Write-offs and adjustments to realizable value of supplies	<b>(1,025)</b>	(732)	<b>(1,013)</b>	
Goodwill amortization	<b>(16,540)</b>	(2,920)	<b>(16,540)</b>	
Donations and sponsorships	<b>(3,567)</b>	(3,460)	<b>(3,577)</b>	
Taxes (except IR and CSLL)	<b>(63,323)</b>	(61,623)	<b>(69,194)</b>	
Labor, tax and civil reserves	<b>(22,875)</b>	(24,655)	<b>(25,407)</b>	
Other	<b>(5,346)</b>	(7,302)	<b>(8,315)</b>	
Total	<b>4,549</b>	4,326	<b>(5,008)</b>	

**30. Non Operating Income, Net**

	Parent Company		Consolidated
	Mar/2007	Mar/2006	Mar/2007
Income	<b>150,178</b>	11,626	<b>150,454</b>
Proceeds from sale of property, plant and equipment and investments (*)	<b>136,608</b>	2,746	<b>136,644</b>
Unidentified revenue	<b>11,770</b>	6,488	<b>11,770</b>
Fines	<b>1,800</b>	2,392	<b>2,040</b>
Expenses	<b>(49,167)</b>	(5,721)	<b>(49,167)</b>
Cost of sale of property, plant and equipment and investments (*)	<b>(49,131)</b>	(5,721)	<b>(49,131)</b>
Other	<b>(36)</b>	,00-	<b>(36)</b>
Total	<b>101,011</b>	5,905	<b>101,287</b>

(\*) Refers mainly to the sale of the property situated in Barra Funda, São Paulo -SP, as mentioned in Note 9. The book value written down in March 2007 was R\$46,044.

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NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**31. Income and Social Contribution Taxes**

The Company recognizes income and social contribution taxes monthly on 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 31 2007 and 2006 is shown in the table below:

Parent Company	Consolidated
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	<b>Mar/2007</b>	<b>Mar/2006</b>	<b>Mar/2007</b>	<b>Mar/2006</b>
Income before taxes	<b>909,153</b>	872,551	<b>921,131</b>	875,802
<b><u>Social contribution tax</u></b>				
Social contribution tax expense	<b>(81,824)</b>	(78,530)	<b>(82,902)</b>	(78,822)
Permanent differences:				
Equity pick-up	<b>,282</b>	884	<b>(139)</b>	(244)
Nondeductible expenses, gifts, incentives and dividends received	<b>(2,875)</b>	2,022	<b>(4,648)</b>	2,579
Social contribution tax expense in the statement of income	<b>(84,417)</b>	(75,624)	<b>(87,689)</b>	(76,487)
<b><u>Income tax</u></b>				
Income tax expense	<b>(227,288)</b>	(218,138)	<b>(230,283)</b>	(218,951)
Permanent differences:				
Equity pick-up	<b>,784</b>	2,456	<b>(385)</b>	(679)
Nondeductible expenses, gifts, incentives and dividends received	<b>(5,405)</b>	5,621	<b>(9,947)</b>	7,181
Other				
Incentives (cultural, food and transportation)	<b>,00-</b>	135	<b>,00-</b>	,135
Income tax expense in the statement of income	<b>(231,909)</b>	(209,926)	<b>(240,615)</b>	(212,314)
Total (income tax + social contribution tax)	<b>(316,326)</b>	(285,550)	<b>(328,304)</b>	(288,801)

The breakdown of deferred income and social contribution taxes, assets and liabilities, on temporary differences is shown in Notes 6 and 18, respectively.

The current portion of income and social contribution taxes in consolidated corresponds to R\$321,327 at March 31, 2007(R\$288,801 in the same period of 2006).

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

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### 32. Related Party Transactions

Significant balances with related parties are as follows:

	<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>
<b>ASSETS</b>		
<u>Current assets</u>	<b>229,886</b>	223,357
Trade accounts receivable	<b>168,190</b>	163,001
Other recoverable amounts	<b>2,438</b>	3,250
Other assets	<b>59,258</b>	57,106
<u>Noncurrent assets</u>	<b>10,799</b>	13,948
Intercompany receivables	<b>10,799</b>	13,948
Total assets	<b>240,685</b>	237,305
<b>LIABILITIES</b>		
<u>Current liabilities</u>	<b>1,007,723</b>	402,804
Trade accounts payable	<b>270,214</b>	289,151
Interest on shareholders' equity and dividends (See Note 20)	<b>711,421</b>	89,850
Loans with related parties	<b>1,082</b>	1,041
Intercompany payables	<b>25,006</b>	22,762
<u>Noncurrent liabilities</u>	<b>2,572</b>	2,732
Intercompany payables	<b>2,572</b>	2,732
Total liabilities	<b>1,010,295</b>	405,536

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

## NOTES TO QUARTERLY INFORMATION (Continued)

March 31, 2007

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

	<b>Consolidated</b>	
	<b>Mar/2007</b>	<b>Dec/2006</b>
<u>STATEMENT OF INCOME</u>		
<u>Revenue</u>	<b>85,539</b>	99,758
Telecommunications services	<b>75,531</b>	89,143
Financial income	-	,017
Other operating revenue	<b>10,008</b>	10,598
<u>Costs and expenses</u>	<b>(563,676)</b>	(604,786)
Cost of services provided	<b>(441,061)</b>	(473,721)
Selling	<b>(97,751)</b>	(102,101)
General and administrative	<b>(24,864)</b>	(28,964)

Trade accounts receivable include receivables for telecommunications services, namely Vivo S.A., Atento Brasil S.A., Terra Networks Brasil S.A. and Telefónica de España S.A., particularly for long-distance services.

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

Other assets in current and noncurrent assets comprise credits from Telefónica Internacional S.A., Telefônica Serviços Empresariais do Brasil Ltda., Atento Brasil S.A., Telefônica Data do Brasil Ltda, Vivo S.A. 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., Vivo S.A., TIWS Brasil, Terra Networks Brasil S.A., Telefônica Pesquisa e Desenvolvimento do Brasil Ltda. and Telefónica de España S.A. We also highlight the rendering of administrative services in the accounting, financial, human resources, property, logistics and IT areas payable to Telefônica Serviços Empresariais do Brasil Ltda.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

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

Revenue from telecommunications services comprises mainly billings to Vivo S.A., Terra Networks Brasil S.A. and Atento Brasil S.A.

Other operating revenues are basically from network infrastructure leased to Vivo S.A.

Cost of services provided refers mainly to interconnection and traffic services (mobile terminal) expenses, provided by Vivo S.A. and its subsidiary, call center management services provided by Atento Brasil S.A.

Selling expenses refer mainly to marketing services by Atento Brasil S.A., and commissions paid to cellular telephone operators with Vivo S.A.

General and administrative expenses refer to administrative management services provided by Telefônica Serviços Empresariais do Brasil Ltda., and management and technical services payable to Telefônica Internacional S.A.

**33. Post Retirement Benefit Plans**

Telesp individually sponsors a defined benefit retirement plan (PBS Telesp Plan), which covers approximately 0.81% of the Company's employees. In addition to the supplemental pension benefit, a multiemployer health care plan (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 procedure is the capitalization method and the sponsor's contribution is 6.93% of payroll of employees covered by the plan, of which 5.43% is allocated to fund the PBS Telesp Plan and 1.5% to the PAMA Plan.

The Company maintains the same post retirement benefit plans informed on the last financial statements.

In the first quarter of 2007, the Company made contributions to PBS Telesp Plan, in the amount of R\$13 (R\$14 in the same period of 2006), and to Visão Telesp Plan, in the amount of R\$6,136 (R\$5,681 in the same period of 2006).

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NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**33. Post-Retirement Benefit Plans** (Continued)

A. Telecom individually sponsors a defined contribution plan similar to that of Telesp, the Visão A. Telecom Benefit Plan, which covers about 26% of its employees. A. Telecom total contributions to this plan for the first quarter in 2007 amounted to R\$159 (R\$78 in 2006).

Telefonica Empresas S.A. individually sponsors a defined contribution plan similar to that of the Company, the Visão Telefônica Empresas Benefit Plan. Total contributions to this plan for the first quarterly in 2007 amounted to R\$204 (R\$824 in 2006).

The actuarial valuation of the plans was made in December 2006 and 2005 based on the employees' data as of September 2006 and November 2005, respectively, and the projected unit credit method was adopted. Actuarial gains or losses for each year were immediately recognized in each of the periods. The plans assets relate to November 30, 2006 and 2005. For multiemployer plans (PAMA and PBS-A), apportionment of the plan assets was made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

Below is the actuarial deficit recorded as of March 31, 2007 and December 31, 2006 regarding the following post retirement plans:

<b>Plan</b>	<b><u>Mar/2007</u></b>	<b><u>Dec/2006</u></b>
CTB	<b>23,896</b>	23,326
PAMA	<b>52,872</b>	51,604
Total Company	<b>76,768</b>	74,930
Liabilities - Visão Assist	<b>93</b>	93
Total Consolidated	<b>76,861</b>	75,023

Other plans sponsored by the Company and its subsidiaries recording surplus (PBS-A, PBS Telesp, Visão Telesp and Visão Telefônica Empresas) are not registered in accounting and the last actuarial valuation occurred in December 2006.

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**33. Post-Retirement Benefit Plans** (Continued)

Shown below are expenses estimated for 2007 as per actuaries' report:

**PBS /Visão****Visão □****Visão □**

	<b>Telesp/CTB</b>	<b>PAMA</b>	<b>Assist</b>	<b>TEmpresas</b>
Current service cost	3,349	-	86	248
Interest cost	11,472	11,159	45	98
Expected return on plan assets	(15,323)	(6,087)	(45)	(604)
Employees' contributions	(191)	-	(1)	(20)
<b>Total expenses for 2007</b>	<b>(693)</b>	<b>5,072</b>	<b>85</b>	<b>(278)</b>

### 34. Insurance (unaudited)

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.

Below are listed the main insurance coverage contracted by the Company:

<b>Type</b>	<b>Insurance Coverage</b>
Operating risks (with loss of profits)	US\$7,725,527 thousand
Optional third-party liability - vehicles	R\$1,000
ANATEL guarantee insurance	R\$9,779.8

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NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 35. Financial Instruments

Carrying and fair values of financial instruments as of March 31, 2007 and December 31, 2006 are as follows:

<b>Consolidated</b>			
<b>Mar/2007</b>		<b>Dec/2006</b>	
<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>



Loans and financing	<b>(2,057,279)</b>	(2,050,370)	<b>(2,338,158)</b>	(2,334,184)
Derivatives	<b>(315,055)</b>	(288,192)	<b>(316,318)</b>	(278,957)
Cash and cash equivalents	<b>478,364</b>	478,364	<b>213,036</b>	213,036
	<b>(1,893,970)</b>	(1,860,198)	<b>(2,441,440)</b>	(2,400,105)

The valuation methodology used to determine the fair value of loans, financing and derivative instruments (currency and interest rate swap) was the discounted cash flow method, considering expected settlement or realization of liabilities and assets, at market rates prevailing on the balance sheet date

The Company has an interest of 0.94%, Portugal Telecom, carried at cost. The investment, at market value, is based on the last quotation of March 2007 on the Lisbon Stock Exchange for Portugal Telecom, equivalent to €10,03 (€9,84 at December 31, 2006):

	<b>Consolidated</b>			
	<b>Mar/2007</b>		<b>Dec/2006</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>219,613</b>	<b>75,362</b>	221,850
Portugal Telecom □ indirect investment through Aliança Atlântica	<b>53,701</b>	<b>73,204</b>	<b>55,296</b>	73,950
	<b>129,063</b>	<b>292,817</b>	<b>130,658</b>	295,800

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 35. Financial Instruments (Continued)

The principal market risk factors that affect the Company's business are detailed below:

a) Exchange rate risk

As of March 31, 2007, 26.28% (35.18% as of December 31, 2006) of the debt was denominated in foreign currency (U.S. dollar and yen), 99.92% (99.88% as of December 31, 2006) of this debt was covered by asset positions on currency hedge transactions (swaps for CDI). As of March 31, 2007, transactions with derivatives generated a consolidated negative result of R\$41,387, which was partially offset against exchange gains on debts, in the amount of R\$24,954. As of March 31, 2007, the Company recorded a liability of R\$315,055 to reflect the net position of derivatives as of that date.

The carrying and fair values of the Company's net excess (exposure) to the exchange rate risk as of March 31, 2007 and December 31, 2006 are as follows:

	<b>Consolidated</b>			
	<b>Mar/2007</b>		<b>Dec/2006</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Liabilities				
Loans and financing	<b>540,657</b>	<b>532,484</b>	<b>822,603</b>	816,608
Purchase commitments	<b>74,193</b>	<b>74,193</b>	<b>65,855</b>	65,855
Asset position on swaps	<b>540,231</b>	<b>537,813</b>	<b>821,625</b>	822,113
Net excess (exposure)	<b>(74,619)</b>	<b>(68,864)</b>	<b>(66,833)</b>	(60,350)

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**35. Financial Instruments** (Continued)b) Interest rate risk

To hedge against the currency and external variable interest rate (Libor) 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 (interbank deposit rate), in a way that the Company's indebtedness is affected by CDI fluctuations. The balance of loans and financing also includes debentures issued in 2004 bearing CDI-based interest of R\$1,515,540 (R\$1,514,514 as of December 31, 2006), as described in Note 17.

The Company invests its cash surplus (temporary cash investments) of R\$457,340 (R\$173,165 as of December 31, 2006) mainly in short-term instruments, based on the CDI variation, which also reduces the exposure to said risk. The carrying values of these instruments approximate their corresponding fair values, since they may be redeemed in the short term.

As of March 31, 2007, the Company had swap transactions □ CDI vs. fixed rate, to partially hedge against fluctuations in internal interest rates. These hedging transactions, with a contracted principal of R\$578,032, generated a net consolidated positive result of R\$529 over the year, and this temporary gain was recorded in the statement of income.

c)

Debt acceleration risk

As of March 31, 2007, 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 met by the Company and have not restricted the Company's ability to conduct its normal course of business.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

**35. Financial Instruments** (Continued)

d)

Credit risk

As of March 31, 2007, the Company's consolidated 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 top-tier financial institutions.

### 36. Additional Information

On October 27, 2006, Decree No. 47,817 was published in the Official Gazette of the Municipality of São Paulo, regulating Law No. 14,023/05, which establishes that all aerial cabling in the city of São Paulo be buried and to comply with the Law. The Company is analyzing the effects of the referred to regulation in order to study its impacts.

### 37. Subsequent Events

On April 19, 2007, the Company published a notice to shareholders regarding the distribution of interest on shareholders' equity for fiscal year 2007, approved by the Board of Directors, [a] referendum [of the General Shareholders' Meeting:

#### Interest on shareholders' equity - fiscal year 2007

The Company declared interest on shareholders' equity in the amount of R\$221,000 (two hundred twenty-one million reais), which, less withholding income tax at a rate of 15%, results in net interest of R\$187,850 (one hundred eighty-seven million, eight hundred fifty thousand reais), according to article 9 of Law No. 9249/95, and CVM Resolution No. 207/96.

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

NOTES TO QUARTERLY INFORMATION (Continued) March 31, 2007 (In thousands of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 37. Subsequent Events (Continued)

Value per share (R\$)	Immune or exempt legal entities (gross amount)	Withholding income tax (15%)	Taxed legal entities and individuals (net amount)
Common shares	0.409589	0.061438	0.348151
Preferred shares (*)	0.450548	0.067582	0.382966

(\*) 10% higher than the dividend granted to each common shareholder, in accordance with article 7 of the Company's bylaws.

Corresponding credit of interest on shareholders' equity was stated in the Company's accounting records as of April 30, 2007, on an individual basis to each holder of common and preferred shares based on their position of shares held at the end of April 30, 2007. The payment of such interest on shareholders' equity will start on May 28, 2007.

As provided for in article 28 of the Company's by laws, interest on shareholders' equity may be included in mandatory minimum dividends for fiscal year 2007. Immune or tax-exempt shareholders will receive this interest at gross amount, as per prevailing legislation, upon evidence of such condition provided through May 11, 2007, according to the notice to shareholders published on April 19, 2007.

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

MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE March 31, 2007 (In millions of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### Management Comments on Consolidated Performance

	Mar/07	Mar/06	Variation	
			%	R\$
Gross Operating Revenue	<b>5,340.8</b>	5,110.9	4.5	229.9
Net Operating Revenue	<b>3,706.6</b>	3,617.8	2.5	88.8
Cost of Services Provided	<b>(1,967.9)</b>	(1,954.2)	0.7	(13.7)
Financial Expenses, net	<b>(85.8)</b>	(87.7)	(2.2)	1.9
Operating Expenses, net	<b>(833.1)</b>	(706.0)	18.0	(127.1)
Operating Income	<b>819.8</b>	869.9	(5.8)	(50.1)
Net Income for the Period	<b>592.8</b>	587.0	1.0	5.8

- Accumulated net operating revenue through to March 2007 amounted to R\$3,706.6 million, which as compared to revenue for the same prior year period of R\$3,617.8 million represented an increase of R\$88.8 million or up 2.5%, mainly due to the increase in revenue from data communication due to merger with Telefônica Empresas S.A., the increase in Speedy service and the increase in the number of alternative plans in the period. This effect was partially offset by the decrease in revenue from network use due to the new interconnection rules in force as from January 1, 2007 under which TU-RL started to be limited to 40% of the amount of tariff for local minute, which represents a 20.0% decrease in relation to tariff in Dec/2006. In addition, there was decrease in inter-network revenue due to the increase in the anti-fraud initiatives and higher discounts granted by Speedy service through Duo packs.
- The cost of services provided increased by R\$13.7 or 0.7%, mainly due to "Personnel expenses" due to the salary raise in September/06, the increase in headcount due to the

migration of employees from subsidiary Telefônica Empresas S.A. and the Voluntary Resignation Incentive Program (PDI) conducted in February/07, as well as due to [Materials] in connection with Detecta promotion (call identification service), under which new subscribers receive the device free of charge, and increased expenses with plant maintenance and [outsourced services] mainly due to the increase in expenses with customer services and the increase in private terminal maintenance.

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

MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE (Continued) March 31, 2007 (In millions of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

3. Financial expenses improved by R\$1.9 million mainly due to the decrease in CDI interest, despite the increased average net indebtedness.

### A. Financial expenses, net

Annual Comparison □ R\$	Mar/07	Mar/06	Variation	
			%	R\$
Income from financial operations	7.8	30.3	(74.2)	(22.5)
Loss on hedge operations	(40.9)	(85.0)	(51.9)	44.1
CPMF	(20.5)	(17.6)	16.5	(2.9)
Interest receivable	11.4	14.6	(21.9)	(3.2)
Interest payable	(81.5)	(102.2)	(20.2)	20.7
Monetary/foreign exchange variation	37.9	72.2	(47.5)	(34.3)
Financial expenses, net	<u>(85.8)</u>	<u>(87.7)</u>	<u>(2.2)</u>	<u>1.9</u>

4. Operating income was down 5.8% as compared to same prior year period. This result is mainly due to the increase in operating expenses in the quarter, mainly in expenses with personnel, materials and outsourced services, in addition to the decrease in revenue from network use and inter-network revenue, partially offset by the increase in data communication revenues due to merger with Telefônica Empresas S.A.

5. Physical data (\*)

Evolution of main physical data:

	Unit	Mar/07	Mar/06	Variation %
Installed lines	Line	14,439,391	14,322,760	0.8

Fixed lines in service	Line	12,039,430	12,376,898	(2.7)
Local traffic				
	Thousand			
Pulses recorded	pulses	5,764,107	7,678,623	(24.9)
	Thousand			
Exceeding pulses	pulses	3,771,366	5,220,401	(27.8)
Public telephones in service	Sets	250,252	331,414	(24.5)

(\*) Not reviewed by independent auditors.

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

MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE (Continued) March 31, 2007 (In millions of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

### 6. Investments

The Company submitted for the appreciation of the Board of Directors the Capital Budget for 2007, in the amount of R\$1,845 million □ consolidated, which was later submitted to and approved by the Common General Meeting of March 29, 2007. The source will be the funds generated by the operation.

Until March 31, 2007, the Company invested the amount of R\$351.3 - consolidated, and up to March 2007, the new contracted capital commitments were as follows:

Year of Cash Outlay	Total Contracted	Total Budget
2007	489.5	557.4

#### 6.1 Sale of lines (\*)

By the end of March 2007 there were 12,039,430 lines in service, of which 75% are residential, 15% are non-residential and 7% are commercial lines, and the remaining are lines for own use and public use telephones.

#### 6.2 Public Telephony (\*)

The Company maintains a plant of public telephones with 250,252 units to be used by São Paulo State population and to continue observing the determinations of the regulatory agency.

(\*) Not reviewed by independent auditors.

7. Anatel

7.1 Targets

The quality and universalization targets for the Fixed Switching Telephone Service (STFC) are available for monitoring by the population on the web page of the National Telecommunications Agency (ANATEL), [www.anatel.gov.br](http://www.anatel.gov.br).

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

MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE (Continued) March 31, 2007 (In millions of reais, unless otherwise stated) (A free translation of the original issued in Portuguese)

7. Anatel (continued)

7.2 Concession agreement

The STFC concession agreement was extended on December 22, 2005, for a period of 20 years, with the possibility of being amended on December 31, 2010, December 31, 2015 and December 31, 2020. This allows ANATEL to establish new conditions and new quality and universalization targets, considering the circumstances prevailing at the time.

8. A. Telecom S.A.

On March 1, 2006, the Company approved merger of its wholly-owned subsidiary Santo Genovese Participações Ltda. into its other wholly-owned subsidiary A.Telecom S.A., since it believes that this merger meets shareholders' and customers' interests and will also increase synergies with the integration of activities into a sole company, rationalize management, simplify the administrative and shareholding structure and also offer to customers more integrated services.

This wholly-owned subsidiary of the Company has been positively contributing to results due to the significant success and continuous growth of operations related to telephone service administration in commercial buildings.

9. Telefonica Data Brasil Holding S.A. □ TDBH and Telefonica Empresas S.A.

The merger of TDBH and the partial spin-off of Telefônica Empresas S.A. to Telesp occurred in the 2nd semester of 2006 half resulted in the following benefits for the Companies and their shareholders:

(i)



Increased administrative, commercial, operating, tax and financial efficiency as regards data transmission operations carried out by Telefônica Empresas, A.Telecom and Telesp;

(ii) Increase in shares liquidity, mainly for the shareholders of TDBH, but also for the shareholders of Telesp; and

(iii) Decrease in costs with concentration of activities of all the companies in a sole listed company, namely Telesp.

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

### **MANAGEMENT COMMENTS ON CONSOLIDATED PERFORMANCE (Continued)**

March 31, 2007 (In millions of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

#### **10. Alternative fixed telephone plans**

The alternative fixed telephone plans increase profitability of Telesp's installed capacity, customers' fidelity and provide better services to the market segments with more adequate alternatives to have access to fixed telephones. This evidences Telesp's commitment to the universalization of telecommunication services in the São Paulo State, which exceeds regulatory requirements, as well as to socialization of access to communication and information.

Worthy of mention is the Minute Plans, which grant progressive discounts based on the volume of minutes contracted. There are fixed-fixed, fixed-mobile and interstate long- distance calls. By the end of 2007, more than 2.7 million minute plans were sold, more than 1 million in the 1Q07 alone.

#### **11. Additional information**

For further details about Company performance, see the "Press Release" available on the site [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: June 11, 2007

By:           /s/ Daniel de Andrade Gomes          

Name: Daniel de Andrade Gomes  
Title: Investor Relations Director

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