

TELESP HOLDING CO  
Form 6-K  
June 26, 2009

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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, 2009

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

**TELESP HOLDING COMPANY**

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1. Press Release entitled "*Telecomunicações de São Paulo S.A. - Telesp - Quarterly Review*" dated on March 31, 2009.
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## Quarterly Review

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

### TELESP

Quarter ended March 31, 2009

with Review Report of Independent Auditors

(A free translation of the original issued in Portuguese)

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

Quarterly information

March 31, 2009

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#### Special Review Report of Independent Auditors on Quarterly Information

Shareholders, Management and Board Members

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

São Paulo - SP

1. We have reviewed the Quarterly Information (ITR) from parent Company and Consolidated of Telecomunicações de São Paulo S.A. □ TELESP, for the quarter ended March 31, 2009, including the balance sheets, the statements of income, shareholders□ equity and of cash flows, the performance report and related notes. This financial information was prepared by the Company□s management.

2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors - IBRACON, in conjunction with the Brazilian Association of State Boards of Accountancy - CFC, mainly comprising: (a) inquiries of and discussions with, the officials responsible for the accounting, financial and operational areas of the Company relating to the main criteria adopted for preparing the Quarterly

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Information; and (b) review of information and subsequent events that had or might have had relevant effects on the financial position and results of operations of Telecomunicações de São Paulo S.A. - TELESP.

3. Based on our review, we are not aware of any significant changes that should be made to the aforementioned Quarterly Information, for it to be in conformity with the accounting practices adopted in Brazil and with rules set forth by the Brazilian Securities and Exchange Commission - CVM applicable to the preparation of the Quarterly Information.

4. As mentioned in Note 3, as a result of the changes in the accounting practices adopted in Brazil in 2008, the statements of income for the first quarter of 2008, presented for comparison purposes, were adjusted and are being restated as required by Accounting Procedure NPC 12 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors, approved by CVM Rule No. 506. The statements of cash flows are presented by Telecomunicações de São Paulo S.A. – TELESP for the first time for Quarterly Information purposes, including the effects of changes in the accounting practices adopted in Brazil in 2008, being, thus, comparable between the quarters presented.

São Paulo, May 7, 2009.

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, 2009 and December 31, 2008

(In thousands of reais – R\$)

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

|                                | Note      | Parent Company   |           | Consolidated     |           |
|--------------------------------|-----------|------------------|-----------|------------------|-----------|
|                                |           | 03/31/09         | 12/31/08  | 03/31/09         | 12/31/08  |
| Assets                         |           |                  |           |                  |           |
| Current assets                 |           | <b>5,801,006</b> | 5,902,763 | <b>6,550,076</b> | 6,491,595 |
| Cash and cash equivalents      | <b>4</b>  | <b>1,586,415</b> | 1,597,606 | <b>1,783,683</b> | 1,741,006 |
| Trade accounts receivable, net | <b>5</b>  | <b>2,780,209</b> | 2,853,548 | <b>3,163,691</b> | 3,152,831 |
| Deferred and recoverable taxes | <b>6</b>  | <b>973,839</b>   | 957,642   | <b>1,088,398</b> | 1,064,281 |
| Inventories                    | <b>7</b>  | <b>125,818</b>   | 114,735   | <b>173,300</b>   | 164,410   |
| Derivatives                    | <b>32</b> | <b>39,756</b>    | 80,214    | <b>39,756</b>    | 95,747    |
| Other                          | <b>8</b>  | <b>294,969</b>   | 299,018   | <b>301,248</b>   | 273,320   |

|                                    |           |                   |            |                   |            |
|------------------------------------|-----------|-------------------|------------|-------------------|------------|
| Noncurrent assets                  |           | <b>13,632,021</b> | 13,607,555 | <b>13,272,224</b> | 13,500,414 |
| Trade accounts receivable, net     |           | -                 | -          | <b>87,386</b>     | 61,563     |
| Deferred and recoverable taxes     | <b>6</b>  | <b>787,742</b>    | 803,687    | <b>796,540</b>    | 813,477    |
| Escrow deposits                    | <b>9</b>  | <b>704,556</b>    | 678,583    | <b>737,883</b>    | 711,300    |
| Credit applications                |           | <b>125,000</b>    | -          | -                 | -          |
| Other                              |           | <b>112,584</b>    | 109,363    | <b>161,486</b>    | 156,312    |
| Investments                        | <b>10</b> | <b>1,525,711</b>  | 1,353,640  | <b>286,754</b>    | 301,830    |
| Property, plant and equipment, net | <b>11</b> | <b>8,899,667</b>  | 9,115,239  | <b>9,688,046</b>  | 9,868,933  |
| Intangible assets, net             | <b>12</b> | <b>1,476,761</b>  | 1,547,043  | <b>1,514,129</b>  | 1,586,999  |
| Total assets                       |           | <b>19,433,027</b> | 19,510,318 | <b>19,822,300</b> | 19,992,009 |

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|  | Note      | Parent Company   |           | Consolidated     |           |
|--|-----------|------------------|-----------|------------------|-----------|
|  |           | 03/31/09         | 12/31/08  | 03/31/09         | 12/31/08  |
| Liabilities and shareholders' equity           |           |                  |           |                  |           |
| Current liabilities                            |           | <b>4,858,891</b> | 5,399,517 | <b>5,201,068</b> | 5,846,874 |
| Loans and financing                            | <b>13</b> | <b>242,004</b>   | 454,188   | <b>242,004</b>   | 502,503   |
| Debtentures                                    | <b>14</b> | <b>14,308</b>    | 16,339    | <b>14,308</b>    | 16,339    |
| Trade accounts payable                         |           | <b>1,726,792</b> | 2,030,787 | <b>1,997,948</b> | 2,314,698 |
| Taxes payable                                  | <b>15</b> | <b>881,756</b>   | 847,363   | <b>948,443</b>   | 926,437   |
| Dividends and interest on shareholders' equity | <b>16</b> | <b>1,153,114</b> | 1,153,670 | <b>1,153,114</b> | 1,153,670 |
| Reserve for contingencies                      | <b>18</b> | <b>131,305</b>   | 128,451   | <b>131,343</b>   | 128,488   |
| Payroll and related accruals                   | <b>17</b> | <b>122,290</b>   | 163,372   | <b>130,921</b>   | 174,672   |
| Derivative obligations                         | <b>32</b> | <b>21,471</b>    | 15,200    | <b>21,471</b>    | 15,200    |
| Other  | <b>19</b> | <b>565,851</b>   | 590,147   | <b>561,516</b>   | 614,867   |
| Non-current liabilities                        |           | <b>4,056,103</b> | 4,065,109 | <b>4,103,199</b> | 4,099,443 |
| Loans and financing                            | <b>13</b> | <b>1,714,355</b> | 1,717,352 | <b>1,714,355</b> | 1,717,352 |
| Debtentures                                    | <b>14</b> | <b>1,500,000</b> | 1,500,000 | <b>1,500,000</b> | 1,500,000 |
| Taxes payable                                  | <b>15</b> | <b>41,303</b>    | 40,151    | <b>61,456</b>    | 47,401    |

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|  |           |                   |            |                   |            |
|--|-----------|-------------------|------------|-------------------|------------|
| Reserve for contingencies                  | <b>18</b> | <b>566,238</b>    | 567,220    | <b>569,771</b>    | 570,778    |
| Reserve for post-retirement benefit plans  | <b>30</b> | <b>152,412</b>    | 148,770    | <b>152,412</b>    | 148,770    |
| Derivatives obligations                    | <b>32</b> | <b>20,669</b>     | 22,148     | <b>20,669</b>     | 22,148     |
| Other                                      |           | <b>61,126</b>     | 69,468     | <b>84,536</b>     | 92,994     |
| Shareholders' equity                       | <b>20</b> | <b>10,518,033</b> | 10,045,692 | <b>10,518,033</b> | 10,045,692 |
| Capital                                    |           | <b>6,575,480</b>  | 6,575,480  | <b>6,575,480</b>  | 6,575,480  |
| Special goodwill reserve                   |           | <b>63,074</b>     | 63,074     | <b>63,074</b>     | 63,074     |
| Capital reserves                           |           | <b>2,670,488</b>  | 2,670,488  | <b>2,670,488</b>  | 2,670,488  |
| Legal reserve                              |           | <b>659,556</b>    | 659,556    | <b>659,556</b>    | 659,556    |
| Adjustments for equity valuation           |           | <b>56,562</b>     | 76,232     | <b>56,562</b>     | 76,232     |
| Cumulative translation adjustments         |           | <b>10,233</b>     | 862        | <b>10,233</b>     | 862        |
| Retained earnings                          |           | <b>482,640</b>    | -          | <b>482,640</b>    | -          |
| Total liabilities and shareholders' equity |           | <b>19,433,027</b> | 19,510,318 | <b>19,822,300</b> | 19,992,009 |

See accompanying notes.

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

Statements of income

Three-month periods ended March 31, 2009 and March 31, 2008

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

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

|                         | Note      | Parent Company     |             | Consolidated       |             |
|-------------------------|-----------|--------------------|-------------|--------------------|-------------|
|                         |           | 03/31/09           | 03/31/08    | 03/31/09           | 03/31/08    |
| Gross operating revenue | <b>22</b> | <b>5,389,427</b>   | 5,312,917   | <b>5,823,983</b>   | 5,570,496   |
| Revenue deductions      | <b>22</b> | <b>(1,775,028)</b> | (1,692,152) | <b>(1,864,471)</b> | (1,708,119) |
| Net operating revenue   | <b>22</b> | <b>3,614,399</b>   | 3,620,765   | <b>3,959,512</b>   | 3,862,377   |

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|   |           |                    |             |                    |             |
|---|-----------|--------------------|-------------|--------------------|-------------|
| Cost of services provided   | <b>23</b> | <b>(2,034,042)</b> | (1,975,001) | <b>(2,321,658)</b> | (2,142,195) |
| Gross profit  |           | <b>1,580,357</b>   | 1,645,764   | <b>1,637,854</b>   | 1,720,182   |
| Operating expenses  |           | <b>(759,821)</b>   | (815,473)   | <b>(806,629)</b>   | (877,888)   |
| Selling   | <b>24</b> | <b>(595,540)</b>   | (584,883)   | <b>(643,689)</b>   | (607,975)   |
| General and administrative  | <b>25</b> | <b>(165,156)</b>   | (163,342)   | <b>(156,447)</b>   | (188,135)   |
| Equity accounting in subsidiaries                                     | <b>10</b> | <b>(17,052)</b>    | 6,321       | <b>5,656</b>       | 5,532       |
| Permanent asset disposal, net   |           | <b>(2,002)</b>     | 2,017       | <b>(6,502)</b>     | 652         |
| Other operating income (expense), net                                 | <b>27</b> | <b>19,929</b>      | (75,586)    | <b>(5,647)</b>     | (87,962)    |
| Income from operations before financial income (expense)              |           | <b>820,536</b>     | 830,291     | <b>831,225</b>     | 842,294     |
| Financial income  | <b>26</b> | <b>110,684</b>     | 87,801      | <b>121,492</b>     | 90,337      |
| Financial expense   | <b>26</b> | <b>(162,032)</b>   | (146,538)   | <b>(167,245)</b>   | (154,452)   |
| Income before income tax and social contribution                      |           | <b>769,188</b>     | 771,554     | <b>785,472</b>     | 778,179     |
| Income and social contribution taxes                                  | <b>29</b> | <b>(286,548)</b>   | (282,823)   | <b>(302,832)</b>   | (289,448)   |
| Net income  |           | <b>482,640</b>     | 488,731     | <b>482,640</b>     | 488,731     |
| Outstanding number of shares at the balance sheet date □ in thousands | <b>21</b> | <b>505,841</b>     | 505,841     |                    |             |
| Earnings per share - R\$  |           | <b>0,954133809</b> | 0,966175142 |                    |             |

See accompanying notes.



Notes to quarterly information

March 31, 2009

(In thousands of reais, unless otherwise stated)

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

## **1. Operations and background**

### a) Controlling shareholders

Telecomunicações de São Paulo S.A. - Telesp (hereinafter Telesp or Company), 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. The Company is controlled by Telefónica S.A., which as of March 31, 2009, holds total indirect interest of 87.95% of which 85.57% are common shares and 89.13% are preferred shares.

### b) Operations

The Company's basic business purpose is the rendering of fixed wire telephone services in the state of São Paulo, under Fixed Switch Telephone Service Concession Agreement - STFC granted by the National Communications Agency (ANATEL), which is in charge of regulating the telecommunications sector in Brazil (note 1.c hereafter). 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 and Ajato* brand and pay TV services (i) by satellite all over the country (*Telefônica TV Digital*) and (ii) using MMDS technology in the cities of São Paulo, Rio de Janeiro, Curitiba and Porto Alegre.

The Company is registered with the Brazilian Securities Commission (CVM) as a public 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) The STFC 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 largest part of the State of São Paulo, in Sectors 31, 32 and 34, established in the General Concession Plan (PGO).

The current Concession Agreement's renewal, dated December 22, 2005, in force since January 1, 2006, awarded as an onerous title, will be valid until December 31, 2025.

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

Notes to quarterly information (Continued)

March 31, 2009 (In thousands of reais, unless otherwise stated)

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

## **1. Operations and background (Continued)**

### c) The STFC concession agreement (Continued)

However, the agreement can be reviewed on December 31, 2010, 2015 and 2020. Such condition allows ANATEL to set up new requirements and goals for universalization and quality of telecommunication services, according to the conditions in force by that moment.

The Concession Agreement establishes that all assets owned by the Company and which are indispensable to the provision of the services described on such agreement are considered reversible assets and are deemed to be part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the concession agreement, according to the regulation in force by that moment. On March 31, 2009, the net book value of reversible assets is estimated at R\$6,702,586 (R\$6,929,532 on December 31, 2008), comprised mainly of switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

Every two years, during the agreement's new 20-year period, companies will have to pay a renewal fee which will correspond to 2% of its prior-year SFTC revenue, net of taxes and social contributions. The second payment of this biannual fee has occurred on April 30, 2009 by value of R\$203,333 based on the 2008 STFC net revenues.

#### d) Subsidiaries

The chart below sets out the list of direct and indirect subsidiaries of the Company as well as the percentage ownership shareholdings:

| <b>Subsidiaries</b>                     | <b>Mar/2009</b> | <b>Dec/2008</b> | <b>Mar/2008</b> |
|---|-----------------|-----------------|-----------------|
| A.Telecom S.A.                          | <b>100%</b>     | 100%            | 100%            |
| Telefônica Data S.A.                    | <b>100%</b>     | 100%            | 100%            |
| Telefônica Televisão Participações S.A. | -               | -               | 100%            |
| Telefônica Sistemas de Televisão S.A.   | <b>100%</b>     | 100%            | 100%            |
| Aliança Atlântica Holding B.V.          | <b>50%</b>      | 50%             | 50%             |
| Companhia AIX de Participações          | <b>50%</b>      | 50%             | 50%             |
| Companhia ACT de Participações          | <b>50%</b>      | 50%             | 50%             |
| TS Tecnologia da Informação Ltda.       | <b>100%</b>     | 100%            | 100%            |
| Ajato Telecomunicações Ltda.            | <b>100%</b>     | 100%            | -               |

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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

### **2. Corporate events**

#### a) Merger of Telefônica Data Brasil Participações Ltda. and Telefônica Televisão Participações S.A.

Pursuant to the Relevant Fact published on October 21, 2008, the Company's Board of Directors approved, on that date, the proposed corporate reorganization involving the Company, Telefônica Data do Brasil Participações Ltda.

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(DABR) and Telefônica Televisão Participações S.A. (TTP), as approved at the General Shareholders Meeting held by Telesp on November 11, 2008.

The transaction included the following steps:

1st Step: DABR was merged into Telesp and, as a result, the company and its shares ceased to exist. Telesp shares then owned by DABR were directly assigned to controlling shareholder SP Telecomunicações Participações Ltda. upon merger, with the rights applicable to outstanding shares issued by TELESP remaining unchanged. DABR's net equity included goodwill from Telesp shares, in the amount of R\$185,511, which was recorded at the acquisition date based on future profits. In accordance with Law No. 9532/1997, amortization of goodwill will provide Telesp a tax benefit of R\$63,074 to be capitalized by the controlling shareholder upon realization, pursuant to CVM Instruction No. 319/1999. Other shareholders have preemptive rights in the subscription of capital increases.

2nd Step: TTP was merged into Telesp, and, as a result, the company and its shares ceased to exist. Goodwill generated by the acquisition of this company in 2007 was recorded based on expected future profits, in the amount of R\$848,307, and will provide Telesp a tax benefit of R\$288,424.

For merger purposes, the net equities of TTP and DABR were measured at book value on September 30, 2008 and October 17, 2008, respectively, by an independent appraiser whose appointment was ratified at the General Shareholders Meeting held by Telesp on November 11, 2008. The merged companies had no unrecorded contingent liabilities that would have been assumed by Telesp as a result of this transaction. The transaction is not subject to approval by Brazilian or foreign regulatory entities or anti-trust agencies. No withdrawal rights were exercised since the subsidiaries had no minority interests.

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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### 2. Corporate events (Continued)

#### b) Capital increase in Telefonica Televisão Participações S.A. (TTP)

On February 29, 2008, the Company increased capital of Telefônica Televisão with shares held in A.Telecom. With this operation, A.Telecom became a wholly-owned subsidiary of TTP.

On July 25, 2008 the Company increased capital of Telefônica Televisão with shares held in Telefonica Data S/A (T.Data). With this operation, T.Data became a wholly-owned subsidiary of TTP.

### 3. Presentation of the quarterly information

The individual and consolidated quarterly information as of March 31, 2009 was prepared in accordance with accounting practices adopted in Brazil, with comprise, the provisions of corporate legislation set forth in Law N<sup>o</sup>. 6.404/76, as amended by Law N<sup>o</sup>. 11.638/07 and by Provisional Executive Order N<sup>o</sup>. 449/08, and the standards established by the Brazilian Securities Commission (CVM). Quarterly information shall be analyzed together with financial statements for the last fiscal year.

As permitted by CVM Resolution N<sup>o</sup>. 565, which approved Technical Pronouncement No. 13, issued by the Brazilian Accounting Pronouncements Committee (CPC), the Company opted for the first-time adoption of Law N<sup>o</sup>. 11638

and of Provisional Executive Order Nº. 449/08 in its financial statements for the year ended December 31, 2008. Accordingly, there were changes in the accounting practices as compared to March 31, 2008, in which we demonstrate their effects below:

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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

### 3. Presentation of the quarterly information (Continued)

|   | Net Income |              |
|---|------------|--------------|
|   | Company    | Consolidated |
| Balances per 3/31/2008 financial statements   | 488,731    | 488,731      |
| Effects of Law Nº. 11638/07                   | (1,590)    | (1,590)      |
| Lease □ PDTI                                  | -          | 4,250        |
| Lease - T.Data (lessee)                       | -          | 166          |
| Financial instruments                         | (3,516)    | (3,516)      |
| Discount to present value of long-term assets | 914        | (641)        |
| Additions to property, plant and equipment    | 74         | 74           |
| Deferred taxes                                | 884        | 1,413        |
| FX gains/losses on foreign investments        | (3,336)    | (3,336)      |
| Equity pickup                                 | 3,390      | -            |
| Balances before adoption of Law Nº. 11638/07  | 490,321    | 490,321      |

Pursuant to accounting pronouncement CPC13, goodwill based on expected future profits has ceased to be amortized as of 2009, being subject to impairment testing as defined in accounting pronouncement CPC01 (notes 6.2 and 12).

Assets and liabilities are classified as □current□ when their realization or liquidation will probably occur in the next twelve months. Otherwise, they will be classified as non-current assets and liabilities.

Accounting estimates are considered for the quarterly financial information preparation process. Such estimates are based on objective and subjective factors according to management□s judgment for the appropriate amounts to be recorded in the quarterly financial information.

Transactions, which involve estimates mentioned above, may result in different amounts those recorded in the quarterly financial information when realized in subsequent periods due to inaccurate results regarding the estimate process. The Company revises its estimation and assumptions periodically.

The consolidated quarterly financial information includes the balance and transactions of direct and indirect subsidiaries according to the equity holdings described in the note 1.d.

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions and equity holdings between the Company and your subsidiaries have been eliminated.

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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

### 3. Presentation of the quarterly information (Continued)

Some items of the financial information for March 31, 2008 and for December 31, 2008 were reclassified to allow their comparability with the current quarter; these reclassifications were considered to be immaterial in relation to the overall financial statements.

### 4. Cash and cash equivalents

|                        | Company          |           | Consolidated     |           |
|------------------------|------------------|-----------|------------------|-----------|
|                        | Mar/2009         | Dec/2008  | Mar/ 2009        | Dec/ 2008 |
| Bank accounts          | <b>6,482</b>     | 12,885    | <b>7,905</b>     | 31,993    |
| Short-term investments | <b>1,579,933</b> | 1,584,721 | <b>1,775,778</b> | 1,709,013 |
| Total                  | <b>1,586,415</b> | 1,597,606 | <b>1,783,683</b> | 1,741.006 |

Short-term investments are basically CDB (Bank Deposits Certificate) and indexed under CDI (Certificate for Inter-bank Deposits) rate variation, which are readily liquid and maintained with reputable financial institutions.

### 5. Trade accounts receivable, net

|                          | Company          |           | Consolidated     |           |
|--------------------------|------------------|-----------|------------------|-----------|
|                          | Mar/2009         | Dec/2008  | Mar/2009         | Dec/2008  |
| Billed amounts           | <b>2,202,905</b> | 2,206,731 | <b>2,596,049</b> | 2,545,155 |
| Accrued unbilled amounts | <b>1,244,463</b> | 1,296,099 | <b>1,462,497</b> | 1,436,937 |

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|                                 |                  |           |                  |           |
|---------------------------------|------------------|-----------|------------------|-----------|
| Gross accounts receivable       | <b>3,447,368</b> | 3,502,830 | <b>4,058,546</b> | 3,982,092 |
| Allowance for doubtful accounts | <b>(667,159)</b> | (649,282) | <b>(807,469)</b> | (767,698) |
| Total                           | <b>2,780,209</b> | 2,853,548 | <b>3,251,077</b> | 3,214,394 |
| Current                         | <b>1,797,412</b> | 1,888,812 | <b>2,222,249</b> | 2,248,736 |
| Past-due □ 1 to 30 days         | <b>506,240</b>   | 508,523   | <b>556,003</b>   | 530,238   |
| Past-due □ 31 to 60 days        | <b>193,927</b>   | 197,231   | <b>206,677</b>   | 195,213   |
| Past-due □ 61 to 90 days        | <b>115,116</b>   | 111,791   | <b>126,223</b>   | 113,101   |
| Past-due □ 91 to 120 days       | <b>104,565</b>   | 110,594   | <b>109,157</b>   | 110,720   |
| Past-due □ more than 120 days   | <b>730,108</b>   | 685,879   | <b>838,237</b>   | 784,084   |
| Total                           | <b>3,447,368</b> | 3,502,830 | <b>4,058,546</b> | 3,982,092 |
| Current                         | <b>2,780,209</b> | 2,853,548 | <b>3,163,691</b> | 3,152,831 |
| Non-Current                     | -                | -         | <b>87,386</b>    | 61,563    |

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

Notes to quarterly information (Continued)

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### 6. Deferred and recoverable taxes

|  | Company          |           | Consolidated     |           |
|--|------------------|-----------|------------------|-----------|
|  | Mar/2009         | Dec/2008  | Mar/2009         | Dec/2008  |
| Withholding taxes                              | <b>80,213</b>    | 63,171    | <b>98,972</b>    | 77,371    |
| Recoverable income tax and social contribution | <b>4,902</b>     | 10,538    | <b>28,712</b>    | 36,754    |
| Deferred taxes                                 | <b>1,267,379</b> | 1,288,222 | <b>1,270,708</b> | 1,293,314 |

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|   |                  |           |                  |           |
|---|------------------|-----------|------------------|-----------|
| Tax loss carry-forwards □ Income tax                                  | -                | -         | <b>1,589</b>     | 3,305     |
| Tax loss carry-forwards □ Social contribution tax                     | -                | -         | <b>1,098</b>     | 1,787     |
| Reserve for contingencies   | <b>347,599</b>   | 340,850   | <b>347,599</b>   | 340,850   |
| Post-retirement benefit plans   | <b>51,820</b>    | 50,581    | <b>51,820</b>    | 50,581    |
| Allowance for doubtful accounts                                       | <b>83,670</b>    | 94,691    | <b>83,670</b>    | 94,691    |
| Allowance for reduction of inventory to recoverable value             | <b>23,996</b>    | 28,909    | <b>23,996</b>    | 28,909    |
| Merged tax credit (6.2)   | <b>379,879</b>   | 397,950   | <b>379,879</b>   | 397,950   |
| Income tax and social contribution tax on other temporary differences | <b>380,415</b>   | 375,241   | <b>381,057</b>   | 375,241   |
| ICMS (state VAT)  | <b>404,119</b>   | 396,706   | <b>470,148</b>   | 456,192   |
| Other   | <b>4,968</b>     | 2,692     | <b>16,398</b>    | 14,127    |
| Total   | <b>1,761,581</b> | 1,761,329 | <b>1,884,938</b> | 1,877,758 |
| Current   | <b>973,839</b>   | 957,642   | <b>1,088,398</b> | 1,064,281 |
| Non-current   | <b>787,742</b>   | 803,687   | <b>796,540</b>   | 813,477   |

### 6.1 Deferred income and social contribution taxes

The Company recognized deferred income and social contribution tax assets considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable profit discounted to present value based on a technical feasibility study, approved by the Board of Directors on December 19, 2008, as provided for in CVM Instruction No. 371/2002.

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

Notes to quarterly information (Continued)

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### 6. Deferred and recoverable taxes (Continued)

#### 6.1 Deferred income and social contribution taxes (Continued)

Company estimates the realization of the deferred taxes as of March 31, 2009 as follows:

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

|            |                  |                  |
|------------|------------------|------------------|
| 2009       | <b>402,026</b>   | <b>403,407</b>   |
| 2010       | <b>323,070</b>   | <b>325,018</b>   |
| 2011       | <b>211,117</b>   | <b>211,117</b>   |
| 2012       | <b>170,762</b>   | <b>170,762</b>   |
| Thereafter | <b>160,404</b>   | <b>160,404</b>   |
|            | <hr/>            | <hr/>            |
| Total      | <b>1,267,379</b> | <b>1,270,708</b> |
|            | <hr/>            | <hr/>            |

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

## 6.2 Merged tax credit

These refer to tax benefits arising from corporate restructuring processes involving goodwill based on expected future profits, to be appropriated pursuant to the limitations imposed by tax legislation.

|                  | <b>Mar/2009</b> | <b>Dec/2008</b> |
|------------------|-----------------|-----------------|
|                  | <hr/>           | <hr/>           |
| TTP (a)          | <b>257,495</b>  | 265,435         |
| DABR (b)         | <b>56,766</b>   | 59,920          |
| Spanish/Figueira | <b>65,618</b>   | 72,595          |
|                  | <hr/>           | <hr/>           |
|                  | <b>379,879</b>  | 397,950         |
|                  | <hr/>           | <hr/>           |
| Current          | <b>74,366</b>   | 71,416          |
| Non-Current      | <b>305,513</b>  | 326,534         |
|                  | <hr/>           | <hr/>           |

(a) At December 31, 2008, the amount of R\$265,435 refers to the recognition of tax credits generated from TTP corporate restructuring, as mentioned in Note 2.a., later reclassified to this group of accounts marched with a decrease in intangible assets (Note 12). This reclassification aims at a better presentation of the quarterly information, considering that goodwill amortization ceased to be accounted for beginning 2009.

(b) Tax credits generated from goodwill existing in DABR, merged by the Company in October 2008 as a result of the corporate restructuring process mentioned in Note 2.a.

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

Notes to quarterly information (Continued)

March 31, 2009

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## 7. Inventories

|   | Company         |          | Consolidated    |          |
|---|-----------------|----------|-----------------|----------|
|   | Mar/2009        | Dec/2008 | Mar/2009        | Dec/2008 |
| Consumption materials   | <b>129,566</b>  | 128,948  | <b>130,741</b>  | 129,600  |
| Resale items (*)  | <b>57,069</b>   | 57,192   | <b>106,117</b>  | 106,734  |
| Public telephone prepaid cards                                    | <b>9,598</b>    | 13,461   | <b>9,597</b>    | 13,461   |
| Scraps  | <b>161</b>      | 161      | <b>161</b>      | 161      |
| Allowance for reduction to net recoverable value and obsolescence | <b>(70,576)</b> | (85,027) | <b>(73,316)</b> | (85,546) |
| Total current   | <b>125,818</b>  | 114,735  | <b>173,300</b>  | 164,410  |

(\*) Includes the inventory of IT equipments.

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

## 8. Other assets

|  | Company        |          | Consolidated   |          |
|--|----------------|----------|----------------|----------|
|  | Mar/2009       | Dec/2008 | Mar/2009       | Dec/2008 |
| Advances to employees                          | <b>9,654</b>   | 7,685    | <b>10,360</b>  | 8,207    |
| Advances to suppliers                          | <b>25,210</b>  | 16,814   | <b>41,296</b>  | 33,567   |
| Prepaid expenses                               | <b>115,153</b> | 66,157   | <b>118,104</b> | 66,699   |
| Receivables from Barramar S.A. (a)             | -              | -        | <b>64,252</b>  | 62,526   |
| Current Related Parties receivables (Note 29)  | <b>149,830</b> | 187,393  | <b>123,594</b> | 130,422  |
| Amounts linked to National Treasury securities | <b>11,467</b>  | 11,289   | <b>11,467</b>  | 11,289   |
| Other assets                                   | <b>49,886</b>  | 78,064   | <b>65,207</b>  | 94,059   |
| Total  | <b>361,200</b> | 367,402  | <b>434,280</b> | 406,769  |
| Current  | <b>294,969</b> | 299,018  | <b>301,248</b> | 273,320  |
| Non-current                                    | <b>66,231</b>  | 68,384   | <b>133,032</b> | 133,449  |

(a) Refers to receivables from Barramar S.A. recorded by the Companhia AIX de Participações, net of allowance for losses.

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March 31, 2009

(In thousands of reais, unless otherwise stated)

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**9. Escrow deposits**

|                                 | Company        |          | Consolidated   |          |
|---------------------------------|----------------|----------|----------------|----------|
|                                 | Mar/2009       | Dec/2008 | Mar/2009       | Dec/2008 |
| Civil litigation                | <b>254,044</b> | 246,456  | <b>254,088</b> | 246,500  |
| Tax litigation                  | <b>219,594</b> | 223,465  | <b>251,290</b> | 254,571  |
| Labor claims                    | <b>176,135</b> | 165,221  | <b>176,221</b> | 165,306  |
| Freeze of assets by court order | <b>54,783</b>  | 43,441   | <b>56,284</b>  | 44,923   |
| Total non-current               | <b>704,556</b> | 678,583  | <b>737,883</b> | 711,300  |

The amounts presented above refer to escrow deposits for those cases in which an unfavorable outcome is considered possible or remote.

Those deposits related to provisions are presented in Note 18.

**10. Investments**

|   | Company          |           | Consolidated |          |
|---|------------------|-----------|--------------|----------|
|   | Mar/2009         | Dec/2008  | Mar/2009     | Dec/2008 |
| Investments carried under the equity method | <b>1,291,992</b> | 1,109,513 |              | -        |
| Aliança Atlântica Holding B.V.              | <b>59,185</b>    | 64,143    | -            | -        |
| A.Telecom S.A.                              | <b>614,890</b>   | 610,769   | -            | -        |
| Companhia AIX de Participações              | <b>62,568</b>    | 58,895    | -            | -        |
| Companhia ACT de Participações              | <b>16</b>        | 16        | -            | -        |
| Telefonica Data S.A.                        | <b>256,093</b>   | 206,445   | -            | -        |
| Telefonica Sistemas de Televisão S.A.       | <b>299,240</b>   | 169,245   | -            | -        |

|  |                  |           |                |         |
|--|------------------|-----------|----------------|---------|
| Investments in associates                | <b>41,969</b>    | 36,313    | <b>41,969</b>  | 36,313  |
| GTR Participações e Empreendimentos S.A. | <b>1,694</b>     | 1,476     | <b>1,694</b>   | 1,476   |
| Lemontree Participações S.A.             | <b>10,981</b>    | 9,608     | <b>10,981</b>  | 9,608   |
| Comercial Cabo TV São Paulo S.A.         | <b>24,328</b>    | 21,215    | <b>24,328</b>  | 21,215  |
| TVA Sul Paraná S.A.                      | <b>4,966</b>     | 4,014     | <b>4,966</b>   | 4,014   |
| Other Investments                        | <b>191,750</b>   | 207,814   | <b>244,785</b> | 265,517 |
| Portugal Telecom                         | <b>143,469</b>   | 157,823   | <b>191,291</b> | 210,431 |
| Zon Multimédia                           | <b>14,768</b>    | 14,436    | <b>19,981</b>  | 19,531  |
| Other investments                        | <b>33,513</b>    | 35,555    | <b>33,513</b>  | 35,555  |
| Total                                    | <b>1,525,711</b> | 1,353,640 | <b>286,754</b> | 301,830 |

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

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### 10. Investments (Continued)

Investments in affiliates accounted for under the equity method at March 31, 2009 and December 31, 2008:

| Affiliates                               | Net equity | Number of shares (thousands) |         |         |          |         |         | Total |
|--|------------|------------------------------|---------|---------|----------|---------|---------|-------|
|  |            | Total number of shares       |         |         | Interest |         |         |       |
|  |            | ON                           | PN      | Total   | ON       | PN      | Total   |       |
| GTR Participações e Empreendimentos S.A. | 2.541      | 878                          | 1.757   | 2.635   | -        | 1.757   | 1.757   | 66    |
| Lemontree Participações S.A.             | 16.471     | 124.839                      | 249.682 | 374.521 | -        | 249.682 | 249.682 | 66    |
| Comercial Cabo TV São Paulo S.A.         | 40.580     | 12.282                       | 12.282  | 24.564  | 2.444    | 12.282  | 14.726  | 59    |
| TVA Sul Paraná S.A.                      | 6.665      | 13.656                       | 13.656  | 27.312  | 6.691    | 13.656  | 20.347  | 74    |

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At March 31, 2009, the Company advanced the amount of R\$125,000 for future capital increase (AFAC) in its wholly-owned subsidiary A.Telecom S.A. The capital increase was approved at the Extraordinary General Meeting held on April 23, 2009.

The Company and Consolidated equity method in subsidiaries and affiliates is as follows:

|  | Company  |          | Consolidated |          |
|--|----------|----------|--------------|----------|
|  | Mar/2009 | Mar/2008 | Mar/2009     | Mar/2008 |
| Aliança Atlântica                        | (145)    | 11       | -            | -        |
| A. Telecom                               | 4,121    | 17,346   | -            | -        |
| Companhia AIX de Participações           | 3,673    | 912      | -            | -        |
| Companhia ACT de Participações           | -        | (1)      | -            | -        |
| Telefonica Data S.A.                     | (10,352) | (8,170)  | -            | -        |
| Telefônica Sistemas de Televisão S.A.    | (20,005) | (3,777)  | -            | 16       |
| GTR Participações e Empreendimentos S.A. | 218      | -        | 218          | (175)    |
| Lemontree Participações S.A.             | 1,373    | -        | 1,373        | 2,003    |
| Comercial Cabo TV São Paulo S.A.         | 3,113    | -        | 3,113        | 4,501    |
| TVA Sul Paraná S.A.                      | 952      | -        | 952          | (813)    |
|  | (17,052) | 6,321    | 5,656        | 5,532    |

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

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### 11. Property, Plant and Equipment, Net

|                            | Company  |                          |                |      |
|----------------------------|----------|--------------------------|----------------|------|
|                            | Mar/2009 |                          |                |      |
| Annual depreciation rate % | Cost     | Accumulated depreciation | Net book value | Cost |
|                            |          |                          |                |      |

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|   |                      |                   |                     |                  |       |
|---|----------------------|-------------------|---------------------|------------------|-------|
| Property, plant and equipment in service  |                      | <b>41,872,423</b> | <b>(33,526,112)</b> | <b>8,346,311</b> | 41,60 |
| Switching and transmission equipment  | <b>12.50</b>         | <b>17,618,542</b> | <b>(15,453,976)</b> | <b>2,164,566</b> | 17,49 |
| Transmission equipment, overhead,<br>underground and building cables, teleprinters,<br>PABX, energy equipment and furniture | <b>10.00</b>         | <b>12,489,984</b> | <b>(10,211,293)</b> | <b>2,278,691</b> | 12,45 |
| Transmission equipment - modems   | <b>66.67</b>         | <b>1,392,366</b>  | <b>(1,006,050)</b>  | <b>386,316</b>   | 1,32  |
| Underground and undersea cables, poles and<br>towers  | <b>5.00 to 6.67</b>  | <b>621,109</b>    | <b>(413,320)</b>    | <b>207,789</b>   | 62    |
| Subscriber, public and booth equipment  | <b>12.50</b>         | <b>2,212,557</b>  | <b>(1,781,263)</b>  | <b>431,294</b>   | 2,18  |
| IT equipment  | <b>20.00</b>         | <b>589,324</b>    | <b>(513,719)</b>    | <b>75,605</b>    | 58    |
| Buildings and underground cables  | <b>4.00</b>          | <b>6,601,285</b>  | <b>(4,065,733)</b>  | <b>2,535,552</b> | 6,59  |
| Vehicles  | <b>20.00</b>         | <b>50,335</b>     | <b>(36,588)</b>     | <b>13,747</b>    | 5     |
| Land  | -                    | <b>227,751</b>    | -                   | <b>227,751</b>   | 22    |
| Other   | <b>4.00 to 20.00</b> | <b>69,170</b>     | <b>(44,170)</b>     | <b>25,000</b>    | 6     |
| Property, plant and equipment in progress   | -                    | <b>553,356</b>    | -                   | <b>553,356</b>   | 54    |
| Total   |                      | <b>42,425,779</b> | <b>(33,526,112)</b> | <b>8,899,667</b> | 42,15 |
| Average annual depreciation rates - %   |                      | <b>10.33</b>      |                     |                  |       |
| Assets fully depreciated  |                      | <b>21,765,035</b> |                     |                  | 20,86 |

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

Notes to quarterly information (Continued) March 31, 2009 (In thousands of reais, unless otherwise stated)

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### 11. Property, Plant and Equipment, Net (Continued)

|  | <b>Consolidated</b>                      |             |  |
|--|--|-------------|--|
|  | <b>Mar/2009</b>                          |             |  |
|  | <b>Annual<br/>depreciation<br/>rate%</b> | <b>Cost</b> | <b>Accumulated<br/>depreciation<br/>Net book value</b> |
|  |  |             |  |

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|   |                      |                   |                     |                  |    |
|---|----------------------|-------------------|---------------------|------------------|----|
| Property, plant and equipment   |                      | <b>43,196,753</b> | <b>(34,140,594)</b> | <b>9,056,159</b> | 42 |
| Switching and transmission equipment  | <b>12.50</b>         | <b>17,656,677</b> | <b>(15,465,951)</b> | <b>2,190,726</b> | 17 |
| Transmission equipment, overhead, underground and building cables, teleprinters, PABX, energy equipment and furniture | <b>10.00</b>         | <b>12,739,536</b> | <b>(10,260,378)</b> | <b>2,479,158</b> | 12 |
| Transmission equipment □ modems   | <b>66.67</b>         | <b>1,462,506</b>  | <b>(1,029,985)</b>  | <b>432,521</b>   | 1  |
| Underground and undersea cables, poles and towers   | <b>5.00 to 6.67</b>  | <b>634,292</b>    | <b>(417,396)</b>    | <b>216,896</b>   |    |
| Subscriber, public and booth equipment  | <b>12.50</b>         | <b>2,274,750</b>  | <b>(1,821,637)</b>  | <b>453,113</b>   | 2  |
| IT equipment  | <b>20.00</b>         | <b>651,829</b>    | <b>(557,277)</b>    | <b>94,552</b>    |    |
| Buildings and underground cables  | <b>4.00</b>          | <b>6,603,483</b>  | <b>(4,067,485)</b>  | <b>2,535,998</b> | 6  |
| TV equipment  | <b>8.00 to 33.00</b> | <b>753,667</b>    | <b>(385,483)</b>    | <b>368,184</b>   |    |
| Vehicles  | <b>20.00</b>         | <b>51,757</b>     | <b>(37,744)</b>     | <b>14,013</b>    |    |
| Land  | -                    | <b>227,751</b>    | -                   | <b>227,751</b>   |    |
| Other   | <b>4.00 to 20.00</b> | <b>154,271</b>    | <b>(97,258)</b>     | <b>57,013</b>    |    |
| Provision for losses  |                      | <b>(13,766)</b>   | -                   | <b>(13,766)</b>  |    |
| Property, plant and equipment in progress   | -                    | <b>631,887</b>    | -                   | <b>631,887</b>   |    |
| Total   |                      | <b>43,828,640</b> | <b>(34,140,594)</b> | <b>9,688,046</b> | 43 |
| Average annual depreciation rates - %   |                      | <b>11.28</b>      |                     |                  |    |
| Assets fully depreciated  |                      | <b>22,126,824</b> |                     |                  | 21 |

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

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### 12. Intangible assets, net

|          | Company        |          | Consolidated   |          |
|----------|----------------|----------|----------------|----------|
|          | Mar/2009       | Dec/2008 | Mar/2009       | Dec/2008 |
| Goodwill | <b>728,052</b> | 728,052  | <b>728,201</b> | 728,201  |

|                   |                  |           |                  |           |
|-------------------|------------------|-----------|------------------|-----------|
| Other intangibles | <b>748,709</b>   | 818,991   | <b>785,928</b>   | 858,798   |
|                   | <b>1,476,761</b> | 1,547,043 | <b>1,514,129</b> | 1,586,999 |

|  | <b>Company</b>  |                 | <b>Consolidated</b> |                 |
|--|-----------------|-----------------|---------------------|-----------------|
|  | <b>Mar/2009</b> | <b>Dec/2008</b> | <b>Mar/2009</b>     | <b>Dec/2008</b> |
| Goodwill                                       |                 |                 |                     |                 |
| Ajato Telecomunicações Ltda                    | -               | -               | <b>149</b>          | 149             |
| TS Tecnologia da Informação Ltda.              | <b>945</b>      | 945             | <b>945</b>          | 945             |
| Ágio Spanish e Figueira (merged from TDBH) (a) | <b>139,957</b>  | 139,957         | <b>139,957</b>      | 139,957         |
| Santo Genovese Participações Ltda. (b)         | <b>71,892</b>   | 71,892          | <b>71,892</b>       | 71,892          |
| Telefônica Televisão Participações S.A. (c)    | <b>515,258</b>  | 515,258         | <b>515,258</b>      | 515,258         |
|  | <b>728,052</b>  | 728,052         | <b>728,201</b>      | 728,201         |

(a) Goodwill arising from the spin-off of Figueira, which was merged into the Company as a result of the merger of Telefônica Data Brasil Holding S.A. (TDBH) in 2006.

(b) Goodwill arising from the acquisition of control over Santo Genovese Participações Ltda. (controlling shareholder of Atrium Telecomunicações Ltda.), in 2004.

(c) Goodwill arising from the acquisition of TTP (see Note 2.a) is based on a study of future profitability. For this ITR reporting purposes, the tax credit as of December 31, 2008, in the amount of R\$265,435, was reclassified to Deferred and Recoverable Taxes in the form of tax credits from merger (Note 6), considering that goodwill amortization ceased to be accounted for at December 31, 2008.

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

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### 12. Intangible assets, net (Continued)

|           | <b>Company</b>                            |                  |                                     |                           |                 |                                     |
|-----------|---|------------------|-------------------------------------|---------------------------|-----------------|-------------------------------------|
|           | <b>Annual<br/>depreciation rate<br/>%</b> | <b>Mar/2009</b>  |                                     |                           | <b>Dec/2008</b> |                                     |
|           |   | <b>Cost</b>      | <b>Accumulated<br/>depreciation</b> | <b>Net book<br/>value</b> | <b>Cost</b>     | <b>Accumulated<br/>depreciation</b> |
| Softwares | <b>20.00</b>                              | <b>2,356,281</b> | <b>(1,665,210)</b>                  | <b>691,071</b>            | 2,349,867       | (1,594,000)                         |

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|                                     |                       |                  |                    |                |           |             |
|-------------------------------------|-----------------------|------------------|--------------------|----------------|-----------|-------------|
| Customer Portfolio (a)              | <b>10.00</b>          | <b>72,561</b>    | <b>(45,350)</b>    | <b>27,211</b>  | 72,561    | (43,350)    |
| Other                               | <b>10.00 to 20.00</b> | <b>184,992</b>   | <b>(154,565)</b>   | <b>30,427</b>  | 184,563   | (149,565)   |
| Total                               |                       | <b>2,613,834</b> | <b>(1,865,125)</b> | <b>748,709</b> | 2,606,991 | (1,788,925) |
| Average annual depreciation rates % |                       | <b>19.68</b>     |                    |                | 19.93     |             |
| Assets fully depreciated            |                       | <b>1,014,880</b> |                    |                | 995,887   |             |

**Consolidated**

|                                     | Annual depreciation rate% | Mar/2009         |                          |                | Dec/2002  |                          |
|-------------------------------------|---------------------------|------------------|--------------------------|----------------|-----------|--------------------------|
|                                     |                           | Cost             | Accumulated depreciation | Net book value | Cost      | Accumulated depreciation |
| Software                            | <b>20.00</b>              | <b>2,527,753</b> | <b>(1,805,473)</b>       | <b>722,280</b> | 2,520,983 | (1,732,983)              |
| Customer Portfolio (a)              | <b>10.00</b>              | <b>72,561</b>    | <b>(45,350)</b>          | <b>27,211</b>  | 72,561    | (43,350)                 |
| Other                               | <b>10.00 to 20.00</b>     | <b>195,958</b>   | <b>(159,521)</b>         | <b>36,437</b>  | 195,443   | (154,565)                |
| Total                               |                           | <b>2,796,272</b> | <b>(2,010,344)</b>       | <b>785,928</b> | 2,788,987 | (1,930,898)              |
| Average annual depreciation rates % |                           | <b>19.74</b>     |                          |                | 19.97     |                          |
| Assets fully depreciated            |                           | <b>1,132,982</b> |                          |                | 1,114,804 |                          |

(a) Acquisition of IP network customer portfolio from Telefônica Data in December 2002.

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

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### 13. Loans and financing



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| Company/Consolidated        | Balance in Mar/2009 (*) |                      |            |                |                  |                  |
|-----------------------------|-------------------------|----------------------|------------|----------------|------------------|------------------|
|                             | Currency                | Annual interest rate | Maturity   | Current        | Long-term        | Total            |
| Loans and financing - BNDES | URTJLP                  | TJLP+3.73%           | Until 2015 | <b>18,853</b>  | <b>1,690,523</b> | <b>1,709,376</b> |
| □Mediocrédito□              | US\$                    | 1.75%                | 2014       | <b>7,277</b>   | <b>23,832</b>    | <b>31,109</b>    |
| Untied Loan □JBIC           | JPY                     | Libor + 1.25%        | 2009       | <b>57,691</b>  | -                | <b>57,691</b>    |
|                             |                         | 1.62% to             |            |                |                  |                  |
| Resolution 2770             | JPY                     | 5.78%                | 2009       | <b>158,183</b> | -                | <b>158,183</b>   |
| Total                       |                         |                      |            | <b>242,004</b> | <b>1,714,355</b> | <b>1,956,359</b> |

| Company/Consolidated        | Balance in Dec/2008 (*) |                      |            |                |                  |                  |
|-----------------------------|-------------------------|----------------------|------------|----------------|------------------|------------------|
|                             | Currency                | Annual interest rate | Maturity   | Current        | Long-term        | Total            |
| Loans and financing - BNDES | URTJLP                  | TJLP+3.73%           | Until 2015 | 19,283         | 1,689,521        | 1,708,804        |
| □Mediocrédito□              | US\$                    | 1.75%                | 2014       | 7,594          | 27,831           | 35,425           |
| Untied Loan □JBIC           | JPY                     | Libor + 1.25%        | 2009       | 129,173        | -                | 129,173          |
|                             |                         | 0.50% to             |            |                |                  |                  |
| Resolution 2770             | JPY                     | 5.78%                | 2009       | 213,339        | -                | 213,339          |
| Resolution 2770             | EUR                     | 5.74%                | 2009       | 84,799         | -                | 84,799           |
| Total parent Company        |                         |                      |            | 454,188        | 1,717,352        | 2,171,540        |
| Resolution 2770             | JPY                     | 1.00%                | 2009       | 48,315         | -                | 48,315           |
| Total consolidated          |                         |                      |            | <b>502,503</b> | <b>1,717,352</b> | <b>2,219,855</b> |

(\*) Amounts presented at fair value, when applicable.

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

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

The loan obtained from BNDES is secured by SP Telecomunicações Participações Ltda.

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**13. Loans and financing** (Continued)Consolidated long-term debt maturities

| <b>Year</b> | <b>Amounts</b> |
|-------------|----------------|
| 2010        | 200,643        |
| 2011        | 344,534        |
| 2012        | 344,042        |
| 2013        | 343,565        |
| Thereafter  | 481,571        |
| Total       | 1,714,355      |

**14. Debentures**

|            | <b>Company and Consolidated</b> |                             |                 | <b>Balance in Mar/2009</b> |                  |                  |
|------------|---------------------------------|-----------------------------|-----------------|----------------------------|------------------|------------------|
|            | <b>Currency</b>                 | <b>Annual interest rate</b> | <b>Maturity</b> | <b>Current</b>             | <b>Long-term</b> | <b>Total</b>     |
| Debentures | R\$                             | CDI rate +<br>0.35%         | Until 2010      | <b>14,308</b>              | <b>1,500,000</b> | <b>1,514,308</b> |
| Total      |                                 |                             |                 | <b>14,308</b>              | <b>1,500,000</b> | <b>1,514,308</b> |

|            | <b>Company and Consolidated</b> |                             |                 | <b>Balance in Dec/2008</b> |                  |              |
|------------|---------------------------------|-----------------------------|-----------------|----------------------------|------------------|--------------|
|            | <b>Currency</b>                 | <b>Annual interest rate</b> | <b>Maturity</b> | <b>Current</b>             | <b>Long-term</b> | <b>Total</b> |
| Debentures | R\$                             | CDI rate +<br>0.35%         | Until 2010      | 16,339                     | 1,500,000        | 1,516,339    |
| Total      |                                 |                             |                 | 16,339                     | 1,500,000        | 1,516,339    |

Debenture conditions were renegotiated on September 1, 2007, date of end of the first Remuneration period and beginning of the second Remuneration period. This period ends on the debentures maturity date; namely September 1, 2010. Debentures are entitled to interest yield, payable on a quarterly basis, corresponding to the interbank deposit certificate index (DI), capitalized at 0.35% p.a. spread.

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### 15. Taxes payable

|                                   | Company        |          | Consolidated     |          |
|-----------------------------------|----------------|----------|------------------|----------|
|                                   | Mar/2009       | Dec/2008 | Mar/2009         | Dec/2008 |
| Taxes on income (a)               |                |          |                  |          |
| Income tax                        | <b>41,234</b>  | -        | <b>42,097</b>    | -        |
| Social contribution tax           | <b>13,335</b>  | -        | <b>13,654</b>    | -        |
| Deferred Taxes                    |                |          |                  |          |
| Income tax                        | <b>144,680</b> | 118,132  | <b>144,680</b>   | 118,132  |
| Social contribution tax           | <b>14,498</b>  | 12,431   | <b>14,498</b>    | 12,431   |
| Indirect taxes                    |                |          |                  |          |
| ICMS (state VAT)                  | <b>602,234</b> | 635,353  | <b>648,737</b>   | 683,447  |
| PIS and COFINS (taxes on revenue) | <b>69,067</b>  | 75,286   | <b>96,341</b>    | 102,023  |
| Legal Liabilities (b)             | <b>28,266</b>  | 26,674   | <b>28,266</b>    | 26,674   |
| Other (c)                         | <b>9,745</b>   | 19,638   | <b>21,626</b>    | 31,131   |
| Total                             | <b>923,059</b> | 887,514  | <b>1,009,899</b> | 973,838  |
| Current                           | <b>881,756</b> | 847,363  | <b>948,443</b>   | 926,437  |
| Non-current                       | <b>41,303</b>  | 40,151   | <b>61,456</b>    | 47,401   |

(a) Income and social contribution taxes payable are presented net of payments on an estimate basis (Note 6);

(b) Legal obligations account records tax liabilities, net of escrow deposits, which are being questioned in court.

(c) The item "Others" includes R\$151,595 of FUST payable as of March 31, 2009 (R\$139,511 as of December 31, 2008), net of escrow deposits of R\$164,013 (R\$126,832 as of December 31, 2008), and the difference, in the amount of R\$13,734, is still recorded under assets, as escrow deposits.

In determining and accounting for federal taxes for the period ended March 31, 2009, the Company adopted the rules of the Transition Taxation Regime (RTT) as defined in Provisional Executive Order No. 449/08.

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### 16. Dividends and interest payable to shareholders

|   | <b>Company/Consolidated</b> |                  |
|---|-----------------------------|------------------|
|   | <b>Mar/2009</b>             | <b>Dec/2008</b>  |
| Interest on shareholders' equity                      | <b>438,679</b>              | 437,720          |
| Telefónica Internacional S.A.                         | <b>234,441</b>              | 234,441          |
| SP Telecomunicações Participações Ltda.               | <b>77,036</b>               | 77,036           |
| Minority shareholders                                 | <b>127,202</b>              | 126,243          |
| Dividends   | <b>714,435</b>              | 320,841          |
| Telefónica Internacional S.A.                         | <b>261,963</b>              | -                |
| SP Telecomunicações Participações Ltda.               | <b>86,079</b>               | -                |
| Minority shareholders                                 | <b>366,393</b>              | 320,841          |
| Dividends subject to shareholders' approval (note 20) | -                           | 395,109          |
| Total   | <b>1,153,114</b>            | <b>1,153,670</b> |

Most of the interest on shareholders' equity and total dividends payable to minority shareholders refer to available amounts declared, but not claimed yet.

**17. Payroll and related charges**

|                         | <b>Company</b>  |                 | <b>Consolidated</b> |                 |
|-------------------------|-----------------|-----------------|---------------------|-----------------|
|                         | <b>Mar/2009</b> | <b>Dec/2008</b> | <b>Mar/2009</b>     | <b>Dec/2008</b> |
| Salaries and fees       | <b>21,014</b>   | 18,250          | <b>22,526</b>       | 19,723          |
| Payroll charges         | <b>75,877</b>   | 74,975          | <b>81,485</b>       | 81,027          |
| Accrued benefits        | <b>3,353</b>    | 4,878           | <b>3,488</b>        | 5,087           |
| Employee profit sharing | <b>22,046</b>   | 65,269          | <b>23,422</b>       | 68,835          |
| <b>Total</b>            | <b>122,290</b>  | 163,372         | <b>130,921</b>      | 174,672         |

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**18. 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 breakdown of reserves by nature and activities during the first quarter of 2009:

| <b>Consolidated</b>              | <b>Nature</b>  |                |                | <b>Total</b>   |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | <b>Labor</b>   | <b>Tax</b>     | <b>Civil</b>   |                |
| Balances as of 12/31/2008        | 497,132        | 167,956        | 255,433        | 920,521        |
| Additions                        | 3,251          | 625            | 13,487         | 17,363         |
| Transfers                        | (372)          | -              | 372            | -              |
| Write-offs                       | (9,305)        | (1,717)        | (12,499)       | (23,521)       |
| Monetary restatement             | 20,435         | 1,023          | 2,296          | 23,754         |
| <b>Balances as of 03/31/2009</b> | <b>511,141</b> | <b>167,887</b> | <b>259,089</b> | <b>938,117</b> |

|                               |                  |                 |                 |                  |
|-------------------------------|------------------|-----------------|-----------------|------------------|
| Escrow deposits               | <b>(137,870)</b> | <b>(60,329)</b> | <b>(38,804)</b> | <b>(237,003)</b> |
| Net balances as of 03/31/2009 | <b>373,271</b>   | <b>107,558</b>  | <b>220,285</b>  | <b>701,114</b>   |
| Current                       | <b>51,105</b>    | -               | <b>80,238</b>   | <b>131,343</b>   |
| Non-current                   | <b>322,166</b>   | <b>107,558</b>  | <b>140,047</b>  | <b>569,771</b>   |

**18.1 Labor contingencies and reserves**

| <b>Risk - Consolidated</b> | <b>Amount involved</b> |                 |
|----------------------------|------------------------|-----------------|
|                            | <b>Mar/2009</b>        | <b>Dec/2008</b> |
| Probable                   | <b>511,141</b>         | 497,132         |
| Possible                   | <b>68,691</b>          | 66,608          |
| Total                      | <b>579,832</b>         | 563,740         |

These contingencies involve several lawsuits, mainly related to wage differences, and equivalence, overtime, employment relationship with employees of outsourced companies and job hazard premium, among others.

During this quarter, there have been no significant changes in the labor provisions and contingencies as compared to those reported for the latest fiscal year.

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**18. Reserves, net** (Continued)**18.2 Tax contingencies and reserves**

| <b>Risk - Consolidated</b> | <b>Amount involved</b> |                 |
|----------------------------|------------------------|-----------------|
|                            | <b>Mar/2009</b>        | <b>Dec/2008</b> |

|          |                  |           |
|----------|------------------|-----------|
| Probable | <b>167,887</b>   | 167,956   |
| Possible | <b>2,831,776</b> | 2,864,127 |
| Total    | <b>2,999,663</b> | 3,032,083 |

During this quarter, there have been no significant changes in the tax provisions and contingencies as compared to those reported for the latest fiscal year other than the one described below:

In 2009, Telesp was informed of the decision awarded by the São Paulo Federal Revenue Office refusing the Company's requests to offset credits arising from IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Net Profits) tax losses in 2003, in the amount of R\$456,586 (principal, interest and fines). Against this decision, an appeal was filed with the administrative courts and awaits trial. Based on the risk assessment made by external advisors, we understand that R\$92,030 of the total amount involved represents a possible loss, and the remaining amount represents a remote loss. Accordingly, a provision has not been recognized considering the risk assessment.

### 18.3 Civil contingencies and reserves

| Risk - Consolidated | Amount involved |          |
|---------------------|-----------------|----------|
|                     | Mar/2009        | Dec/2008 |
| Probable            | <b>259,089</b>  | 255,433  |
| Possible            | <b>419,777</b>  | 452,616  |
| Total               | <b>678,866</b>  | 708,049  |

During this quarter, there have been no significant changes in the civil provisions and contingencies as compared to those reported for the latest fiscal year.

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### 19. Other liabilities

|  | Company        |          | Consolidated   |          |
|--|----------------|----------|----------------|----------|
|  | Mar/2009       | Dec/2008 | Mar/2009       | Dec/2008 |
| Consignments on behalf of third parties        | <b>145,664</b> | 216,512  | <b>122,133</b> | 198,050  |
| Amounts charged to users                       | <b>96,792</b>  | 93,247   | <b>69,962</b>  | 70,884   |
| Withholdings                                   | <b>47,853</b>  | 122,191  | <b>51,152</b>  | 126,092  |
| Other  | <b>1,019</b>   | 1,074    | <b>1,019</b>   | 1,074    |
| Advances from customers                        | <b>58,306</b>  | 59,903   | <b>58,306</b>  | 69,906   |
| Amounts to be refunded to subscribers          | <b>70,667</b>  | 53,669   | <b>59,355</b>  | 48,593   |
| Concession renewal fee (Note 1.c)              | <b>128,583</b> | 102,863  | <b>128,583</b> | 102,863  |
| Accounts payable □ sale of share fractions (a) | <b>113,229</b> | 113,377  | <b>113,229</b> | 113,377  |
| Other  | <b>44,810</b>  | 43,774   | <b>95,028</b>  | 94,000   |
| Total  | <b>561,259</b> | 590,098  | <b>576,634</b> | 626,789  |
| Current  | <b>524,552</b> | 553,914  | <b>514,763</b> | 565,670  |
| Noncurrent                                     | <b>36,707</b>  | 36,184   | <b>61,871</b>  | 61,119   |

(a) Amounts resulting from the auction of share fractions relating to reverse stock split process in 2005, and TDBH acquisition process in 2006.

## 20. Shareholders' equity

### Capital

Paid-in capital is of R\$6,575,480 at March 31, 2009 and December 31, 2008. Subscribed and paid-in capital is represented by shares without par value, as follows:

|                         | Mar/2009           | Dec/2008    |
|-------------------------|--------------------|-------------|
| Total Capital in shares |                    |             |
| Common shares           | <b>168,819,870</b> | 168,819,870 |
| Preferred shares        | <b>337,417,402</b> | 337,417,402 |
| Total                   | <b>506,237,272</b> | 506,237,272 |
| Treasury shares         |                    |             |
| Common shares           | <b>(210,579)</b>   | (210,579)   |
| Preferred shares        | <b>(185,213)</b>   | (185,213)   |



|   |                    |             |
|---|--------------------|-------------|
| Total                                   | <b>(395,792)</b>   | (395,792)   |
| Outstanding shares                      |                    |             |
| Common shares                           | <b>168,609,291</b> | 168,609,291 |
| Preferred shares                        | <b>337,232,189</b> | 337,232,189 |
| Total                                   | <b>505,841,480</b> | 505,841,480 |
| Book value per outstanding share in R\$ | <b>20.79</b>       | 19.86       |

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### 20. Shareholders' equity (Continued)

#### Dividends and Accumulated earnings on December 31, 2008

On March 25, 2009, the General Shareholders' Meeting approved dividends based on the accumulated earnings and dividends and interest on shareholders' equity prescribed in 2008, in the amount of R\$395,109 and to payment by the end of fiscal year 2009.

### 21. Net operating revenue

|                                   | Company          |           | Consolidated     |           |
|-----------------------------------|------------------|-----------|------------------|-----------|
|                                   | Mar/2009         | Mar/2008  | Mar/2009         | Mar/2008  |
| Monthly subscription charges (i)  | <b>1,321,657</b> | 1,372,244 | <b>1,345,826</b> | 1,322,307 |
| Activation fees                   | <b>23,075</b>    | 30,669    | <b>23,070</b>    | 30,665    |
| Local service (i)                 | <b>575,766</b>   | 651,117   | <b>589,812</b>   | 661,624   |
| LDN - Domestic long-distance      | <b>985,993</b>   | 929,093   | <b>992,778</b>   | 947,537   |
| LDI - International long-distance | <b>30,377</b>    | 30,803    | <b>33,604</b>    | 35,882    |
| Interconnection services          | <b>1,013,453</b> | 1,046,730 | <b>1,034,597</b> | 1,066,432 |
| Network usage services            | <b>111,383</b>   | 109,335   | <b>111,383</b>   | 109,335   |
| Public telephones                 | <b>103,042</b>   | 112,718   | <b>103,042</b>   | 112,718   |

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|                                   |                    |             |                    |             |
|-----------------------------------|--------------------|-------------|--------------------|-------------|
| Data transmission                 | <b>940,948</b>     | 794,018     | <b>1,052,443</b>   | 870,562     |
| Network access                    | <b>122,911</b>     | 88,973      | <b>114,438</b>     | 81,282      |
| TV Service                        | -                  | -           | <b>138,730</b>     | 60,609      |
| Others                            | <b>160,822</b>     | 147,217     | <b>284,260</b>     | 271,543     |
|                                   | <hr/>              | <hr/>       | <hr/>              | <hr/>       |
| Gross operating revenue           | <b>5,389,427</b>   | 5,312,917   | <b>5,823,983</b>   | 5,570,496   |
| Taxes on gross revenue            | <b>(1,365,619)</b> | (1,371,736) | <b>(1,487,146)</b> | (1,453,589) |
|                                   | <hr/>              | <hr/>       | <hr/>              | <hr/>       |
| ICMS (State VAT)                  | <b>(1,168,288)</b> | (1,173,537) | <b>(1,243,968)</b> | (1,228,691) |
| PIS and COFINS (taxes on revenue) | <b>(190,655)</b>   | (191,082)   | <b>(232,644)</b>   | (214,246)   |
| ISS (Municipal service tax)       | <b>(6,676)</b>     | (7,117)     | <b>(10,534)</b>    | (10,652)    |
| Discounts                         | <b>(409,409)</b>   | (320,416)   | <b>(377,325)</b>   | (254,530)   |
|                                   | <hr/>              | <hr/>       | <hr/>              | <hr/>       |
| Net operating revenue             | <b>3,614,399</b>   | 3,620,765   | <b>3,959,512</b>   | 3,862,377   |
|                                   | <hr/>              | <hr/>       | <hr/>              | <hr/>       |

(i) For a better presentation of Operating Revenue to the market and regulatory agency, ANATEL, the Company made reclassifications to the amounts as of March 2008. The main reclassifications were made between the items ☐Monthly subscription charges☐, ☐Local service ☐, ☐TV Service ☐ and ☐Others☐.

Revenues from lease operations are recorded as ☐Others☐ under Gross operating revenue.

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

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### 21. Net operating revenue (Continued)

#### Tariff adjustments affecting reported revenues

Tariff adjustment for fixed to fixed calls, effective as of July 24, 2008. Tariff increase of 3.01% for Local and National Long Distance (LDN) services. Local network tariffs (TU-RL) also increased by 3.01% as of July 24, 2008.

Tariff adjustment of 3.01% for fixed to mobile calls (VC1, VC2 and VC3), effective as of July 24, 2008. Local network tariffs (TU-RL) also increased by 2.21% as of July 20, 2008.

### 22. Cost of services provided

|                               | Company            |             | Consolidated       |             |
|-------------------------------|--------------------|-------------|--------------------|-------------|
|                               | Mar/2009           | Mar/2008    | Mar/2009           | Mar/2008    |
| Depreciation and amortization | <b>(542,681)</b>   | (565,102)   | <b>(587,680)</b>   | (595,121)   |
| Personnel                     | <b>(29,805)</b>    | (50,426)    | <b>(37,307)</b>    | (59,505)    |
| Materials                     | <b>(8,260)</b>     | (7,438)     | <b>(26,923)</b>    | (27,911)    |
| Network interconnection       | <b>(988,923)</b>   | (952,719)   | <b>(1,056,964)</b> | (961,263)   |
| Outsourced services           | <b>(363,080)</b>   | (297,841)   | <b>(455,407)</b>   | (340,863)   |
| Other                         | <b>(101,293)</b>   | (101,475)   | <b>(157,377)</b>   | (157,532)   |
| Total                         | <b>(2,034,042)</b> | (1,975,001) | <b>(2,321,658)</b> | (2,142,195) |

### 23. Selling expenses

|                                 | Company          |           | Consolidated     |           |
|---------------------------------|------------------|-----------|------------------|-----------|
|                                 | Mar/2009         | Mar/2008  | Mar/2009         | Mar/2008  |
| Depreciation and amortization   | <b>(36,012)</b>  | (38,387)  | <b>(36,087)</b>  | (38,454)  |
| Personnel                       | <b>(85,990)</b>  | (92,909)  | <b>(90,765)</b>  | (97,664)  |
| Materials                       | <b>(9,367)</b>   | (16,075)  | <b>(9,410)</b>   | (16,079)  |
| Outsourced services             | <b>(340,700)</b> | (308,946) | <b>(357,268)</b> | (308,328) |
| Allowance for doubtful accounts | <b>(116,929)</b> | (123,693) | <b>(141,341)</b> | (132,741) |
| Other                           | <b>(6,542)</b>   | (4,873)   | <b>(8,818)</b>   | (14,709)  |
| Total                           | <b>(595,540)</b> | (584,883) | <b>(643,689)</b> | (607,975) |

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

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**24. General and administrative expenses**

|                               | Company          |           | Consolidated     |           |
|-------------------------------|------------------|-----------|------------------|-----------|
|                               | Mar/2009         | Mar/2008  | Mar/2009         | Mar/2008  |
| Depreciation and amortization | <b>(20,041)</b>  | (21,380)  | <b>(27,081)</b>  | (26,560)  |
| Personnel                     | <b>(48,972)</b>  | (57,984)  | <b>(49,772)</b>  | (59,701)  |
| Materials                     | <b>(2,022)</b>   | (2,535)   | <b>(2,043)</b>   | (2,636)   |
| Outsourced services           | <b>(79,450)</b>  | (74,561)  | <b>(60,279)</b>  | (84,150)  |
| Other                         | <b>(14,671)</b>  | (6,882)   | <b>(17,272)</b>  | (15,088)  |
| Total                         | <b>(165,156)</b> | (163,342) | <b>(156,447)</b> | (188,135) |

**25. Permanent asset disposal, net**

|   | Company        |          | Consolidated   |          |
|---|----------------|----------|----------------|----------|
|   | Mar/2009       | Mar/2008 | Mar/2009       | Mar/2008 |
| Proceeds from sale of property, plant and equipment | <b>1,184</b>   | 4,082    | <b>1,268</b>   | 4,756    |
| Cost of sale of property, plant and equipment       | <b>(3,186)</b> | (2,065)  | <b>(7,770)</b> | (4,104)  |
| Total   | <b>(2,002)</b> | 2,017    | <b>(6,502)</b> | 652      |

**26. Other operating income, net**

|   | Company        |          | Consolidated   |          |
|---|----------------|----------|----------------|----------|
|   | Mar/2009       | Mar/2008 | Mar/2009       | Mar/2008 |
| Income                                  | <b>103,742</b> | 105,036  | <b>108,934</b> | 109,196  |
| Technical and administrative services   | <b>11,494</b>  | 12,480   | <b>9,814</b>   | 11,287   |
| Income from Supplies                    | <b>2,831</b>   | 1,832    | <b>2,831</b>   | 1,832    |
| Fines on telecommunication services     | <b>33,902</b>  | 32,209   | <b>38,660</b>  | 35,374   |
| Recovered expenses                      | <b>13,484</b>  | 2,758    | <b>13,761</b>  | 2,844    |
| Reversal of provision for contingencies | <b>21,378</b>  | 6,286    | <b>23,024</b>  | 6,495    |
| Rent of shared infrastructure           | <b>10,341</b>  | 12,571   | <b>10,341</b>  | 12,571   |

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|   |                 |           |                  |                  |
|---|-----------------|-----------|------------------|------------------|
| Amortization of negative goodwill □ Company AIX | -               | 2,184     | -                | 2,184            |
| Unidentified billing                            | <b>83</b>       | 9,924     | <b>83</b>        | 9,932            |
| Other revenue                                   | <b>10,229</b>   | 24,792    | <b>10,420</b>    | 26,677           |
| Expenses  | <b>(83,813)</b> | (180,622) | <b>(114,581)</b> | <b>(197,158)</b> |
| Allowance for reduction to market value         |                 |           |                  |                  |
| of inventories                                  | <b>(471)</b>    | (456)     | <b>(3,527)</b>   | (1,139)          |
| Amortization of goodwill                        | -               | (31,852)  | -                | (31,852)         |
| Donations and sponsorships                      | <b>(6,850)</b>  | (3,508)   | <b>(6,850)</b>   | (3,772)          |
| Taxes other than income taxes                   | <b>(58,729)</b> | (66,612)  | <b>(71,470)</b>  | (76,713)         |
| Provision for contingencies                     | <b>(17,478)</b> | (68,460)  | <b>(17,477)</b>  | (68,606)         |
| Other expense                                   | <b>(285)</b>    | (9,734)   | <b>(15,257)</b>  | (15,076)         |
| Total   | <b>19,929</b>   | (75,586)  | <b>(5,647)</b>   | (87,962)         |

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

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### 27. Financial income (expenses)

|   | Company          |           | Consolidated     |           |
|---|------------------|-----------|------------------|-----------|
|   | Mar/2009         | Mar/2008  | Mar/2009         | Mar/2008  |
| Financial income                        | <b>110,684</b>   | 87,801    | <b>121,492</b>   | 90,337    |
| Income from short-term investments      | <b>50,970</b>    | 22,367    | <b>55,009</b>    | 24,501    |
| Gains from derivative transactions      | -                | 27,797    | -                | 30,740    |
| Interests receivable                    | <b>7,222</b>     | 5,422     | <b>8,095</b>     | 2,320     |
| Monetary/exchange variations Receivable | <b>51,350</b>    | 30,417    | <b>52,008</b>    | 30,421    |
| Other                                   | <b>1,142</b>     | 1,798     | <b>6,380</b>     | 2,355     |
| Financial expenses                      | <b>(162,032)</b> | (146,538) | <b>(167,245)</b> | (154,452) |

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|                                      |                  |          |                  |          |
|--------------------------------------|------------------|----------|------------------|----------|
| Interests Payable                    | <b>(117,377)</b> | (94,764) | <b>(119,141)</b> | (96,873) |
| Losses on derivative transactions    | <b>(30,224)</b>  | -        | <b>(32,234)</b>  | -        |
| Expenses on financial transactions   | <b>(7,773)</b>   | (2,438)  | <b>(10,175)</b>  | (4,144)  |
| Monetary/exchange variations Payable | <b>(6,658)</b>   | (49,336) | <b>(5,695)</b>   | (53,435) |
|                                      | <hr/>            | <hr/>    | <hr/>            | <hr/>    |
| Total                                | <b>(51,348)</b>  | (58,737) | <b>(45,753)</b>  | (64,115) |
|                                      | <hr/>            | <hr/>    | <hr/>            | <hr/>    |

## 28. Income and social contribution taxes

The Company recognizes income tax and social contribution monthly on the accrual basis and pays the taxes on an estimated basis, in accordance with the trial balance for suspension or reduction. The taxes calculated on income until the month of the financial statements are recorded in liabilities or assets, as applicable.

### Reconciliation of reported income tax expense and combined statutory tax rates

The following table is a reconciliation of the reported tax charges presented in the result and the amounts calculated applying 34% (income tax of 25% and social contribution tax of 9%) in March, 2009 and 2008:

|  | Company          |           | Consolidated     |           |
|--|------------------|-----------|------------------|-----------|
|  | Mar/2009         | Mar/2008  | Mar/2009         | Mar/2008  |
|  | <hr/>            | <hr/>     | <hr/>            | <hr/>     |
| Income before taxes  | <b>769,188</b>   | 771,554   | <b>785,472</b>   | 778,179   |
|  | <hr/>            | <hr/>     | <hr/>            | <hr/>     |
| Income tax and Social contribution taxes                         |                  |           |                  |           |
| Income tax and Social contribution tax expense                   | <b>(261,524)</b> | (262,328) | <b>(267,060)</b> | (264,581) |
| Permanent differences  |                  |           |                  |           |
| Equity pick-up   | <b>(5,798)</b>   | 2,149     | <b>1,923</b>     | 1,881     |
| Innovation Act   | <b>(11,670)</b>  | -         | <b>(11,670)</b>  | -         |
| Subsidiaries' temporary differences                              | -                | -         | <b>(16,790)</b>  | 1,501     |
| Nondeductible expenses, gifts, incentives and dividends received | <b>(7,653)</b>   | (24,810)  | <b>(9,336)</b>   | (30,415)  |
| Other  | <b>97</b>        | 2,166     | <b>101</b>       | 2,166     |
| Incentives (cultural, food and transportation)                   |                  |           |                  |           |
|  | <hr/>            | <hr/>     | <hr/>            | <hr/>     |
| Total (income tax + social contribution tax)                     | <b>(286,548)</b> | (282,823) | <b>(302,832)</b> | (289,448) |
|  | <hr/>            | <hr/>     | <hr/>            | <hr/>     |

## Notes to quarterly information (Continued)

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**28. Income and social contribution taxes (Continued)**Reconciliation of reported income tax expense and combined statutory tax rates (Continued)

Deferred income and social contribution tax assets and liabilities are broken down in Notes 6 and 15, respectively.

Income and social contribution taxes payable at March 31, 2009, individual and consolidated amount respectively to R\$226,529 and R\$244,193.

**29. Transactions with related parties**

The principal balances with related parties are as follows:

|  | <b>Consolidated</b> |                 |
|--|---------------------|-----------------|
|  | <b>Mar/2009</b>     | <b>Dez/2008</b> |
| Assets   |                     |                 |
| Current assets                                 | <b>459,616</b>      | 448,337         |
| Trade accounts receivable                      | <b>336,022</b>      | 317,915         |
| Intercompany receivables                       | <b>123,594</b>      | 130,422         |
| Non-current assets                             | <b>28,454</b>       | 22,863          |
| Intercompany receivables                       | <b>28,454</b>       | 22,863          |
| Total assets                                   | <b>488,070</b>      | 471,200         |
| Liabilities                                    |                     |                 |
| Current liabilities                            | <b>1,121,717</b>    | 766,177         |
| Trade accounts payable                         | <b>415,445</b>      | 405,503         |
| Dividends and interest on shareholders' equity | <b>659,519</b>      | 311,477         |
| Intercompany payables                          | <b>46,753</b>       | 49,197          |
| Non-current liabilities                        | <b>22,665</b>       | 31,875          |
| Intercompany payables                          | <b>22,665</b>       | 31,875          |

|                   |                  |         |
|-------------------|------------------|---------|
| Total Liabilities | <b>1,144,382</b> | 798,052 |
|-------------------|------------------|---------|

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### 29. Transactions with related parties (Continued)

|                             | <b>Consolidated</b> |                 |
|-----------------------------|---------------------|-----------------|
|                             | <b>Mar/2009</b>     | <b>Mar/2008</b> |
| Statement of income         |                     |                 |
| Revenues                    | <b>91,655</b>       | 87,810          |
| Telecommunications services | <b>81,001</b>       | 77,388          |
| Financial income            | -                   | -               |
| Other operating revenue     | <b>10,654</b>       | 10,422          |
| Costs and expenses          | <b>(738,553)</b>    | (680,043)       |
| Cost of services provided   | <b>(598,169)</b>    | (507,267)       |
| Selling                     | <b>(118,158)</b>    | (146,216)       |
| General and administrative  | <b>(22,226)</b>     | (26,560)        |
| Financial Expenses          | -                   | -               |

Transactions with related parties were carried out at arm's length.

Trade accounts receivable include receivables for telecommunications services. Principally Vivo S.A., Atento Brasil S.A., Terra Networks Brasil S.A. and Telefónica de España S.A., particularly for long-distance services and Tiws Brasil Ltda, due the contract of rendering services of rights of use of undersea fiber optic.

Other intercompany receivables in current and non-current assets comprise credits from Telefónica Internacional S.A., Telefônica Serviços Empresariais do Brasil Ltda., Telefônica Del Peru 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 for international long-distance



services provided principally by 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.

Other intercompany payables in current and non-current liabilities are comprised mainly of management and technical services payable to Telefónica Internacional S.A., software development and maintenance services payable to Telefônica Pesquisa e Desenvolvimento do Brasil Ltda., and reimbursements payable to Telefônica Serviços Empresariais do Brasil Ltda.

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

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### **29. Transactions with related parties (Continued)**

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

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

Selling expenses refer mainly to marketing services provided 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 Telefónica Internacional S.A.

### **30. Post-retirement benefit plans**

The Company maintains the same post-employment benefit plans disclosed in the latest annual financial statements.

In the first quarter of 2009, the Company made contributions to the PBS Telesp Plan in the amount of R\$5 (R\$9 in the same period of 2008) and to Plano Visão Telesp in the amount of R\$4,932 (R\$5,189 in the same period of 2008).

A. Telecom sponsors two private pension plans for defined contribution; namely, one similar to that of Telesp, denominated Visão Assist Benefits Plan, which is granted to approximately 30% of its employees and another, denominated Visão A. Telecom Benefits Plan, whose basic and additional contributions by sponsor correspond to 30% of basic and additional contribution by participants. The contributions of A. Telecom to these plans totaled R\$89 in the first quarter 2009 (R\$45 in the same period of 2008).

Telefonica Data 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 totaled R\$143 in the first quarter (R\$163 in the same period of 2008).

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**30. Post-retirement benefit plans (Continued)**

The actuarial valuation of the plans was made in December 2008 and 2007 based on the record of plan members as of August 2008 and 2007, respectively, and the financial information as of October 31, 2008 was updated to December 31, 2008 and August 2007, 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 are positioned on to October 31, 2008 and December, 31 2007 respectively, where for multiemployer plans (PAMA and PSB-A), apportionment of the plan assets was made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

Actuarial liabilities recorded by the Company as of March 31, 2009 and December 31, 2008 are as follows:

| Plan                                  | Mar/2009       | Dez/2008 |
|---------------------------------------|----------------|----------|
| CTB                                   | <b>27,109</b>  | 26,482   |
| PAMA                                  | <b>125,303</b> | 122,288  |
| Total parent company and consolidated | <b>152,412</b> | 148,770  |

The other plans sponsored by the Company and its subsidiaries record an actuarial surplus (PBS-A, PBS Telesp, Visão Telesp and Visão Telefônica Empresas) and are not recorded in accounting, with the latest actuarial valuation occurred in December 2008.

**31. Insurance**

The Company and its subsidiaries' policies 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 and 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.

The major insurances contracted by the Company are shown below:

| Type                                     | Insurance coverage |
|--|--------------------|
| Operational risks (with loss of profits) | US\$11,009,916 mil |
| Optional civil responsibility - vehicles | R\$1,000           |
| ANATEL guarantee insurance               | R\$12,404.5        |

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**32. Financial instruments**

The table below shows a breakdown of financial assets and liabilities as of March 31, 2009.

| Financial assets                        | Consolidated                                  |                    |                |        | Total book value |
|---|---|--------------------|----------------|--------|------------------|
|   | Measured at fair value through profit or loss | Available for sale | Amortized cost | Hedge  |                  |
| Current assets                          |   |                    |                |        |                  |
| Cash and cash equivalents (Note 4)      | 7,905   | -                  | -              | -      | 7,905            |
| Short-term investments (Note 4)         | 1,775,778                                     | -                  | -              | -      | 1,775,778        |
| Derivatives                             | 574   | -                  | -              | 39,182 | 39,756           |
| Noncurrent assets                       |   |                    |                |        |                  |
| Interests in other companies            | -   | 244,646            | -              | -      | 244,646          |
| Amounts linked to the National Treasury | -   | -                  | 11,467         | -      | 11,467           |
| Derivatives                             | 123   | -                  | -              | -      | 123              |
| Total financial assets                  | 1,784,380                                     | 244,646            | 11,467         | 39,182 | 2,079,675        |

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**32. Financial instruments (Continued)**

| Financial liabilities         | Consolidated                                  |                |        |                  |                  |
|-------------------------------|---|----------------|--------|------------------|------------------|
|                               | Measured at fair value through profit or loss | Amortized cost | Hedge  | Total book value | Total fair value |
| Current liabilities           |   |                |        |                  |                  |
| Loans, financing (Note 13)    | -   | 242,004        | -      | 242,004          | 242,004          |
| Debentures (Note 14)          | -   | 14,308         | -      | 14,308           | 14,308           |
| Derivatives                   | -   | -              | 21,471 | 21,471           | 21,471           |
| Noncurrent liabilities        |   |                |        |                  |                  |
| Loans and financing (Note 13) | -   | 1,714,355      | -      | 1,714,355        | 1,714,355        |
| Debentures (Note 14)          | -   | 1,500,000      | -      | 1,500,000        | 1,500,000        |
| Derivatives                   | -   | -              | 20,669 | 20,669           | 20,669           |
| Total financial liabilities   | -   | 3,470,667      | 42,140 | 3,512,807        | 3,512,807        |

The Company and its subsidiaries made a valuation of their financial assets and liabilities in relation to market values based on available information and appropriate valuation methodologies. However the interpretation of market information as well as the selection of methodologies requires considerable judgment and reasonable estimates in order to produce adequate realizable values. As a result the estimates presented do not necessarily indicate the amounts which might be realized in the current market. The use of different market approaches and/or methodologies for the estimates may have a significant effect on the estimated realizable values.

Interests in other companies

The Company has direct and indirect interests in other companies resulting from the privatization process. These investments, measured at market value, consider the last quotation available in March 2009 and December 2008.

The table below shows the composition of investments in other companies at market value as of March 31, 2009 and December 31, 2008

|                   | % Partic. | Consolidated |          |
|-------------------|-----------|--------------|----------|
|                   |           | Mar/2009     | Dez/2008 |
| Portugal Telecom  | 1.21      | 191,291      | 210,431  |
| Zon Multimédia    | 0.52      | 19,981       | 19,531   |
| Other Investments |           | 33,374       | 35,416   |

|       |                |                |
|-------|----------------|----------------|
| Total | <u>244,646</u> | <u>265,378</u> |
|-------|----------------|----------------|

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### 32. Financial instruments (Continued)

#### Risk management policy

The Company is exposed to many market risks as a result of its commercial operation, debts obtained to finance its activities and debt-related financial instruments.

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

#### a) *Exchange rate risk*

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations which would increase the balances of loans financing and purchase commitments denominated in foreign currency and the related financial expenses. In order to minimize the risk of financial liabilities in foreign currency, the Company enters into hedge contracts (swaps) with financial institutions.

The Company's indebtedness and the result of loan financing and purchase commitment liabilities denominated in foreign currency are significantly affected by the foreign exchange rate risk. As of March 31, 2009, 7.12% (13.68% in December 31, 2008) of the debt was denominated in foreign currency (U.S. dollar and yen); the debt was covered by asset positions on currency hedge transactions (swaps for CDI).

#### b) *Interest rate risk*

This risk arises from the possibility that the Company may incur losses due to internal and external interest rate fluctuations affecting the Company's results (debentures and JBIC) and the short positions of derivatives at floating interest rates to cover the risks of foreign currency-denominated debts.

The debt to the BNDES is indexed to the TJLP (Long-Term Interest Rate determined on a quarterly basis by the National Monetary Council), which has been stable since July 2007 (6.25% per annum).

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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

## **32. Financial instruments (Continued)**

Risk management policy (Continued)

### *b) Interest rate risk (Continued)*

In order to minimize its exposure to the local variable interest rate (CDI), the Company invests its excess cash, amounting to R\$1,775,778 (R\$1,709,013 at December 31, 2008), substantially in short-term investments (Bank Deposit Certificates) based on the CDI rate variation. The book values of these instruments approximate market values, since they may be redeemed in the short term.

As of March 31, 2009 the Company also contracted CDI + 0.35% of CDI percentage swap with identical flows of those of debentures (note 15).

### *c) Debt acceleration risk*

As of March 31, 2009, the Company's loan and financing agreements contain restrictive clauses (covenants), typically applicable to such agreements, relating to cash generation, debt ratios and other restrictions. The Company has complied with these restrictive clauses in full, and such covenants do not restrict its ability to continue as a going concern.

### *d) Credit risk*

This risk arises from the possibility that the Company may incur losses due to the difficulty in receiving amounts billed to its customers. The credit risk on accounts receivable is dispersed. The Company constantly monitors the level of accounts receivable and limits the risk of past-due accounts, interrupting access to telephone lines in case the customer does not pay the related bills in 30 days. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

As of March 31, 2009, the Company's customer portfolio had no subscribers whose receivables were individually higher than 1% of the total accounts receivable from services.

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

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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## 32. Financial instruments (Continued)

### Risk management policy (Continued)

#### e) Derivatives

All the Company's derivative instruments have the objective of providing hedge against the risk of variation in foreign exchange and external and internal interest rates arising from financial debts, according to the company's risk management policy. As such, any changes in risk factors generate an opposite effect on the hedged end. There are no derivative instruments for speculative purposes and liabilities in foreign exchange are hedged.

The Company has internal controls over its derivative instruments, which, according to management, are adequate to control the risks associated with each market strategy. The Company's results derived from its derivative financial instruments indicate that the risks have been adequately managed.

### Fair value of derivative financial instruments

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

Fair values are calculated by projecting future operating flows, using BM&F Bovespa curves, and discounting to present value through market DI rates for swaps, as informed by BM&F Bovespa.

The market values of currency coupon swaps vs. CDI were obtained through market currency rates in force at the balance sheet date and projected market rates were obtained from currency coupon curves. The coupon for positions indexed to foreign currencies was determined using the 360-calendar-day straight-line convention; the coupon for positions indexed to CDI was determined using the 252-workday exponential convention.

The consolidated derivative financial instruments shown below are registered with CETIP.

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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## 32. Financial instruments (Continued)

### Fair value of derivative financial instruments (Continued)

All of them are classified as swaps and do not require margin deposits.

| Notional Value | Fair value | Accumulated effect<br>March 2009 |        |
|----------------|------------|----------------------------------|--------|
|                |            | Amount<br>receivable /           | Amount |

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| Description              | Index            | Mar/2009           | Dec/2008    | Mar/2009           | Dec/2008    | (received)<br>(*) | payable /<br>(paid) (*) |
|--------------------------|------------------|--------------------|-------------|--------------------|-------------|-------------------|-------------------------|
| Swap Contracts           |                  |                    |             |                    |             |                   |                         |
| Assets                   |                  |                    |             |                    |             |                   |                         |
| Foreign Currency (a)     |                  | <b>209,365</b>     | 407,944     | <b>246,992</b>     | 511,059     | 39,182            |                         |
| Banco do Brasil          | EUR              | -                  | 65,000      | -                  | 84,799      | -                 | -                       |
| Banco do Brasil          | JPY              | <b>105,698</b>     | 105,698     | <b>158,184</b>     | 171,878     | 39,182            | -                       |
| BES                      | USD              | <b>3,155</b>       | 6,967       | <b>3,276</b>       | 7,219       | -                 | -                       |
| Citibank                 | JPY              | <b>73,676</b>      | 147,351     | <b>57,691</b>      | 129,172     | -                 | -                       |
| Santander                | JPY              | -                  | 56,092      | -                  | 89,776      | -                 | -                       |
| Votorantim               | USD              | <b>26,836</b>      | 26,836      | <b>27,841</b>      | 28,215      | -                 | -                       |
| Variable rates (CDI) (b) |                  | <b>1,500,000</b>   | 1,500,000   | <b>1,521,348</b>   | 1,524,371   | 697               | -                       |
| Banco do Brasil          | CDI + fixed rate | <b>500,000</b>     | 500,000     | <b>507,116</b>     | 508,124     | 260               | -                       |
| HSBC                     | CDI + fixed rate | <b>400,000</b>     | 400,000     | <b>405,693</b>     | 406,499     | 179               | -                       |
| Citibank                 | CDI + fixed rate | <b>400,000</b>     | 400,000     | <b>405,693</b>     | 406,499     | 162               | -                       |
| Votorantim               | CDI + fixed rate | <b>200,000</b>     | 200,000     | <b>202,846</b>     | 203,249     | 96                | -                       |
| Liabilities              |                  |                    |             |                    |             |                   |                         |
| Variable rates (CDI)     |                  | <b>(209,365)</b>   | (407,944)   | <b>(249,950)</b>   | (451,976)   | -                 | (42,140)                |
| Banco do Brasil          | CDI              | -                  | (65,000)    | -                  | (72,482)    | -                 | -                       |
| Banco do Brasil          | CDI              | <b>(105,698)</b>   | (105,698)   | <b>(119,002)</b>   | (114,529)   | -                 | -                       |
| BES                      | CDI              | <b>(3,155)</b>     | (6,967)     | <b>(6,130)</b>     | (13,155)    | -                 | (2,854)                 |
| Citibank                 | CDI              | <b>(73,676)</b>    | (147,351)   | <b>(72,676)</b>    | (137,435)   | -                 | (14,985)                |
| Santander                | CDI              | -                  | (56,092)    | -                  | (63,702)    | -                 | -                       |
| Votorantim               | CDI              | <b>(26,836)</b>    | (26,836)    | <b>(52,142)</b>    | (50,673)    | -                 | (24,301)                |
| Fixed rates              |                  | <b>(1,500,000)</b> | (1,500,000) | <b>(1,520,651)</b> | (1,525,051) | -                 | -                       |
| Banco do Brasil          | CDI              | <b>(500,000)</b>   | (500,000)   | <b>(506,856)</b>   | (508,313)   | -                 | -                       |
| HSBC                     | CDI              | <b>(400,000)</b>   | (400,000)   | <b>(405,514)</b>   | (406,690)   | -                 | -                       |
| Citibank                 | CDI              | <b>(400,000)</b>   | (400,000)   | <b>(405,531)</b>   | (406,712)   | -                 | -                       |
| Votorantim               | CDI              | <b>(200,000)</b>   | (200,000)   | <b>(202,750)</b>   | (203,336)   | -                 | -                       |
| Total registered         |                  |                    |             |                    |             | 39,879            | (42,140)                |



The operations were entered into considering market rates indexed to the CDI (short position), while the long position is based on the same rates applicable to obligations.

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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### 32. Financial instruments (Continued)

Fair value of derivative financial instruments (Continued)

a) *Swaps* of foreign currency x CDI (derivative fair value of the R\$246,992) □ swap operations with several maturities until 2014, with the objective of hedging foreign exchange and interest rate changes in loan operations in foreign currency with these characteristics (debt fair value of R\$246,983).

b) *Swap* CDI + 0.35% x CDI percentage swap (derivative fair value of R\$1,521,349) □ contracted swap operations maturing until 2010 with identical flow as of debentures (Note 14), to cover the risk of fixed spread (0.35%) (fair value of debentures, excluding premium of R\$1,521,349).

The aging list of *swap* contracts as of March 31, 2009 is as follows:

| <b>Swap contracts</b>  | <b>Maturity</b> |             |             |                   | <b>Amount payable/<br/>receivable<br/>03/31/2009</b> |
|------------------------|-----------------|-------------|-------------|-------------------|--|
|                        | <b>2009</b>     | <b>2010</b> | <b>2011</b> | <b>2012 ahead</b> |  |
| Foreign Currency x CDI | 20,845          | (6,125)     | (5,566)     | (12,111)          | (2,957)  |
| BANCO DO BRASIL        | 39,182          | -           | -           | -                 | 39,182   |
| BES                    | -               | -           | (2,854)     | -                 | (2,854)  |
| CITIBANK               | (14,985)        | -           | -           | -                 | (14,985)   |
| VOTORANTIM             | (3,352)         | (6,125)     | (2,712)     | (12,111)          | (24,300)   |
| CDI+Spread x CDI       | 430             | 267         | -           | -                 | <b>697</b>   |
| BANCO DO BRASIL        | 157             | 103         | -           | -                 | 260  |
| HSBC                   | 111             | 68          | -           | -                 | 179  |
| CITIBANK               | 103             | 59          | -           | -                 | 162  |
| VOTORANTIM             | 59              | 37          | -           | -                 | 96   |

For reporting purposes, the Company adopted the hedge accounting method for all of its derivatives. Under this methodology, both the derivative and the hedged item are measured at fair value. Only the derivative associated with the debentures was not considered pursuant to this methodology.

For the three-month period ended March 31, 2009, derivative operations generated a net consolidated loss of R\$32,234 (nota 27). At March 31, 2009, 100.00% of the Company's foreign currency denominated debt was covered by asset positions on currency hedge transactions (swaps for CDI), which generated a net consolidated loss of R\$33,406. The Company also has operations involving swap  $\square$  CDI + spread vs. %CDI, in the principal amount of R\$1,500,000, to cover fixed debentures spread, which generated gains of R\$1,172.

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

Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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### **32. Financial instruments (Continued)**

#### Fair value of derivative financial instruments (Continued)

At March 31, 2009, the balance of R\$39,879 is recorded as assets and R\$42,140 as liabilities, recognizing the position of derivatives as of that date.

Gains and losses for the year ended March 31, 2009, grouped by contracts, were posted to profit and loss accounts (Note 27), as required by CVM Instruction No. 475/08.

#### Sensitivity analysis of the company's risk variables

CVM Instruction requires listed companies to disclose, in addition to the provisions of item 59 of CPC Technical Pronouncement No 14 - Financial Instruments: Recognition, Measurement and Disclosure, a table showing the sensitivity analysis of each type of market risk inherent in financial instruments considered relevant by management and to which the company is exposed at the closing date of each reporting period, including all operations involving derivative financial instruments. In compliance with the foregoing, all the operations involving derivative financial instruments were evaluated considering a probable scenario and two scenarios that may adversely impact the Company.

Under the probable scenario, the projected realization of derivative financial instruments considered the future market curves (currency and interest) of BM&F Bovespa upon maturity of each operation. In this context, the probable scenario does not produce impacts on the fair value of financial instruments reported in the financial statements. The two unfavorable scenarios considered 25% and 50% decreases, respectively, for the risk variables upon maturity of the financial instruments.

Considering that the Company has derivative instruments only to cover its financial debt, the changes in scenarios offset by changes the related hedged items, thus indicating that the effects are practically null. For these operations, the Company reported the fair value of the hedged item (debt) and of the hedge derivative financial instrument on separate rows in the sensitivity analysis table in order to provide information on the Company's net exposure for each of the three mentioned scenarios, as shown below:

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Notes to quarterly information (Continued)

March 31, 2009

(In thousands of reais, unless otherwise stated)

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**32. Financial instruments (Continued)**Sensitivity analysis □ Net exposure

| <b>Operation</b>                | <b>Risk</b>                          | <b>Probable</b> | <b>25% Decrease</b> | <b>50% Decrease</b> |
|---------------------------------|--------------------------------------|-----------------|---------------------|---------------------|
| Hedge (long position)           | Derivatives (risk of USD decrease)   | 31,116          | 40,408              | 50,432              |
| USD-denominated debt            | Debts (risk of USD increase)         | (31,109)        | (40,401)            | (50,426)            |
|                                 | Net Exposure                         | 7               | 7                   | 6                   |
| Hedge (long position)           | Derivatives (risk of JPY decrease)   | 215,874         | 270,245             | 324,791             |
| JPY-denominated debt            | Debts (risk of JPY increase)         | (215,874)       | (270,245)           | (324,791)           |
|                                 | Net Exposure                         | -               | -                   | -                   |
| Hedge (long position)           | Derivatives (risk of IGP-M decrease) | 1,521,349       | 1,567,236           | 1,612,349           |
| EUR-denominated debt            | Debts (risk of IGP-M increase)       | (1,521,349)     | (1,567,236)         | (1,612,349)         |
|                                 | Net Exposure                         | -               | -                   | -                   |
| Hedge (Long position)           | Derivatives (risk of CDI decrease)   | (1,770,601)     | (1,772,590)         | (1,774,103)         |
| Debentures (CDI)                | Debentures (risk of CDI increase)    | (1,770,601)     | (1,772,590)         | (1,774,103)         |
|                                 | Net Exposure                         |                 |                     |                     |
| Effect on changes in fair value |                                      |                 | (1,989)             | (3,502)             |

Assumptions for analysis of sensitivity

| <b>Risk variable</b> | <b>Probable</b> | <b>25% Decrease</b> | <b>50% Decrease</b> |
|----------------------|-----------------|---------------------|---------------------|
| USD                  | 2.3152          | 2.8940              | 3.4728              |

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|     |        |        |        |
|-----|--------|--------|--------|
| JPY | 0.0233 | 0.0292 | 0.0350 |
| CDI | 11.08% | 13.85% | 16.62% |

The net exposure in CDI shown in the sensitivity analysis does not reflect the Company's total exposure to the internal interest rate, considering that, as previously mentioned, the Company uses short-term investments based on the CDI rate variation as a partial "natural hedge" (R\$1,775,778 at March 31, 2009).

In order to derive the net exposure, all derivatives were considered at fair value, as well as their associated debts (hedged items).

While the fair values shown in the table above are based on the status of the portfolio as of March 31, 2009, they do not reflect an estimated realization in view of the market dynamics, always monitored by the Company. The use of different assumptions may significantly impact estimates.

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## Telecomunicações de São Paulo S.A. - Telesp

Management comments on consolidated performance

(In millions of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

March 31, 2009

|                                | Mar/09           | Mar/08    | Variation |         |
|--------------------------------|------------------|-----------|-----------|---------|
|                                |                  |           | %         | R\$     |
| Gross operating revenues       | <b>5,824.0</b>   | 5,570.5   | 4.5       | 253.5   |
| Net operating revenues         | <b>3,959.5</b>   | 3,862.4   | 2.5       | 97.1    |
| Cost of services provided      | <b>(2,321.7)</b> | (2,142.2) | (8.4)     | (179.5) |
| Financial income/expenses, net | <b>(45.8)</b>    | (64.1)    | 28.7      | 18.3    |
| Operating income/expenses      | <b>(806.6)</b>   | (877.9)   | 8.1       | 71.3    |
| Operating profit               | <b>785.5</b>     | 778.2     | 1.0       | 7.3     |
| Net income for the period      | <b>482.6</b>     | 488.7     | (1.2)     | (6.1)   |

1. Accumulated net operating revenues until March 2009 totaled R\$3,959.5 million, which, compared with R\$3,862.4 million recorded in the same prior-year period, represents an increase of R\$97.1 million, or 2.5% . Such changes are mainly due to rise in the Paid TV services and broadband services, by increasing revenues from assignment of media and national long-distance, besides the rate adjustment of 3.01% with the effect from July 2008. Such effects were partially offset against the fall in revenues from public payphones, local services; the latter is justified for the fall in the line services and the sale of Duos and Trios that offer flat rates with unlimited local calls. Also, we saw an increase in deductions justified by higher discounts granted in the period.

2. Cost of services provided increased by R\$179.5 or 8.4%, chiefly resulting from customer service, advertisement and TV content, maintenance of private terminals, besides the rental expenses on last mile traffic equipment from other carriers and infrastructure equipment, also interconnection expenses, growth in mobile traffic, with use of code "15" (code for selection of service provider). Such effects were partially offset against the fall in expenses with materials, the fall in cost of sales to corporate customers and calling card expenses.

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

Management comments on consolidated performance (Continued)

(In millions of reais, unless otherwise stated)

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March 31, 2009

3. The negative financial result improved by R\$18.3 million or 28.5%, justified by the CDB investment gains and the monetary variations of the escrow deposits up date. Such effects were partially offset against interest expenses with loans taken out with BNDES.

**A. Financial Income/Expenses, Net**

| Annual comparison              | Mar/09         | Mar/08 | Variation |        |
|--------------------------------|----------------|--------|-----------|--------|
|                                |                |        | %         | R\$    |
| Financial income/expenses      | <b>55.0</b>    | 24.5   | 124.5     | 30.5   |
| Hedge operations               | <b>(32.2)</b>  | 30.7   | (204.9)   | (62.9) |
| IOF                            | <b>(1.0)</b>   | (1.0)  | -         | -      |
| Interest receivable            | <b>8.1</b>     | 2.3    | 252.2     | 5.8    |
| Interest payable               | <b>(119.1)</b> | (96.9) | 22.9      | (22.2) |
| Monetary/exchange variations   | <b>46.3</b>    | (23.0) | 301.3     | 69.3   |
| Other Operating Income, Net    | <b>(2.9)</b>   | (0.7)  | 314.9     | (2.2)  |
| Financial income/expenses, net | <b>(45.8)</b>  | (64.1) | 28.5      | 18.3   |

4. Operating income recorded a 7.3% increase when compared to the same prior-year period. Part of such result is due to the increase in Cable TV services and broadband services, by the increase in revenues from the assignment of media and national long-distance services, in addition to the 3.01% tariff increase, effective as of July 2008. The positive development of these services partly offsets the decrease in traditional revenues, such as those from public telephone and local services, with the latter justified by the decrease in lines in operation and by the sale of duos and trios offering flat rates with unlimited local calls. Additionally, there was an increase in deduction, justified by higher discounts granted in the period.

**5. Physical Data (\*)**

Progress of the major physical data:

|                        | Unit      | Mar/09            | Mar/08     | Variation % |
|------------------------|-----------|-------------------|------------|-------------|
| Fixed lines in service | Line      | <b>11,582,866</b> | 11,931,882 | (2.9)       |
| Local traffic          |           |                   |            |             |
| Minutes recorded       | Min. thou | <b>11,754,539</b> | 13,463,208 | (12.7)      |
| Exceeding minutes      | Min. thou | <b>5,659,857</b>  | 7,369,245  | (23.2)      |

|                               |           |                  |           |       |
|-------------------------------|-----------|------------------|-----------|-------|
| Public payphones in operation | Equipment | <b>250,279</b>   | 250,314   | (0.0) |
| ADSL □ Speedy in operation    | Capacity  | <b>2,656,841</b> | 2,165,980 | 22.7  |
| Digital TV (DTH and MMDS)     | User      | <b>502,410</b>   | 281,684   | 78.4  |

(\*) Not reviewed by independent auditors.

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## Telecomunicações de São Paulo S.A. - Telesp

Management comments on consolidated performance (Continued)

(In millions of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

March 31, 2009

### 6. Investments

The Company confirms the long-term commitment of the Telefônica Group in Brazil, to both maintenance and socialization of the traditional services and provision of broader and better services to its clients.

Up to March 31, 2009, the Company invested the consolidated amount of R\$405.3 million.

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

The quarter ended March 2009 recorded a total of 11,582,866 lines in operation, of which 73% are residential clients, 14% are non-residential clients, 7% are companies, and the remaining refers to lines for own use and public telephones.

#### 6.2 Public Use Telephone (\*)

The Company maintains a network of 250,279 public use telephones to meet the demand of the population in the state of São Paulo and in order to continue complying with the regulating agency's determination.

(\*) Not reviewed by independent auditors.

### 7. Anatel

#### 7.2 Goals

The quality and universalization goals of the Fixed Switched Telephone Services (STFC) may be monitored on the National Communications Agency (ANATEL) electronic page, at [www.anatel.gov.br](http://www.anatel.gov.br)

#### 7.3 Concession contract

The STFC concession contract was postponed on December 22, 2005 to a further 20 years and may be amended on December 31, 2010, 2015 and 2020. Such condition enables that ANATEL establish new terms and quality and universalization goals, based on the conditions prevailing at the time.

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## Telecomunicações de São Paulo S.A. - Telesp

Management comments on consolidated performance (Continued)

(In millions of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

March 31, 2009

### 8. Highlight Operations (\*)

Duos and Trios Telefônica - combo packs including pay-TV, broadband and local call services are offered throughout the company's concession area. In 2007, the Company established a commercial and operational partnership with TVA, strengthening and expanding even more its integrated pay-TV offering.

Posto de Trabalho Informático (PDTI) launched in 2007 to offer a customized IT infrastructure solution to the corporate clients. Through monthly fees, Telesp offers a package with voice, data, internet access, network and equipment management services for small, mid-sized and large clients. The IT and communication services integrated offer is one of the Company's strategic initiatives for the corporate market.

Paid TV channels - these are provided through packages or stand-alone offers, by satellite (DTH) and MMDS (Multichannel Multipoint Distribution Service). Since its launching, the Company has been recording an accelerated growth rhythm, servicing 502,410 clients in 1Q09, which represents an increase of 78.4%, in comparison with 1Q08.

Broadband - currently offered through ADSL and MMDS technologies under the names "Speedy" and "Ajato", respectively. In March 2009, 2,656,841 clients were serviced, a 22.7% increase in relation to 1Q08, in line with the growth rate over the last quarters. Investments in broadband are priority and reinforce Telesp's commitment to its clients to increase the offer and quality of its products and services, enabling increasingly better services and making the Company even more competitive. In this regard, in February 2008, the Company was the first to launch internet access through optic fiber (Fiber to the Home - FTTH), currently available at speeds of 8 and 30 Mb.

(\*) Not reviewed by independent auditors.

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## Telecomunicações de São Paulo S.A. - Telesp

Management comments on consolidated performance (Continued)

(In millions of reais, unless otherwise stated)

(A free translation of the original issued in Portuguese)

March 31, 2009

### 9. Tariff Adjustments

#### 9.1. Tariff adjustment of 2008

(a) Tariff adjustment for fixed to fixed calls, effective as of July 24, 2008. Tariff increase of 3.01% for Local and National Long Distance (LDN) services. Local network tariffs (TU-RL) also increased by 3.01% as of July 24, 2008.

(b) Tariff adjustment of 3.01% for fixed to mobile calls (VC1, VC2 and VC3), effective as of July 24, 2008. Local network tariffs (TU-RL) also increased by 2.21% as of July 20, 2008.

10. Number portability

In September, 2008, the number portability process was commercially introduced for companies offering similar services. Accordingly, fixed and mobile service clients may keep their telephone number when changing operators or addresses, provided that the change is requested in the same local area. Thus, Telesp strengthened its customer loyalty and retention efforts, although the volume of number portability requests is not significant at this point. The number portability process was concluded in the country in March 2009.

11. Additional Information

For further details on the Company's performance, please refer to the "Press Release" at [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 26, 2009

By:           /s/ Norair Ferreira do Carmo          

Name: Norair Ferreira do Carmo

Title: Investor Relations Director

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