TELESP CELLULAR HOLDING CO /ADR/
Form F-4/A
December 19, 2003

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**As filed with the Securities and Exchange Commission on December 19, 2003**

**Registration No. 333-110080**

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# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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**AMENDMENT NO. 1**
**TO**

# FORM F-4

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

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# *Telesp Celular Participações S.A.*

*(Exact name of registrant as specified in its charter)*

# *Telesp Cellular Holding Company*

*(Translation of registrant s name into English)*

| **The Federative Republic of Brazil** | **4812** | **Not Applicable** |
|---|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(Primary Standard Industrial Classification Code Number)* | *(I.R.S. Employer Identification Number)* |

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**Av. Roque Petroni Júnior, 1,464 Morumbi**
**04707-000 São Paulo, SP, Brazil**
**011-55-11-5105-1207**
*(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)*

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**CT Corporation System**
**111 Eighth Avenue, 13th Floor**
**New York, NY 10011**
**(212) 894-8400**
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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*Copy to:*
**S. Todd Crider, Esq.**
**Simpson Thacher & Bartlett LLP**
**425 Lexington Avenue**
**New York, NY 10017**
**(212) 455-2000**

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If this Form is a post-effective amendment filed pursuant to rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered(1)(2) | Proposed Maximum Offering Price Per 1,000 Shares(3) | Proposed Maximum Aggregate Offering Price(2)(3) | Amount of Registration Fee |
|---|---|---|---|---|
| Preferred shares, no par value(1) | 207,917,781,420 | U.S.$4.03 | U.S.$838,884,079 | U.S.$67,866(4) |

(1) 155,138,393,685 of these shares will initially be represented by the registrant s American Depositary Shares ( ADSs ), each of which represent 2,500 preferred shares and are evidenced by American Depositary Receipts ( ADRs ). The ADSs have been registered under a separate registration statement on Form F-6 (Registration No. 333-100644). The remaining 52,779,387,735 shares will not be represented by ADSs.

(2) Includes a maximum number of the registrant s shares expected to be issued in connection with the merger of shares described in the accompanying prospectus. The securities to be issued in connection with the merger of shares outside the United States to non-U.S. residents are not registered under this registration statement.

(3) The Proposed Maximum Aggregate Offering Price per share (estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(f) and Rule 457(c) under the Securities Act) was calculated in accordance with the exchange ratio of 1.27 preferred shares of the registrant to be exchanged for each preferred share of Tele Centro Oeste Celular Participações S.A. ( TCO ) held directly by a U.S. resident and the exchange ratio of 1.524 ADSs representing preferred shares of the registrant to be exchanged for each ADS of TCO, in each case in connection with the merger of shares described in the accompanying prospectus, based on (a) R$10.19, the average of the high and low prices of TCO s preferred shares as reported on the São Paulo Stock Exchange on December 15, 2003 converted into U.S. dollars based on an exchange rate of R$2.9220 = U.S.$1.00, the noon buying rate on December 15, 2003, and (b) U.S.$10.55, the average of the high and low prices of TCO s ADSs as reported on the New York Stock Exchange on December 15, 2003.

(4) Previously paid.

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to Completion, Dated December 19, 2003**

# Telesp Celular Participações S.A.

### (Telesp Cellular Holding Company)

Telesp Celular Participações S.A., or TCP, has proposed a merger of shares under Brazilian law *(incorporação de ações)*, or a merger of shares, of its subsidiary Tele Centro Oeste Celular Participações S.A., or TCO, with TCP. TCP and TCO provide cellular telecommunications services in their respective authorization areas in Brazil under the Vivo brand. If the merger of shares is approved:

- TCO will become a wholly owned subsidiary of TCP;
- holders of American Depositary Shares, or ADSs, of TCO will receive 1.524 ADSs of TCP for each ADS they hold upon surrender of the TCO ADSs and payment of the fees and expenses of the depositary; and
- direct holders of preferred shares of TCO will automatically receive 1.27 preferred shares, no par value, of TCP for each preferred share they hold without any further action by those holders.

The merger must be approved by at least 50% of the holders of common shares of both TCP and TCO at separate extraordinary general meetings, which are scheduled to occur on January 7, 2004. We expect the merger of shares to be approved because:

- TCP holds 90.7% of the outstanding voting common stock of TCO and intends to vote those shares in favor of the merger of shares; and
- TCP s controlling shareholder, which directly and indirectly holds 93.66% of TCP s voting common shares, has represented to TCP that it and its subsidiaries will vote the common shares of TCP they hold in favor of the merger of shares.

Holders of preferred shares and ADSs of TCO do not have the right to vote on the merger of shares.

The TCP ADSs to be received by holders of TCO ADSs will be listed on the New York Stock Exchange under the symbol TCP.

This prospectus has been prepared for holders of preferred shares of TCO residing in the United States and for holders of TCO ADSs to provide information about the merger of shares. **No offer is being made to holders of common shares of TCO pursuant to this prospectus.**

**You should read this prospectus carefully. In particular, please read the section entitled Risk Factors beginning on page 23 for a discussion of risks that you should consider in evaluating the transactions described in this prospectus.**

**Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger of shares or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

This prospectus is dated December , 2003 and is expected first to be mailed to shareholders on or about that date.

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**PRESENTATION OF FINANCIAL INFORMATION**

The following financial statements are included in this prospectus:

the audited consolidated financial statements of TCP at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in Annex AA to this prospectus;

the unaudited consolidated interim financial statements of TCP at September 30, 2003 and for the nine months ended September 30, 2002 and 2003 included in Part Nine: Financial Statements of this prospectus;

the audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in Annex B to this prospectus (Information Derived from TCO s Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2002);

the unaudited consolidated interim financial statements of TCO at September 30, 2003 and for the nine months ended September 30, 2002 and 2003 included in Annex D to this prospectus (Information Derived from TCO s Report on Form 6-K Furnished November 19, 2003);

the unaudited consolidated interim financial statements of TCO at March 31, 2003 and for the three months ended March 31, 2003 and 2002 included in Annex C to this prospectus (Information Derived from TCO s Report on Form 6-K Furnished May 16, 2003);

the audited combined financial statements of Globaltelcom Telecomunicações S.A., Daini do Brasil S.A. and GTPS S.A. Participações em Investimentos de Telecomunicações as of December 31, 2001, for the periods from February 6, 2001 to December 31, 2001 and from January 1, 2002 to December 27, 2002 included in Annex AA to this prospectus;

the audited consolidated financial statements of Daini do Brasil S.A. as of December 31, 2001 and for the year ended December 31, 2001 and for the period from January 1 to December 27, 2002 included in Part Nine: Financial Statements of this prospectus;

the audited consolidated financial statements of DDI do Brasil Ltda. (whose name was subsequently changed to Daini do Brasil S.A.) as of and for the years ended December 31, 1999 and 2000 included in Annex E to this prospectus;

the audited consolidated financial statements of Global Telecom S.A. as of December 31, 2001 and for the year ended December 31, 2001 and for the period from January 1 to December 27, 2002 included in Part Nine: Financial Statements to this prospectus; and

the audited consolidated financial statements of Global Telecom S.A. as of December 31, 2000 and 2001 and for each of the three years in the period ended December 31, 2001 included in Annex F to this prospectus.

We prepare our financial statements using accounting practices in accordance with Brazilian corporate law, standards applicable to holders of authorizations for the provision of Brazilian public telecommunication services and accounting standards and procedures established by the Brazilian Securities Commission *(Comissão de Valores Mobiliários)*, or CVM. We refer to these accounting practices in this prospectus as Brazilian corporate law. Brazilian corporate law provided a simplified methodology for the effects of inflation until December 31, 1995. The audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus have been prepared using generally accepted accounting principles in Brazil, or Brazilian GAAP. Brazilian GAAP requires companies to recognize inflationary effects in their financial statements until December 31, 2000. These financial statements contain a reconciliation of shareholders equity and net income from Brazilian corporate law to Brazilian GAAP.

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Brazilian corporate law and Brazilian GAAP differ in significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. For a discussion of these differences, please see note 37 to TCP s audited consolidated financial statements included in this prospectus and note 29 to TCO s audited consolidated financial statements included in this prospectus.

References to the *real,* *reais* or R$ are to Brazilian *reais* (plural) and the Brazilian *real* (singular) and references to U.S. dollars or U.S.$ to United States dollars.

This prospectus contains translations of various *real* amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the *real* amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the Brazilian currency amounts for the year ended December 31, 2002 using a rate of R$3.533 to U.S.$1.00, the Brazilian Central Bank s PTAX commercial selling rate at December 31, 2002, and we have translated the Brazilian currency amounts for the nine months ended September 30, 2003 using a rate of R$2.9234 to U.S.$1.00, the Brazilian Central Bank s PTAX commercial selling rate at September 30, 2003.

In this prospectus, TCP, we, us and our refer to Telesp Celular Participações S.A. and its consolidated subsidiaries.

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements relate to among other things:

- management strategy;
- synergies;
- operating efficiencies;
- integration of new business units;
- market position;
- revenue growth;
- cost savings;
- capital expenditures;
- flexibility in responding to market conditions and the regulatory regime;
- influence of controlling shareholders;
- litigation; and
- the timetable for the merger of shares.

Forward-looking statements also may be identified by words such as believes, expects, anticipates, projects, intends, should, seeks, estimates, future or similar expressions. The sections of this prospectus that contain forward-looking statements include:

- Part One: Questions and Answers About the Merger of Shares ;
- Part Two: Summary ;
- Part Three: Risk Factors ;
- Part Five: The Merger of Shares Reasons for the Merger of Shares , Management and Unaudited Pro Forma Combined Financial Data ;
- Part Six Shareholder Rights ;
- Part Seven Additional Information for Shareholders Enforceability of Civil Liabilities Under U.S. Securities Laws ; and
- Part Eight Legal and Regulatory Matters General.

These statements reflect our current expectations. They are subject to a number of risks and uncertainties, including but not limited to changes in technology, regulation, the global cellular communications marketplace and local economic conditions. In light of the many risks and uncertainties surrounding this marketplace, you should understand that we cannot assure you that the forward-looking statements contained in this prospectus will be realized. You are cautioned not to put undue reliance on any forward-looking information.

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**PART ONE QUESTIONS AND ANSWERS ABOUT THE MERGER OF SHARES**

***Q: What is the merger of shares?***

***A:*** Telesp Celular Participações S.A., or TCP, has proposed a merger of shares (*incorporação de ações*) of its subsidiary Tele Centro Oeste Celular Participações S.A., or TCO, with TCP. The merger of shares is a Brazilian law procedure under which TCO will become a wholly owned subsidiary of TCP and holders of preferred shares of TCO will receive preferred shares of TCP upon approval of the merger of shares by the requisite percentage of the common shares of both TCP and TCO.

***Q: What are the reasons for the merger of shares?***

***A:*** We believe the merger of shares will enable us to:

align the interests of the shareholders of TCP and TCO;

take advantage of commercial and financial synergies because we will be a larger company;

simplify our shareholding structure and expand our shareholder base;

provide you with securities that we expect will enjoy greater market liquidity than the securities you currently hold; and

eliminate the costs of separate public reporting requirements for TCO and the separate listing of TCO securities.

***Q: What will happen to my shares in the merger of shares?***

***A:*** If you are a holder of TCO ADSs, you will receive 1.524 ADSs, each representing 2,500 preferred shares of TCP, for each ADS of TCO that you hold upon surrender of the TCO ADSs and payment of the fees and expenses of the depositary.

If you are a direct holder of TCO preferred shares, you will automatically receive 1.27 preferred shares of TCP for each preferred share of TCO you hold. If you hold preferred shares directly, an entry or entries will be made in the share registry of TCP to evidence the preferred shares of TCP you will receive in the merger of shares.

***Q: What shareholder approvals are needed?***

***A:*** The merger of shares of TCO with TCP will require the affirmative vote of holders representing at least 50% of the outstanding common shares of TCO and of TCP at separate extraordinary general meetings. You are not entitled to vote at the TCO shareholder meeting, but you may participate if you directly hold preferred shares.

We believe the merger of shares will be approved by both companies because we hold 90.7% of the outstanding common shares of TCO, and Brasilcel N.V., or Brasilcel, which directly and indirectly holds 93.66% of our common shares, has represented to us that it and its subsidiaries will vote the common shares of our company they hold in favor of the merger of shares.

***Q: Do I have appraisal rights?***

***A:*** No. Holders of TCO preferred shares and ADSs are not entitled to appraisal rights in connection with the merger of shares.

***Q: Why am I receiving this document?***

***A:*** This document is a prospectus of TCP relating to the preferred shares of TCP that the shareholders of TCO will receive in the merger of shares. You are receiving this prospectus because TCP may be deemed to be offering you its shares for purposes of the U.S. Securities Act of 1933, as amended.

***Q:*** ***What will be the accounting treatment of the reorganization?***

***A:*** Under Brazilian corporate law, the body of accounting principles we use to prepare our consolidated financial statements, the merger of shares will be accounted for at book value.

Under U.S. generally accepted accounting principles, the exchange of shares between TCP and the holders of common and preferred shares of TCO other than TCP will be accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*.

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**PART ONE QUESTIONS AND ANSWERS ABOUT THE MERGER OF SHARES**

***Q: What are the U.S. federal income tax consequences of the merger of shares?***

*A:* The receipt of TCP preferred shares or ADSs representing such shares and cash, if any, in exchange for TCO preferred shares or ADSs representing such shares pursuant to the merger of shares will be a taxable transaction for U.S. federal income tax purposes. You will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the sum of the fair market value of the TCP preferred shares (or TCP ADSs) received plus the amount of cash received (if any) and your tax basis in the TCO preferred shares (or TCO ADSs) exchanged. The tax consequences to you of the merger of shares will depend on your particular facts and circumstances. You should consult your own tax advisor for a full understanding of the tax consequences of the merger of shares to you.

***Q: When will the merger of shares be completed?***

*A:* The extraordinary general shareholder meetings of TCO and TCP will be held on January 7, 2004, unless any of the meetings is postponed. The merger of shares of TCO with TCP will take place automatically upon approval of the merger of shares at the shareholder meetings.

***Q: Are any other approvals necessary for the completion of the merger of shares?***

*A:* No.

***Q: After the merger of shares, will I have the same ownership percentage that I now have?***

*A:* No. After the merger of shares, we will be a significantly larger company than TCO and will be significantly larger than we were before the merger of shares. You will have a lower percentage ownership in TCP than you currently have in TCO. Assuming that none of the common shareholders of TCP or TCO exercises appraisal rights, former TCO shareholders, other than TCP, will hold approximately 22.2% of the total capital stock of TCP following the merger of shares.

***Q: How will my rights as a shareholder change after the merger of shares?***

*A:* Your rights as a shareholder of TCP will generally be similar to your rights as a shareholder of TCO. See Part Six: Shareholder Rights.

***Q: When will I receive my TCP ADSs and any cash attributable to any fractional TCP security?***

*A:* Assuming the merger of shares is completed, we will make the ADSs representing preferred shares of TCP issued in the merger of shares available to U.S. shareholders within three business days after the related preferred shares are deposited with the depositary s custodian in Brazil. We will make available to you any cash to which you are entitled within three business days after the TCP ADSs are available.

***Q: Will I have to pay brokerage commissions?***

*A:* You will not have to pay brokerage commissions if your TCO shares are registered in your name. If your securities are held through a bank or broker or a custodian linked to a stock exchange, you should consult with them as to whether or not they charge any transaction fee or service charges in connection with the merger of shares.

***Q: What do I need to do now?***

*A:* If you hold preferred shares directly, you may attend the extraordinary general shareholders meeting of TCO at which the merger of shares will be approved, but you may not vote. The TCO shareholders meeting is currently expected to be held on January 7, 2004, at 8 a.m., local time, at TCO s principal executive offices at SCS Quadra 2, Bloco C, 226, Edifício Telebrasília Celular 7° andar, 70319-900 Brasília, D.F., Brazil. If you hold TCO ADSs, you are not entitled to attend the shareholders meeting.

If you hold preferred shares directly, you do not need to do anything to receive TCP preferred shares in the merger of shares. The TCP preferred shares are book-entry shares, and an entry or entries will be made in the

**PART ONE QUESTIONS AND ANSWERS ABOUT THE MERGER OF SHARES**

share registry of TCP to evidence the preferred shares you will receive.

If you hold TCO ADSs, the preferred shares underlying those ADSs will become TCP preferred shares by operation of law. However, to receive American Depositary Receipts, or ADRs, of TCP evidencing the ADSs that represent those TCP preferred shares, you will need to surrender your TCO ADRs to the depositary, pay the depositary s fees for the surrender of TCO ADSs under the TCO deposit agreement (which will not be in excess of $5.00 or less per 100 ADSs (or portion thereof)) and for the issuance of TCP ADSs under the TCP deposit agreement (which will not be in excess of $5.00 or less per 100 ADSs (or portion thereof)) and pay expenses of the depositary as provided in the deposit agreements.

***Q: Who can help answer my questions?***

***A:*** If you have any questions about the merger of shares, you should contact:

Tele Centro Oeste Celular
Participações S.A.
SCS Quadra 2, Bloco C, 226,
Edifício Telebrasília Celular 7° andar
70319-900 Brasília, D.F.
Brazil
Attention: Luis André Carpintero Blanco
Telephone: 55-61-3962-7701
Facsimile: 55-61-321-3426

or

Telesp Celular Participações S.A.
Av. Roque Petroni Júnior, 1.464 Morumbi
04707-000 São Paulo, SP
Brazil
Attention: Fernando Abella Garcia
Telephone: 55-11-5105-1358
Facsimile: 55-11-5105-2988

If you are a holder of TCO ADSs, you may also contact:

The Bank of New York
101 Barclay Street
New York, NY 10286
Telephone: 1-888-BNY-ADRS

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## PART TWO SUMMARY

The following summary highlights selected information from this prospectus and may not contain all the information that may be important to you. To understand the merger of shares more fully, you should read carefully this entire prospectus.

### Summary of the Merger of Shares

**The Companies**

***TCP***

We are a leading provider of cellular telecommunications services in Brazil through our subsidiaries Telesp Celular S.A., or Telesp Celular, Global Telecom S.A. or Global Telecom, and TCO. In the nine months ended September 30, 2003, we had net operating revenues of R$4,169.0 million and at September 30, 2003 had 11.7 million cellular lines in service. The following chart shows our corporate structure as of December 15, 2003, except that the percentages of common shares and preferred shares of TCO s subsidiaries that TCO holds are based on the most recent information available to us and may now be slightly higher.

Telesp Celular is the leading cellular operator, by number of customers, in the State of São Paulo, according to data published by the National Telecommunications Agency (*Agência Nacional de Telecomunicações*), or Anatel. Telesp Celular provides services on the A band frequency in two authorization areas in the State of São Paulo that together cover approximately 248,209 square kilometers, representing approximately 2.9% of Brazil s territory. These authorization areas are home to more than 38.3 million people, representing 21.9% of Brazil s population, including the city of São Paulo, Brazil s largest city, with more than 10 million people, estimated based on information published by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, and Target 2002 Brasil em Foco. Telesp Celular s authorization areas include 63 municipalities with populations in excess of 100,000.

Telesp Celular had net operating revenues of R$2,766.7 million, R$2,946.2 million and R$3,390.6 million in 2000, 2001 and 2002, respectively. In the nine months ended September 30, 2003, Telesp Celular had net operating revenues of R$2,871.9 million. At September 30, 2003, Telesp Celular had 6.7 million cellular lines

**PART TWO SUMMARY**

in service and a market share of approximately 63% in its authorization areas, estimated based on the total number of cellular lines in service in those areas as published by Anatel.

Global Telecom provides cellular telecommunications services on the B band frequency in the states of Paraná and Santa Catarina. These two states cover an area of approximately 294,661 square kilometers, representing approximately 3.5% of Brazil s territory. The states of Paraná and Santa Catarina are home to approximately 15.3 million people, representing 8.8% of Brazil s population, estimated based on information published by the IBGE and Target 2002 Brasil em Foco. These states include 22 municipalities with populations in excess of 100,000 people.

Global Telecom had net operating revenues of R$246.7 million, R$425.9 million and R$512.2 million in 2000, 2001 and 2002, respectively. In the nine months ended September 30, 2003, Global Telecom had net operating revenues of R$465.5 million. At September 30, 2003, Global Telecom had 1.4 million cellular lines in service and a market share of approximately 43% in its authorization areas, estimated based on the total number of cellular lines in service in those areas as published by Anatel.

Telesp Celular has been our wholly owned subsidiary since we completed a corporate restructuring in January 2000. We acquired an 81.61% indirect economic interest in Global Telecom in February 2001, and Global Telecom became our wholly owned subsidiary on December 27, 2002. We acquired 61.10% of the voting capital stock of TCO on April 25, 2003. We acquired additional shares of voting capital stock of TCO in a public tender offer, bringing the percentage of TCO s outstanding voting capital stock we own to 90.7%. Our net operating revenues for the nine months ended September 30, 2003 included R$836.1 million attributable to the consolidation of TCO for the months of May through September 2003 and R$461.0 million attributable to the consolidation of Global Telecom for the nine months ended September 30, 2003. After consolidation adjustments, our net operating revenues were R$4,169.0 million.

Our principal executive offices are located at Av. Roque Petroni Júnior, 1.464 Morumbi, 04707-000 São Paulo, SP, Brazil, and our telephone number is +55 11 5105-1207.

For more information about our company, please see Annex A to this prospectus (Information Derived from TCP s Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2002), including the following sections of Annex A:

Item 4. Information on the Company ;

Item 5. Operating and Financial Review and Prospects ;

Item 7. Major Shareholders and Related Party Transactions ;

Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Matters ; and

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

***TCO***

TCO is the leading cellular operator (A Band), by number of customers, in its authorization region, the former Area 7 under the Cellular Mobile Service *(Serviço Móvel Celular)*, or SMC, regime, which is now part of Region II of the Terms of Authorization of the Personal Communication Services *(Serviço Móvel Pessoal)*, or SMP, regime. TCO s A Band authorization region covers the states of Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Rondonia and Tocantins and the Federal District of Brazil. TCO s subsidiary Norte Brasil Telecom S.A., or NBT, is the second cellular operator (B Band), by number of customers, in its authorization region, the former Area 8 under the SMC regime, which is now part of Region I of the SMP regime, a region covering the states of Amapá, Amazonas, Maranhão, Pará and Roraima. TCO conducts business through the following companies:

TCO conducts business directly in the Federal District;

**PART TWO SUMMARY**

TCO s subsidiary Telegoiás Celular S.A., or Telegoiás, operates in the states of Goiás and Tocantins;

TCO s subsidiary Telemat Celular S.A., or Telemat, operates in the State of Mato Grosso;

TCO s subsidiary Telems Celular S.A., or Telems, operates in the State of Mato Grosso do Sul;

TCO s subsidiary Teleron Celular S.A., or Teleron, operates in the State of Rondonia;

TCO s subsidiary Teleacre Celular S.A., or Teleacre, operates in the State of Acre; and

NBT operates in the northern Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

Before the merger of Telebrasília Celular S.A., or Telebrasília, into TCO on April 26, 2002, TCO conducted business in the Federal District through Telebrasília.

TCO s authorization regions cover an aggregate area of approximately 5,803,501 square kilometers, representing approximately 68% of Brazil s territory. These authorization areas are home to approximately 31.2 million people, representing 18% of Brazil s population, estimated based on information published by the IBGE. These areas include 35 municipalities with populations in excess of 100,000.

TCO and its subsidiaries had aggregate net operating revenues of R$930.6 million, R$1,248.1 million and R$1,561.3 million in 2000, 2001 and 2002, respectively. In the nine months ended September 30, 2003, TCO had net operating revenues of R$1,406.4 million. At September 30, 2003, TCO and its subsidiaries had 3.6 million cellular lines in service and a market share of approximately 57% in its authorization areas, estimated based on the total number of cellular lines in service in those areas as published by Anatel.

For more information about TCO, please see Annex B to this prospectus (Information Derived from TCO s Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2002), including the following sections of Annex B:

Item 4. Information on the Company ;

Item 5. Operating and Financial Review and Prospects ;

Item 7. Major Shareholders and Related Party Transactions ;

Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Matters ; and

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

TCO s principal executive offices are located at SCS Quadra 2, Bloco C, 226, Edifício Telebrasília Celular 7° andar, 70319-900 Brasília, DF, Brazil, and its telephone number is +55 61 3962-7001.

**PART TWO SUMMARY**

***Combined Region***

The map below shows the regions in Brazil in which we and our subsidiaries, including TCO, operate.

**Acquisition of TCO and Subsequent Tender Offer (Page 52)**

On April 25, 2003, we acquired 61.10% of the voting capital stock of TCO from Fixcel S.A., representing 20.37% of TCO s total capital. The total consideration was R$1,529.0 million at April 25, 2003, including a payment of R$23.5 million to acquire a future obligation by TCO to issue capital stock to its previous owner. Of this amount, R$1,287.2 million had been paid though September 30, 2003 (including cash payments and debt and deferred payments that have been paid in full) and the remaining R$294.3 million consists of debt and deferred payments. The amounts paid and to be paid reflect interest and exchange variations from April 25, 2003 to the date of payment or to September 30, 2003, as applicable. We made an additional payment of R$145.5 million in November 2003.

Under Brazilian law, our acquisition of control of TCO triggered a requirement that we launch a tender offer for the remaining publicly held common shares of TCO for a price not less than 80% of the price paid per share in our acquisition of a controlling interest in TCO. We launched the tender offer for the remaining common shares of TCO on October 9, 2003. We completed the tender offer for the TCO common shares on November 18, 2003, paying R$16.73 per 1,000 outstanding common shares. We now hold 90.7% of the outstanding voting capital stock of TCO, representing 29.3% of TCO s total outstanding capital.

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**The Merger of Shares (Page 54)**

We are proposing the merger of shares of TCO with TCP under Brazilian law. If the merger of shares is approved:

TCO will become a wholly owned subsidiary of TCP;

holders of ADSs of TCO will receive 1.524 ADSs of TCP for each ADS they hold upon surrender of the TCO ADSs and payment of any fees and expenses of the depositary; and

direct holders of preferred shares of TCO will automatically receive 1.27 preferred shares of TCP for each preferred share they hold without any further action by those holders.

The exchange ratios for the TCO preferred shares and ADSs are different because the ADS exchange ratio takes into account the difference in the ratio of ADSs to preferred shares under the TCO and TCP ADS programs.

Brasilcel holds, directly and indirectly, 93.66% of the common shares of our company, and we hold 90.7% of the common shares of TCO, excluding treasury shares. Brasilcel has represented to us that it and its subsidiaries will vote the common shares of our company they hold in favor of the merger of shares. We intend to vote the common shares of TCO we hold in favor of the merger of shares.

The merger of shares of TCO with TCP will require the affirmative vote of holders representing at least 50% of the outstanding common shares of TCP and of TCO at separate extraordinary general meetings. The extraordinary general meeting of TCO is scheduled to be held as follows:

January 7, 2004

8 a.m., local time
Tele Centro Oeste Celular Participações S.A.
SCS Quadra 2, Bloco C, 226,
Edifício Telebrasília Celular 7° andar
70319-900 Brasília, D.F.
Brazil

If you hold preferred shares directly, you may attend the meeting. Under the Brazilian corporation law, you may be required to show a document proving your identity to gain admittance to the meeting. If you hold TCO ADSs, you are not entitled to attend the shareholder s meeting. No holder of preferred shares or ADSs of TCO may vote at the meeting.

There are no conditions to the completion of the merger of shares other than shareholder approval by both TCP and TCO and the completion of the conversion of TCP preferred shares into common shares described in Part Five: The Merger of Shares Background for the Merger of Shares Conversion of TCP Preferred Shares Into Common Shares. The approval of the NYSE of the listing of the ADSs of TCP to be delivered in connection with the merger of shares, for which we will apply, must be obtained for these shares to be traded by their holders. However, this approval is not a condition to the completion of the merger of shares.

Although the approval of the merger of shares by the CVM is not a condition to the merger of shares, on December 11, 2003, the CVM sent us a letter requiring a postponement of the extraordinary general meetings to approve the merger of shares to permit the CVM additional time to analyze the legality of the proposals for the merger of shares being submitted to the shareholders of our company and TCO, and we and TCO have rescheduled the meetings from December 22, 2003 to January 7, 2004. Although we affirm that the proposed merger of shares is legal and provides equitable treatment to TCP and TCO, we cannot predict the outcome of the CVM s analysis of the transaction. See Part Three: Risk Factors Risks Relating to the Brazilian Telecommunications Industry and the Business Certain holders of TCO s preferred shares have presented complaints to the CVM, the Brazilian securities regulator, related to the terms of the merger of shares, and the CVM s review is ongoing.

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**PART TWO SUMMARY**

**Receipt of Shares and ADSs of TCP (Page 55)**

If the merger of shares is approved, each preferred share of TCO will automatically become 1.27 preferred shares of TCP without any action by you. Because the preferred shares of TCP are book-entry shares, an entry or entries will be made in the share registry of TCP to evidence the preferred shares received in the merger of shares. Neither you nor any other person will receive certificates evidencing preferred shares of TCP. If you hold ADSs representing preferred shares of TCO, you will receive 1.524 ADSs representing preferred shares of TCP in the merger of shares for each TCO ADS you hold.

When the merger of shares becomes effective, TCP will deposit with a custodian for The Bank of New York, as depositary under TCO s ADS program, the TCP preferred shares issuable in respect of the TCO then held in that program. In accordance with an amendment to the TCO deposit agreement that has been entered into and will become effective at the time of the merger of shares, The Bank of New York, as depositary, will consider itself to have been directed by TCO and the holders of the TCO ADSs to deposit those TCP preferred shares with the custodian for The Bank of New York, as depositary under TCP s ADS program, and instruct that depositary to cause to be issued and to deliver, subject to payment of the fees and expenses of the depositary under the TCP deposit agreement (which will not be in excess of $5.00 or less per 100 ADSs (or portion thereof)), ADSs representing those TCP preferred shares to the depositary for the TCO ADS program. When the TCP ADSs are received in the TCO ADS program, the TCO ADSs will be deemed to have been converted into a right only to receive TCP ADSs, and The Bank of New York, as depositary under TCO s ADS program, will call for the surrender of the ADRs evidencing those former TCO ADSs. Upon surrender of those ADRs and payment of the depositary s fees and expenses as provided in the TCO deposit agreement (which will not be in excess of $5.00 or less per 100 ADSs (or portion thereof)), the depositary will deliver the TCP ADSs (and cash in lieu of any fractions as described in Part Five: The Merger of Shares Fractional Shares and ADSs ) to the holders of the former TCO ADSs.

**Management (Page 57)**

TCP is managed by a board of directors of 11 members, each serving a three-year term expiring in March 2006, except that the term of António Gonçalves de Oliveira will expire in April 2004. The board of executive officers of TCP consists of seven members, led by Francisco José Azevedo Padinha as chief executive officer.

TCP is headquartered in São Paulo, Brazil and will maintain that headquarters after the merger of shares.

**Accounting Treatment of the Merger of Shares (Page 64)**

Under Brazilian corporate law, the body of accounting principles we use to prepare our consolidated financial statements, the merger of shares will be accounted for at book value. Under U.S. generally accepted accounting principles, the exchange of shares between TCP and the holders of common and preferred shares of TCO other than TCP will be accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations.*

**Stock Exchange Matters (Page 80)**

After the merger of shares is complete, TCP preferred shares will continue to be traded on the São Paulo Stock Exchange under the ticker symbol TSPP4, and ADSs representing preferred shares of TCP will continue to be traded on the New York Stock Exchange under the ticker symbol TCP.

After the merger of shares is complete, TCO s preferred shares will be delisted from the São Paulo Stock Exchange, and TCO s ADSs will be delisted from the New York Stock Exchange.

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**PART TWO SUMMARY**

**Absence of Appraisal or Dissenters Rights**

Holders of TCO preferred shares or ADSs are not entitled to appraisal or dissenters rights in connection with the merger of shares under Brazilian law.

**Material Tax Considerations (Page 64)**

The merger of shares will be a taxable transaction for U.S. federal income tax purposes. As a result, you generally will recognize gain or loss on TCP preferred shares or TCP ADSs and cash, if any, received in exchange for your TCO preferred shares or TCO ADSs in an amount equal to the difference between the sum of (1) the fair market value of the TCP preferred shares or TCP ADSs received (determined as of the closing date of the merger of shares) plus (2) the amount of cash received, if any, including cash received in lieu of fractional TCP preferred shares and TCP ADSs and your tax basis in the TCO preferred shares or TCO ADSs exchanged. See Part Five: The Merger of Shares Material Tax Considerations United States Federal Income Tax Considerations.

There are reasonable Brazilian legal grounds to sustain that the exchange (resulting from the merger of shares) by a U.S. person of preferred shares that are registered as a foreign portfolio investment under Resolution 2,689 of the National Monetary Council or are registered as a foreign direct investment under Law 4,131/62 would not be subject to income tax pursuant to Brazilian law. See Part Five: The Merger of Shares Material Tax Considerations Brazilian Tax Considerations.

**Valuation Reports (Page 73)**

In connection with the merger of shares, our board of directors received valuation reports from each of Merrill Lynch & Co. and Citigroup Global Markets Inc. expressing the view of each such firm that, as of the dates of those reports and based on and subject to the assumptions and considerations described in those reports, the exchange ratio of 1.27 TCP shares for each TCO share proposed in the merger of shares provides equitable treatment to TCP and TCO, as required by Article 30 of our bylaws. **We urge you to read carefully the summaries of the valuation reports set forth in Part Five: The Merger of Shares Valuation Reports, which include information on how to obtain copies of the full reports.**

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**PART TWO SUMMARY**

**Summary Historical and Pro Forma Financial Data**

The following information is provided to aid you in your analysis of the financial aspects of the merger of shares. The information is only a summary derived from the following financial statements included in this prospectus:

the audited consolidated financial statements of TCP at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus;

the unaudited consolidated interim financial statements of TCP at September 30, 2003 and for the nine months ended September 30, 2002 and 2003 included in this prospectus;

the audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus;

the unaudited consolidated interim financial statements of TCO at September 30, 2003 and for the nine months ended September 30, 2002 and 2003 included in this prospectus; and

the audited consolidated financial statements of each of TCP and TCO at December 31, 1998, 1999 and 2000 and for the years in the period ended December 31, 1998 and 1999 that have not been included in this prospectus.

You should read this summary historical and pro forma financial data together with these financial statements.

The results of operations of TCP and TCO for the nine months ended September 30, 2003 are not necessarily indicative of the operating results to be expected for the entire year ended December 31, 2003.

The financial statements of TCP and the unaudited consolidated interim financial statements of TCO at September 30, 2003 and for the nine months ended September 30, 2002 and 2003 have been prepared using accounting practices in accordance with Brazilian corporate law, standards applicable to holders of authorizations for the provision of Brazilian public telecommunication services and accounting standards and procedures established by the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or CVM. We refer to these accounting practices in this prospectus as Brazilian corporate law. Brazilian corporate law provided a simplified methodology for the effects of inflation until December 31, 1995. The audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 have been prepared using generally accepted accounting principles in Brazil, or Brazilian GAAP. Brazilian GAAP requires companies to recognize inflationary effects in their financial statements until December 31, 2000. The audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus contain a reconciliation of shareholders equity and net income from Brazilian corporate law to Brazilian GAAP.

Brazilian corporate law and Brazilian GAAP differ in significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. For a discussion of these differences, please see note 37 to TCP s audited consolidated financial statements at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus and note 29 to TCO s audited consolidated financial statements at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus.

For convenience only, Brazilian currency amounts for the year ended December 31, 2002 have been translated into U.S. dollars at a rate of R$3.533 to U.S.$1.00, the Brazilian Central Bank s PTAX commercial selling rate at December 31, 2002, and Brazilian currency amounts for the nine months ended September 30, 2003 have been translated into U.S. dollars at a rate of R$2.9234 to U.S.$1.00, the Brazilian Central Bank s PTAX commercial selling rate at September 30, 2002.

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**Summary of Selected Historical TCP Financial Data**

| | At or for the year ended December 31, | | | | | | At or for the nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | (R$ million, except per share data) | | | | | (U.S.$)(4) | | | (U.S.$)(4) |
| **Income Statement Data(2):** | | | | | | | | | |
| *Brazilian corporate law* | | | | | | | | | |
| Net operating revenue | 1,682.5 | 2,211.6 | 2,766.7 | 2,946.2 | 3,390.6 | 959.6 | 2,481.2 | 4,169.0 | 1,426.1 |
| Cost of services and goods sold | (641.3) | (1,353.2) | (1,689.2) | (1,656.4) | (1,648.4) | (466.5) | (1,188.1) | (2,070.9) | (708.4) |
| Gross profit | 1,041.2 | 858.4 | 1,077.5 | 1,289.8 | 1,742.2 | 493.1 | 1,293.2 | 2,098.1 | 717.7 |
| Operating expenses: | | | | | | | | | |
| Selling expenses | (181.1) | (387.0) | (554.2) | (605.0) | (617.9) | (174.9) | (454.3) | (938.9) | (321.2) |
| General and administrative expenses | (76.2) | (131.7) | (217.9) | (271.2) | (288.5) | (81.7) | (254.9) | (392.9) | (134.4) |
| Other net operating income (expenses) | (40.2) | 61.4 | 33.9 | (67.6) | (70.1) | (19.8) | (52.3) | 2.2 | 0.8 |
| Operating income before equity in losses of unconsolidated subsidiary and net financial expenses | 743.7 | 401.1 | 339.3 | 346.0 | 765.7 | 216.7 | 531.7 | 768.5 | 262.9 |
| Equity in losses of unconsolidated subsidiary | | | | (653.6) | (890.7) | (252.1) | (540.6) | | |
| Net financial expenses | (87.5) | (206.0) | (137.1) | (541.5) | (808.4) | (228.8) | (449.0) | (843.0) | (288.4) |
| Operating income (loss) | 656.2 | 195.1 | 202.2 | (849.1) | (933.4) | (264.2) | (457.9) | (74.5) | (25.5) |
| Net non-operating income (expenses) | 0.2 | 1.3 | (0.6) | (0.4) | 10.0 | 2.8 | 10.6 | (4.9) | (1.7) |
| Income (loss) before income taxes, minority interests and extraordinary item | 656.4 | 196.4 | 201.6 | (849.5) | (923.4) | (261.4) | (447.3) | (79.4) | (27.2) |
| Income taxes | (169.4) | (36.4) | (49.4) | 14.7 | (46.5) | (13.2) | (113.4) | (228.4) | (78.1) |
| Minority interests | (118.6) | (47.1) | | | | | | (154.9) | (53.0) |
| Extraordinary item, net of taxes | (47.0) | | | (278.8) | (170.9) | (48.4) | | | |
| Net income (loss) | 321.4 | 112.9 | 152.2 | (1,113.6) | (1,140.8) | (323.0) | (560.7) | (462.8) | (158.3) |
| Net income (loss) per 1,000 shares | 0.96 | 0.34 | 0.33 | (2.43) | (0.97) | (0.28) | (0.48) | (0.34) | (0.1) |
| Dividends declared per thousand | 0.269525 | 0.092498 | 0.112948 | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| common shares(3) | | | | | | | | | |
| Dividends declared per thousand preferred shares(3) | 0.269525 | 0.092498 | 0.245220 | | | | | | |
| *U.S. GAAP* | | | | | | | | | |
| Net operating revenue | 2,035.7 | 2,379.8 | 2,963.7 | 3,599.7 | 4,550.6 | 1,287.9 | 3,250.7 | 5,652.8 | 1,933.6 |
| Operating income | 587.0 | 310.6 | 220.2 | 198.0 | 328.8 | 93.0 | 537.3 | 747.5 | 255.7 |
| Net financial expenses | (23.4) | (315.4) | (192.1) | (743.5) | (1,149.6) | (325.4) | (1,294.1) | (153.5) | (52.5) |
| Equity in losses of unconsolidated subsidiaries | | | | (733.8) | (759.1) | (214.8) | (719.2) | | |

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| | At or for the year ended December 31, | | | | | | At or for the nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 | 2002 | 2003 | 2003 |
| | | | | | | (U.S.$)(4) | | | (U.S.$)(4) |
| | (R$ million, except per share data) | | | | | | | | |
| Net non-operating income (expenses) | 0.2 | 1.3 | (0.6) | (9.6) | 9.8 | 2.8 | 10.4 | (5.1) | (1.7) |
| Income (loss) before income taxes, minority interests and extraordinary item | 563.8 | (3.5) | 27.5 | (1,288.9) | (1,570.1) | (444.4) | (1,465.7) | 588.9 | 201.5 |
| Income taxes and minority interest | (265.4) | 15.6 | 9.4 | 97.5 | 74.4 | 21.1 | 154.9 | (577.7) | (197.6) |
| Extraordinary item, net of tax | | | | (12.7) | | | | | |
| Net income (loss) | 298.4 | 12.1 | 36.9 | (1,204.1) | (1,495.7) | (423.3) | (1,310.7) | 11.2 | 3.9 |
| Basic and diluted net income (loss) per 1,000 shares common and preferred(1) | 0.89 | 0.04 | 0.09 | (2.63) | (2.18) | (0.62) | (2.5) | 0.01 | 0.003 |
| **Cash Flow Data:** | | | | | | | | | |
| *Brazilian corporate law* | | | | | | | | | |
| Cash flows from operating activities | | | 597.4 | 779.7 | 984.4 | 278.6 | 824.2 | 871.0 | 297.9 |
| Cash flows from investing activities | | | (868.2) | (1,767.7) | (3,820.5) | (1,081.3) | (2,870.2) | (572.5) | (195.8) |
| Cash flows from financing activities | | | (501.1) | 683.4 | 2,772.3 | 784.6 | 1,970.9 | 791.3 | 270.7 |
| *U.S. GAAP* | | | | | | | | | |
| Cash flows from operating activities | | | 552.2 | 784.0 | 1,061.6 | 300.5 | 849.9 | 905.2 | 309.6 |
| Cash flows from investing activities | | | (823.0) | (1,745.3) | (3,835.0) | (1,085.4) | (2,876.9) | (584.9) | (200.1) |
| Cash flows from financing activities | | | 501.1 | 656.7 | 2,709.6 | 766.9 | 1,951.9 | 769.5 | 263.2 |
| **Balance Sheet Data(2):** | | | | | | | | | |
| *Brazilian corporate law* | | | | | | | | | |
| Property, plant and equipment, net | 2,420.6 | 3,219.8 | 3,454.0 | 3,695.8 | 4,778.1 | 1,352.3 | | 5,106.8 | 1,746.9 |
| Total assets | 3,205.5 | 5,454.3 | 6,204.0 | 6,872.2 | 9,654.4 | 2,732.4 | | 12,570.8 | 4,300.1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Loans and financing | 719.7 | 1,690.0 | 1,399.4 | 2,580.1 | 4,460.8 | 1,262.5 | 5,767.5 | 1,972.9 |
| Net assets | 1,125.5 | 2,267.0 | 3,857.1 | 2,742.6 | 4,010.0 | 1,134.9 | 3,548.6 | 1,213.9 |
| Capital stock | 355.4 | 434.7 | 1,873.3 | 1,873.3 | 4,373.7 | 1,237.9 | 4,373.7 | 1,496.1 |
| Number of thousands of shares as adjusted to reflect changes in capital | 334,399,027 | 334,399,027 | 458,367,772 | 458,367,772 | 1,171,784,352 | | 1,171,784,352 | |
| *U.S. GAAP* | | | | | | | | |
| Property, plant and equipment, net | 3,692.4 | 3,490.2 | 3,555.7 | 3,783.5 | 4,855.5 | 1,374.2 | 5,100.2 | 1,744.6 |
| Total assets | 3,556.2 | 6,057.0 | 7,089.1 | 7,218.3 | 10,202.0 | 2,887.4 | 13,313.3 | 4,554.0 |
| Total liabilities | 1,907.2 | 3,415.6 | 3,414.7 | 4,787.4 | 6,894.7 | 1,951.3 | 8,771.2 | 3,000.3 |
| Net assets | 1,216.9 | 2,229.8 | 3,674.4 | 2,430.9 | 3,307.3 | 936.0 | 3,320.0 | 1,135.7 |
| Capital stock | 355.4 | 434.7 | 1,873.3 | 1,873.3 | 4,373.7 | 1,237.9 | 4,373.7 | 1,496.1 |
| Number of thousands of shares as adjusted to reflect changes in capital | 334,399,027 | 334,399,027 | 458,367,772 | 458,367,772 | 1,171,784,352 | | 1,171,784,352 | |

**PART TWO SUMMARY**

(1) Basic net income (loss) per share was equal to diluted net income (loss) per share for the years ended December 31, 1998 and 1999 because TCP did not have any potentially diluted shares outstanding. As result of a corporate restructuring completed on January 2000, TCP was obligated to issue shares to its controlling shareholder for the amount of the tax benefit realized on the amortization of the intangible related to a concession that was transferred in the corporate restructuring. The number of issuable shares, which are determined on the basis of estimates using TCP s share price at the date of the balance sheet, are considered dilutive and are included in the denominator for purposes of calculating dilutive earnings per share for the years ended December 31, 2001 and 2002. The potentially dilutive shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for 2001 and 2002 as their effect would have been anti-dilutive.

(2) Telesp Celular was established effective in January 1998 by means of a spin-off from Telecomunicações de São Paulo S.A. TELESP, and TCP was established effective May 22, 1998 in the privatization of Telebrás. Although the spin-off from Telecomunicações de São Paulo S.A. TELESP was approved at a shareholders meeting that occurred on February 28, 1998, the statements of income for the year ended December 31, 1998 reflect the operations of Telesp Celular for the full year of 1998.

(3) Interest on shareholders equity is included as part of dividends and is presented net of taxes. The right to receive 1998 s dividend has expired.

(4) U.S. dollars in millions, except per share data.

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**PART TWO SUMMARY**

**Summary of Selected Historical TCO Financial Data**

| | At or for the year ended December 31, | | | | | | At or for the nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 | 2002 | 2003 | |
| | (R$ million, except per share data)(1) | | | | | (U.S.$ million) | | | (U.S.$ million) |
| **Income Statement Data:** | | | | | | | | | |
| *Brazilian accounting practices(2)* | | | | | | | | | |
| Net operating revenue | 637.4 | 666.7 | 930.6 | 1,248.1 | 1,561.3 | 441.9 | 1,124.7 | 1,406.4 | 481.1 |
| Cost of services and goods sold | (260.3) | (326.5) | (532.2) | (663.2) | (779.5) | (220.6) | (500.7) | (642.4) | (219.7) |
| Gross profit | 377.1 | 340.2 | 398.4 | 584.9 | 781.8 | 221.3 | 624.0 | 764.0 | 261.3 |
| Operating expenses: | | | | | | | | | |
| Selling expenses | (99.1) | (118.6) | (126.2) | (195.0) | (218.3) | (61.8) | (149.0) | (206.2) | (70.5) |
| General and administrative expenses | (46.3) | (64.5) | (78.4) | (110.3) | (142.3) | (40.3) | (100.7) | (139.4) | (47.7) |
| Other net operating income (expenses) | (1.0) | (14.0) | (9.6) | (4.5) | (3.8) | (1.0) | (9.9) | 1.5 | 0.5 |
| Operating income before net financial income (expenses) | 230.7 | 143.1 | 184.2 | 275.1 | 417.4 | 118.2 | 364.4 | 419.9 | 143.6 |
| Net financial income (expenses) | (69.7) | (47.6) | (30.1) | (43.5) | (90.7) | (25.7) | (63.9) | 94.5 | 32.3 |
| Operating income | 161.0 | 95.5 | 154.1 | 231.6 | 326.7 | 92.5 | 300.5 | 514.4 | 176.0 |
| Net nonoperating expenses | (20.6) | (6.1) | (19.5) | (25.7) | (19.7) | (5.6) | | (2.8) | (1.0) |
| Employees participation | (1.3) | (1.9) | (1.9) | (2.3) | (3.1) | (0.9) | | | 175.0 |
| Income before income taxes, minority interests and reversal of interest on own capital | 139.1 | 87.5 | 132.7 | 203.6 | 303.9 | 86.0 | 300.5 | 511.6 | |
| Income and social contribution taxes | (40.2) | (29.9) | (40.2) | (56.5) | (93.8) | (26.5) | (106.6) | (179.3) | (61.3) |
| Income before minority interests and reversal of interest on own capital | 98.9 | 57.6 | 92.5 | 147.1 | 210.1 | 59.5 | 193.9 | 332.3 | 113.7 |
| Minority interests | (24.1) | (11.5) | (20.0) | (13.9) | 0.4 | 0.1 | (4.5) | (6.0) | (2.1) |
| Reversal of interest on own capital | 91.7 | 53.5 | 31.0 | 45.3 | 94.6 | 26.8 | 40.8 | | |
| Net income | 166.5 | 99.6 | 103.5 | 178.5 | 305.1 | 86.4 | 230.2 | 326.3 | 111.6 |
| Net income per 1,000 shares | 0.50 | 0.27 | 0.28 | 0.49 | 0.80 | 0.23 | 0.87 | 0.62 | 0.2 |
| Dividends declared per thousand common shares(3) | 0.153 | 0.085 | 0.096 | 0.204 | 0.212 | 0.06 | | | |
| Dividends declared per thousand preferred shares(3) | 0.153 | 0.085 | 0.096 | 0.204 | 0.212 | 0.06 | | | |
| *U.S. GAAP(4)* | | | | | | | | | |
| Net income | 164.0 | 32.6 | 104.8 | 194.5 | 287.4 | 81.3 | | | |
| Basic and diluted net income per 1,000 shares | 0.49 | 0.09 | 0.29 | 0.53 | 0.78 | 0.2 | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| outstanding *(reais)* | | | | | | | | | |
| **Cash Flow Data:** | | | | | | | | | |
| *Brazilian accounting practices* | | | | | | | | | |
| Cash flows from operating activities | | | 231.8 | 436.5 | 563.6 | 159.5 | | | |
| Cash flows from investing activities | | | (199.7) | (391.5) | (505.8) | (143.1) | | | |
| Cash flows from financing activities | | | 348.5 | (168.5) | (225.9) | (63.9) | | | |
| **Balance Sheet Data:** | | | | | | | | | |
| *Brazilian accounting practices* | | | | | | | | | |
| Property, plant and equipment, net | 874.3 | 994.5 | 1,083.7 | 1,078.9 | 1,035.5 | 293.1 | | 857.3 | 293.3 |
| Total assets | 1,224.2 | 1,819.1 | 2,155.0 | 2,240.3 | 2,506.4 | 709.3 | | 2,517.3 | 861.1 |
| Loans and financing | 56.3 | 143.8 | 509.1 | 517.0 | 627.8 | 177.7 | | 404.6 | 138.4 |

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**PART TWO SUMMARY**

| | At or for the year ended December 31, | | | | | | At or for the nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 | 2002 | 2003 | |
| | (R$ million, except per share data)(1) | | | | | (U.S.$ million) | | | (U.S.$ million) |
| Net assets | 799.1 | 1,230.6 | 1,042.2 | 1,126.4 | 1,310.7 | 371.0 | | 1,547.1 | 529.2 |
| Capital stock | 230.7 | 386.9 | 386.9 | 588.9 | 617.9 | 174.9 | | 570.1 | 195.0 |
| Number of billions of shares as adjusted to reflect changes in capital | 334.4 | 334.4 | 364.4 | 366.5 | 379.2 | | | 379.2 | |
| *U.S. GAAP(4)* | | | | | | | | | |
| Property, plant and equipment, net | 819.3 | 947.6 | 1,057.6 | 1,071.2 | 1,046.2 | 296.0 | | | |
| Total assets | 1,192.7 | 1,426.6 | 2,113.0 | 2,389.4 | 2,468.5 | 698.6 | | | |
| Loans and financing | 56.3 | 143.8 | 509.1 | 517.0 | 627.8 | 177.7 | | | |
| Net assets | 758.4 | 814.6 | 1,000.1 | 1,100.3 | 1,265.3 | 358.1 | | | |

(1) Information is presented in constant *reais* as of December 31, 2000 and nominal *reais* as of December 31, 2001 and 2002.

(2) The unaudited financial data as of September 30, 2003 and for the nine months ended September 30, 2002 and 2003 has been prepared in accordance with Brazilian corporate law, which provided a simplified methodology for accounting for the effects of inflation until December 31, 1995. The audited financial data at December 31, 1998, 1999, 2000, 2001 and 2002 and for the five years in the period ended December 31, 2002 have been prepared using Brazilian GAAP. Brazilian GAAP requires companies to recognize inflationary effects in their financial statements until December 31, 2000. The audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus contain a reconciliation of shareholders equity and net income from Brazilian corporate law to Brazilian GAAP.

(3) Interest on shareholders equity is included as part of dividends and is presented net of taxes. The right to receive 1998 s dividend has expired.

(4) Since TCO has been consolidated by TCP as from April 25, 2003, U.S. GAAP information for TCO has not been presented separately at September 30, 2003 or for the nine months ended September 30, 2002 and 2003.

**PART TWO    SUMMARY**

**Summary of Selected Condensed Pro Forma Financial Data**

The following unaudited pro forma combined financial data gives pro forma effect to our acquisition of control of Global Telecom in December 2002 and our acquisition of the control of TCO in April 2003. This financial data should be read in conjunction with Part Five: The Merger of Shares Unaudited Pro Forma Combined Financial Data. The unaudited pro forma combined financial data for the year ended December 31, 2002 and nine months ended September 30, 2003 give effect to the acquisitions described above as if they had occurred on January 1, 2002.

The unaudited pro forma combined financial data were prepared for illustrative purposes only. This information does not purport to represent what the actual results of operations or financial position of TCP would have been if the acquisitions had actually occurred on the dates assumed and does not necessarily indicate what TCP s future operating results or combined financial position will be.

| | At and for the year ended December 31, | | At and for the nine months ended September 30, | |
|---|---|---|---|---|
| | 2002 | 2002 | 2003 | 2003 |
| | (R$ million) | (U.S.$ million) | (R$ million) | (U.S.$ million) |
| | | (Unaudited) | | |
| **Income Statement Data:** | | | | |
| *Brazilian corporate law* | | | | |
| Net operating revenue | 5,438.6 | 1,539.2 | 4,815.7 | 1,647.0 |
| Cost of services and goods sold | (2,794.3) | (790.8) | (2,348.2) | (803.2) |
| Gross profit | 2,644.3 | 748.4 | 2,467.5 | 844.1 |
| Operating expenses: | | | | |
| Selling expenses | (957.6) | (271.0) | (1,020.4) | 349.0 |
| General and administrative expenses | (476.0) | (134.7) | (454.5) | (155.5) |
| Other net operating expenses | (284.5) | (97.3) | (71.8) | (24.6) |
| Operating income before equity in losses of unconsolidated subsidiary and net financial expenses | 926.2 | 316.8 | 920.8 | 315.0 |
| Equity in losses of unconsolidated subsidiary | | | | |
| Net financial expenses | (1,952.5) | (667.9) | (979.1) | (334.9) |
| Operating loss | (1,026.3) | (351.1) | (58.3) | (19.9) |
| Net non-operating expenses | (8.0) | (2.3) | (20.5) | (7.0) |
| Loss before income taxes, minority interests and extraordinary item | (1,034.3) | (353.8) | (78.8) | (27.0) |
| Income taxes | (154.1) | (43.6) | (304.4) | (104.1) |
| Minority interests | (6.1) | (2.1) | (6.0) | (2.1) |
| Extraordinary item, net of taxes | (421.4) | (119.3) | | |
| Net loss | (1,615.9) | (552.7) | (389.2) | (133.1) |
| Net loss per 1,000 shares | (1.07) | (0.3) | (0.26) | (0.09) |
| *U.S. GAAP* | | | | |
| Net loss | (2,475.2) | (700.6) | (213.5) | (73.0) |
| Basic and diluted net loss per 1,000 shares outstanding (*reais*) | (2.42) | (0.68) | (0.14) | (0.06) |
| **Balance Sheet Data:** | | | | |
| *Brazilian corporate law* | | | | |
| Property, plant and equipment, net | | | 5,106.8 | 1,746.9 |
| Total assets | | | 12,952.7 | 4,430.7 |
| Loans and financing | | | 6,306.3 | 2,157.2 |
| Net assets | | | 4,561.4 | 1,560.3 |

| | | |
|---|---|---|
| Capital stock | 5,386.5 | 1,842.5 |
| Number of billions of shares as adjusted to reflect changes in capital | 1,507.0 | |
| *U.S. GAAP* | | |
| Shareholders equity | 5,985.7 | 2,047.5 |

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**PART TWO SUMMARY**

**Summary Comparative Per Share Data**

We present below book value, cash dividend and income (loss) from continuing operations per share data on both a historical basis and an unaudited pro forma basis under Brazilian corporate law and U.S. GAAP.

We have derived the unaudited pro forma information appearing below from the unaudited pro forma condensed financial data appearing elsewhere in this prospectus.

You should read the information below together with the historical and pro forma financial data of TCP and the historical financial statements of TCO appearing elsewhere in this prospectus. The unaudited pro forma data appearing below is for illustrative purposes only. TCP and TCO may have performed differently had they always been a combined entity. You should not rely on this information as being indicative of the actual results of that the combined businesses of these companies will experience after the merger of shares.

For more information about historical dividend payments by TCP and TCO, see Part Six: Shareholder Rights Information About Historical Dividend Payments.

***Brazilian Corporate Law***

| | Year ended December 31, 2002 | | | |
|---|---|---|---|---|
| | TCP (Historical) | TCO (Historical) | TCP (Pro Forma) | TCO Per Share Equivalent(1) |
| | *(Reais)* | | | |
| Book value per 1,000 shares | 3.42 | 3.26 | | 4.34 |
| Cash dividends declared per 1,000 preferred shares(2) | | 0.21 | | |
| Income (loss) from continuing operations per 1,000 shares | (0.97) | 0.88 | (1.07) | (1.23) |

(1) The TCO per share equivalent data are calculated by multiplying the TCP pro forma per share amounts by 1.27, the number of TCP preferred shares that will be received for each TCO preferred share in the merger of shares.

(2) After the pro forma adjustments described in Part Five: The Merger of Shares Unaudited Pro Forma Combined Financial Data, pro forma net income of TCP under Brazilian corporate law was negative for the period, primarily due to the losses of Global Telecom and the financial cost related to the acquisitions of Global Telecom and TCO. Therefore, no dividends would have been payable on a pro forma basis for the period.

| | Nine months ended September 30, 2003 | | | |
|---|---|---|---|---|
| | TCP (Historical) | TCO (Historical) | TCP (Pro Forma) | TCO Per Share Equivalent(1) |
| | *(Reais)* | | | |
| Book value per 1,000 shares | 3.03 | 4.14 | 3.03 | 3.85 |
| Cash dividends declared per 1,000 preferred shares(2) | | | | |
| Income (loss) from continuing operations per 1,000 shares | (0.39) | 0.87 | (0.26) | (0.50) |

(1) The TCO per share equivalent data are calculated by multiplying the TCP pro forma per share amounts by 1.27, the number of TCP preferred shares that will be received for each TCO preferred share in the merger of shares.

(2) After the pro forma adjustments described in Part Five: The Merger of Shares Unaudited Pro Forma Combined Financial Data, pro forma net income of TCP under Brazilian corporate law was negative for

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**PART TWO SUMMARY**

the period, primarily due to the losses of Global Telecom and the financial cost related to the acquisitions of Global Telecom and TCO. Therefore, no dividends would have been payable on a pro forma basis for the period.

***U.S. GAAP***

| | Year ended December 31, 2002 | | | |
|---|---|---|---|---|
| | TCP (Historical) | TCO (Historical) | TCP (Pro Forma) | TCO Per Share Equivalent(1) |
| | *(Reais)* | | | |
| Book value per 1,000 shares | 2.82 | 3.39 | | 3.58 |
| Cash dividends declared per 1,000 preferred shares(2) | | 0.21 | | |
| Income (loss) from continuing operations per 1,000 shares | (2.18) | 0.78 | (2.42) | (2.77) |

(1) The TCO per share equivalent data are calculated by multiplying the TCP pro forma per share amounts by 1.27, the number of TCP preferred shares that will be received for each TCO preferred share in the merger of shares.

(2) Historical cash dividends under U.S. GAAP for TCO are the same as presented above under Brazilian corporate law because TCO paid dividends only based on its Brazilian corporate law results. After the pro forma adjustments described in Part Five: The Merger of Shares Unaudited Pro Forma Combined Financial Data, pro forma net income of TCP under Brazilian corporate law was negative for the period, primarily due to the losses of Global Telecom and the financial cost related to the acquisitions of Global Telecom and TCO. Therefore, no dividends would have been payable on a pro forma basis for the period.

| | Nine months ended September 30, 2003 | | | |
|---|---|---|---|---|
| | TCP (Historical) | TCO (Historical) | TCP (Pro Forma) | TCO Per Share Equivalent(1) |
| | *(Reais)* | | | |
| Book value per 1,000 shares | 2.83 | 4.09 | 3.93 | 3.59 |
| Cash dividends declared per 1,000 preferred shares(2) | | | | |
| Income (loss) from continuing operations per 1,000 shares | 0.01 | 0.92 | (0.14) | 0.01 |

(1) The TCO per share equivalent data are calculated by multiplying the TCP pro forma per share amounts by 1.27, the number of TCP preferred shares that will be received for each TCO preferred share in the merger of shares.

(2) Historical cash dividends under U.S. GAAP for TCO are the same as presented above under Brazilian corporate law because TCO paid dividends only based on its Brazilian corporate law results. After the pro forma adjustments described in Part Five: The Merger of Shares Unaudited Pro Forma Combined Financial Data, pro forma net income of TCP under Brazilian corporate law was negative for the period, primarily due to the losses of Global Telecom and the financial cost related to the acquisitions of Global Telecom and TCO. Therefore, no dividends would have been payable on a pro forma basis for the period.

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**PART TWO SUMMARY**

**Exchange Rates**

***Brazilian Central Bank Rates***

There are two legal exchange rates in Brazil:

the commercial rate exchange market and

the floating rate exchange market.

Most trade and financial foreign-exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Brazilian Central Bank intervention.

Between March 1995 and January 1999, the Central Bank permitted gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*/ U.S. dollar exchange rate could fluctuate.

Responding to pressure on the *real,* on January 13, 1999, the Central Bank widened the foreign exchange band and, on January 15, 1999, allowed the *real* to float freely. Since then, the *real* reached a low of R$1.4659 on January 15, 1999 and a high of R$3.9552 on October 22, 2002. At December 15, 2003, the commercial market rate for purchasing U.S. dollars was R$2.9293 to U.S.$1.00.

The Brazilian government may impose temporary restrictions on the conversion of *reais* into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. Brazilian law permits the government to impose those restrictions whenever there is a serious imbalance in Brazil s balance of payments or reason to foresee a serious imbalance.

The following tables show, for the periods indicated, certain information regarding the *real*/ U.S. dollar commercial exchange rate.

| | Exchange rate of R$ per U.S.$ | | | |
|---|---|---|---|---|
| | **Low** | **High** | **Average(1)** | **Year End** |
| Year ended December 31, 1998 | 1.1165 | 1.2087 | 1.1644 | 1.2087 |
| Year ended December 31, 1999 | 1.2078 | 2.1647 | 1.8514 | 1.7890 |
| Year ended December 31, 2000 | 1.7234 | 1.9847 | 1.8348 | 1.9554 |
| Year ended December 31, 2001 | 1.9357 | 2.8007 | 2.3532 | 2.3204 |
| Year ended December 31, 2002 | 2.2709 | 3.9552 | 2.9983 | 3.5333 |
| Nine months ended September 30, 2003 | 2.8219 | 3.6623 | 3.1139 | 2.9234 |

Source: Brazilian Central Bank, PTAX. PTAX is the average of the exchange rates negotiated in the commercial rate market on a given day.

(1) Represents the average of the exchange rates (PTAX) on the last day of each month during the relevant period.

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**PART TWO SUMMARY**

| Month ended | Exchange rate of R$ per U.S.$ | |
|---|---|---|
| | Low | High |
| June 2003 | 2.8491 | 2.9780 |
| July 2003 | 2.8219 | 2.9655 |
| August 2003 | 2.9531 | 3.0740 |
| September 2003 | 2.8898 | 2.9840 |
| October 2003 | 2.8268 | 2.9034 |
| November 2003 | 2.8559 | 2.9546 |
| December 2003 (through December 15, 2003) | 2.9273 | 2.9439 |

Source: Brazilian Central Bank, PTAX. PTAX is the average of the exchange rates negotiated in the commercial rate market on a given day.

***Federal Reserve Bank of New York Rates***

The following tables show, for the periods indicated, certain information regarding the *real*/ U.S. dollar exchange rate, based on the noon buying rate of the Federal Reserve Bank of New York. At December 15, 2003, the noon buying rate was R$2.9220 to U.S.1.00.

| Year ended December 31, | Period End | Average(1) | High | Low |
|---|---|---|---|---|
| 1998 | 1.2085 | 1.1640 | 1.2090 | 1.1160 |
| 1999 | 1.8090 | 1.8640 | 2.2000 | 1.2074 |
| 2000 | 1.9510 | 1.8350 | 1.9840 | 1.7230 |
| 2001 | 2.3120 | 2.3530 | 2.7880 | 1.9380 |
| 2002 | 3.5400 | 2.9945 | 3.9450 | 2.2650 |
| Nine months ended September 30, 2003 | 2.9280 | 3.1107 | 3.6640 | 2.8230 |

Source: Federal Reserve Bank of New York

(1) Average of the noon buying rate on the last day of each month in the period.

| Month ended | Exchange rate of R$ per U.S.$ | |
|---|---|---|
| | Low | High |
| June 2003 | 2.8550 | 2.9770 |
| July 2003 | 2.8230 | 2.9650 |
| August 2003 | 2.9520 | 3.1130 |
| September 2003 | 2.8860 | 2.9750 |
| October 2003 | 2.8270 | 2.9060 |
| November 2003 | 2.8550 | 2.9485 |
| December 2003 (through December 15, 2003) | 2.9220 | 2.9450 |

Source: Federal Reserve Bank of New York

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## PART TWO SUMMARY

### Historical and Pro Forma Share Information

The following table shows the closing prices of the preferred shares and ADSs of TCP and TCO, as well as the equivalent value of TCO s preferred shares and ADSs based on the merger ratio, as of January 15, 2003, which was the date preceding public announcement of the signing of the agreement by which TCP acquired TCO, and December 15, 2003.

| | January 15, 2003 | | | December 15, 2003 | | |
|---|---|---|---|---|---|---|
| | TCP (Actual) | TCO (Actual) | TCO (Per share equivalent)(1)(2) | TCP (Actual) | TCO (Actual) | TCO (Per share equivalent)(1)(2) |
| 1,000 Preferred shares | R$4.42 | R$5.12 | R$5.61 | R$8.11 | R$10.15 | R$10.30 |
| ADSs | U.S.$3.37 | U.S.$4.60 | U.S.$5.14 | U.S.$6.90 | U.S.$10.44 | U.S.$10.52 |

(1) The TCO preferred share per share equivalent data are calculated by multiplying the TCP actual amounts by 1.27, the number of TCP preferred shares that will be received for each TCO preferred share in the merger of shares.

(2) The TCO ADS per share equivalent data are calculated by multiplying the TCP actual amounts by 1.524, the number of TCP ADSs that will be received for each TCO ADS in the merger of shares.

**We urge you to obtain current market quotations.**

**PART THREE RISK FACTORS**

# PART THREE RISK FACTORS

## Risks Relating to the Merger of Shares

***We may have actual or potential conflicts of interest relating to the merger of shares.***

We may have actual or potential conflicts of interest because we exercise voting control over the board of directors of TCO. We have not negotiated the terms of this merger of shares with any person acting on behalf of the minority shareholders of TCO.

***The TCP securities you receive in the merger of shares will represent an investment in a fundamentally different business from that in which you originally invested.***

You will receive TCP preferred shares or ADSs for your TCO preferred shares or ADSs, respectively, in the merger of shares. TCP is a holding company that is significantly larger than TCO and has other operating subsidiaries, Telesp Celular and Global Telecom, besides TCO. TCP s other subsidiaries operate in the states of São Paulo, Paraná and Santa Catarina, where TCO does not conduct business. In addition, TCP s board of executive officers, including its chief executive officer, is different from TCO s. You should carefully consider the information about TCP that is included in this prospectus.

***Because we are a larger company than TCO, your ownership percentage in our company will, as a result of the merger of shares, be less than from your ownership percentage in TCO.***

You should be aware that because we are a larger company than TCO, your ownership percentage of our company will be different from those you have as a shareholder of TCO. Assuming that none of the common shareholders of TCP or TCO exercises appraisal rights, former TCO shareholders, other than our company, will hold approximately 22.2% of the total capital stock of our company in the aggregate following the merger of shares. In addition, TCP is obligated to issue shares to its controlling shareholder for the amount of a tax benefit realized as a result of a corporate restructuring completed in 2000. This issuance of shares will further dilute your holdings of TCP in the future. See note 34 to our consolidated financial statements as of December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus.

***We are more leveraged than TCO, and a significant portion of our cash flow must be used to service our obligations.***

At September 30, 2003, we had R$5,767.5 million of consolidated total debt, only R$404.6 million of which was attributable to TCO. We are subject to the risks normally associated with significant amounts of debt, which could have important consequences to you. Our indebtedness could, among other things:

- require us to use a substantial portion of our cash flow from operations to pay our obligations, thereby reducing the availability of our cash flow to fund working capital, operations, capital expenditures, dividend payments, strategic acquisitions, expansion of our operations and other business activities;
- increase our vulnerability to general adverse economic and industry conditions;
- limit, along with financial and other restrictive covenants in our debt instruments, our ability to borrow additional funds or dispose of assets; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

We may also need to refinance all or a portion of our debt on or before maturity, and we may not be able to do this on commercially reasonable terms or at all.

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**PART THREE    RISK FACTORS**

***We do not anticipate being able to pay dividends in 2003 and possibly in subsequent years.***

TCO has paid dividends to its shareholders in each of the last three fiscal years, but we did not pay dividends in 2001 or 2002 because of losses incurred from our equity investment in Global Telecom in those years and the financial cost related to the Global Telecom and TCO acquisitions. We recorded a net loss of R$462.8 million in the nine months ended September 2003, and we expect that we will record a net loss for the year ended December 31, 2003. If we record a net loss in 2003, we will not pay dividends for that year. We may also record net losses in subsequent years and be unable to pay dividends in those years.

***The Brazilian antitrust authorities may not approve our acquisition of control of TCO in April 2003.***

The acquisition of TCO is subject to the approval of Brazilian antitrust authorities. The Administrative Council for Economic Defense, or CADE is the antitrust authority ultimately responsible for reviewing and authorizing transactions that may lead to economic concentration.

We submitted the terms and conditions of our acquisition of control of TCO to the Brazilian antitrust authorities on February 5, 2003. These authorities will determine whether the acquisition of control of TCO adversely impact competitive conditions in the relevant markets or whether they would negatively affect consumers. Brazilian antitrust law does not prevent parties from closing a transaction on a provisional basis until the Brazilian antitrust authorities render a final decision. In other words, prior approval by the Brazilian antitrust authorities was not a condition to the closing of our acquisition of control of TCO and is not a condition to the completion of the merger of shares. Accordingly, we completed our acquisition of 61.10% of the common shares of TCO on April 25, 2003 and a tender offer for the remaining common shares of TCO on November 18, 2003, purchasing 32,205,823 common shares and bringing our ownership of the outstanding common shares of TCO to 90.7%. We do not intend to wait for approval of the Brazilian antitrust authorities before completing the merger of shares.

CADE is still reviewing our acquisition of control of TCO and may not approve the transaction unconditionally. CADE could impose retroactive conditions or performance commitments on our company or could seek to unwind the transaction. Any such action could result in a material adverse effect on our results of operations, financial condition and prospects.

***You are being offered a fixed number of shares and TCP ADSs, which involves the risk of market fluctuations.***

You will receive fixed number of TCP ADSs in the merger of shares, rather than a number of TCP ADSs with a fixed market value. Consequently, the market values of our shares and ADSs and of the shares of TCO at the time of the completion of the merger of shares may fluctuate significantly from the date of this registration statement. On December 15, 2003, the last reported closing price on the New York Stock Exchange, or NYSE, for TCP ADSs was U.S.$6.90, and the market value of 1.524 TCP ADSs, the number of ADSs to be received for each TCO ADS in the merger of shares, was U.S.$10.52. On December 15, 2003, the last reported closing price on the NYSE for TCO ADSs was U.S.$10.44.

**Risks Relating to the Brazilian Telecommunications Industry and the Business**

***Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition and changes in our cost structure.***

Our business is subject to extensive government regulation. Anatel, which is the main telecommunications industry regulator in Brazil, regulates, among other things:

- industry policies and regulations;
- licensing;

**PART THREE    RISK FACTORS**

tariffs;

competition;

telecommunications resource allocation;

service standards;

technical standards;

interconnection and settlement arrangements; and

universal service obligations.

This extensive regulation and the conditions imposed by the authorizations to provide telecommunication services held by us and our subsidiaries, including TCO, may limit our flexibility in responding to market conditions, competition and changes in our cost structure.

***Our results may be affected in the medium or long term as a result of the new SMP rules.***

In 2002, Anatel changed the Personal Mobile Service *(Serviço Móvel Pessoal)*, or SMP, regime (first enacted in December 2000), encouraging companies operating under the Mobile Cellular Service *(Serviço Móvel Celular)*, or SMC, regime to migrate to the SMP regime. New rules will be applicable to the migrating companies, as contemplated by Anatel Resolutions nos. 316/02 through 321/02 and 326/02.

Under the SMP regime, we will no longer receive payment from our customers for outbound long distance traffic but will receive payment for the use of our network in accordance with a network usage remuneration plan. However, the interconnection fees that we will receive from long distance operators may not compensate us for the revenues that we would have received from our customers for outbound long distance traffic. Until June 30, 2004, SMP service providers may opt to establish a price cap or freely negotiate their interconnection charges. After that date, free negotiation will be the rule, subject to Anatel regulations relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties.

In addition, under the SMP regime, an SMP cellular operator will pay for the use of another SMP cellular operator s network in the same registration area only if the traffic carried from the first operator to the second exceeds 55% of the total traffic exchanged between them. In that case, only those calls that have surpassed the 55% level will be subject to payment for network usage. This rule is valid until June 30, 2005, after which no payments will be due for network usage between SMP networks, regardless of the amount of traffic. As a result, if the traffic we terminate for other SMP cellular operators exceeds the traffic they terminate for our company, our revenues and results of operations may be adversely affected.

The new rules may negatively affect our revenues and results of operations.

***If the inflation adjustment index now applied to our tariffs is changed, the new index may not be adequate.***

The Brazilian government is considering replacing the General Price Index, or the IGP-DI (the *Índice Geral de Preços    Disponibilidade Interna*), an inflation index developed by the *Fundação Getúlio Vargas,* a private Brazilian economic organization, that is currently used in connection with the tariffs applied in the telecommunications industry, with another index, that has not yet been identified. A new index, if any, might not adequately reflect the true effect of inflation on our tariffs.

***Anatel s proposal regarding the consolidation of tariffs could have an adverse effect on our results.***

Anatel has proposed new regulations that would require cellular telecommunications providers that operate in more than one authorization area to consolidate tariffs charged to their customers so that the same

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**PART THREE RISK FACTORS**

tariffs are applied to all customers throughout the regions in which those providers operate. If these regulations take effect, they would have an adverse effect on our results of operations because the tariffs we charge in some regions in which we operate are higher than those in other regions. If we were to consolidate those tariffs, competitive pressures and other factors would cause our consolidated tariffs to be lower than our current average tariffs and would therefore reduce our revenues.

***We face substantial competition that may reduce our market share and harm our financial performance.***

There is substantial competition in the telecommunications industry. We not only compete with cellular telecommunications companies but also with companies that provide fixed-line telecommunications and Internet access services.

We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products and services. Our ability to compete successfully will depend on our marketing techniques and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by our competitors. If we do not keep pace with technological advances, or if we fail to respond timely to changes in competitive factors in our industry, we could lose a portion of our market share or suffer a decline in our revenue. Competition from other cellular communications service providers in the regions in which we operate may also affect our financial results by causing, among other things, the decrease in our customer growth rate and may bring about decreases in tariff rates and increases in selling expenses. All these factors could have a material adverse effect on our results of operations.

Recently, there has been consolidation in the Brazilian telecommunications market, and we believe this trend may continue. Consolidation may result in increased competitive pressures within our market. We may be unable adequately to respond to pricing pressures resulting from consolidation, which would adversely affect our business, financial condition and results of operations.

***Our results of operations would be affected by a high rate of customer turnover or a decrease in our customer growth.***

A high rate of customer turnover or a decrease in our customer growth could adversely affect our results of operations and our competitive position. These effects can result from several factors, including limited network coverage and lack of sufficient reliability of our services, as well as increased competition in the regions in which we operate and economic conditions in Brazil.

***The industry in which we conduct our business is subject to rapid technological changes, and these changes could have a material adverse effect on our ability to provide competitive services.***

The telecommunications industry is subject to rapid and significant technological changes. Our success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will be further developed.

The advent of new products and technologies could have a variety of consequences for us. These new products and technologies may reduce the price of our services by providing lower-cost alternatives, or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, requiring investment in new technology. The cost of upgrading our products and technology in order to continue to compete effectively could be significant, and our ability to fund this upgrading may depend on our ability to obtain additional financing.

**PART THREE RISK FACTORS**

***Our controlling shareholders have a great deal of influence over our business.***

PT Móveis S.G.P.S., S.A. and Telefónica Móviles, S.A., our principal shareholders, currently own through Brasilcel, directly and indirectly, approximately 93.66% of our common shares and 65.12% of our total capital. PT Móveis is a wholly owned subsidiary of Portugal Telecom S.G.P.S., S.A. Our principal shareholders have the power to control us and our subsidiaries, including the power to elect our directors and officers and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations and the timing and payment of our dividends. In addition, Portugal Telecom and Telefónica Móviles share their participation in us equally. Any disagreement or dispute between our controlling shareholders may have an impact on the decision-making capabilities of our management.

***The cellular industry, including our company, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.***

Media and other reports have suggested that radio frequency emissions from cellular handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using cellular handsets. These concerns could have an adverse effect on the cellular communications industry and, possibly, expose cellular providers, including our company, to litigation. We cannot predict whether further medical research and studies will refute a link between the radio frequency emissions of cellular handsets and base stations and these health concerns. Government authorities could increase regulation of cellular handsets and base stations as a result of these health concerns or cellular companies, including our company, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites to expand our network, which in turn may delay the expansion and may affect the quality of our services.

***Our investment in Global Telecom has adversely affected, and could continue to adversely affect, our financial performance.***

Our investment in Global Telecom presents operational and financial risks. Global Telecom started operations in 1999, and its principal competitor in its authorization area has been in operation for a longer period of time and has a larger market share in that area. Global Telecom has had substantial net losses (R$408.4 million in 2000, R$856.1 million in 2001, R$771.1 million in 2002 and R$370.2 million in the nine months ended September 30, 2003) resulting in significant part from capital expenditures, indebtedness and increased expenses in connection with the rapid expansion of its network infrastructure and upgrading its marketing and commercial capabilities.

Our financial results have been adversely affected by (1) our equity losses in the three former holding companies of Global Telecom of R$653.7 million in 2001 and R$890.7 million in 2002, (2) extraordinary adjustments in 2001 and 2002 from our investment in Global Telecom and (3) the interest expense arising from indebtedness we incurred to finance our acquisition of Global Telecom, which resulted in a net losses of R$1,113.6 million in 2001 and R$1,140.8 million in 2002, compared to net income of R$152.2 million in 2000. On December 27, 2002, we acquired control of Global Telecom and now consolidate it in our consolidated financial statements.

***We face risks associated with litigation.***

We and our subsidiaries are party to a number of lawsuits and other proceedings. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business.

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These lawsuits include actions seeking payment by TCO s subsidiary Telegoiás in the amount of R$30.6 million and by TCO s former subsidiary Telebrasília (since merged into TCO) in the amount of R$51.8 million, plus adjustment for exchange variations in each case, on Telebrás loans assigned to those companies in connection with the privatization of the Telebrás system. The Court of Appeals of the Federal District rendered decisions unfavorable to TCO in these actions, and TCO is awaiting publication of the decisions before it considers possible appeals. Several other lawsuits involving regulatory, intellectual property, tax and other matters are described in Item 8.A. Consolidated Statements and Other Financial Information Legal Matters of Annex A to this prospectus (Information Derived from TCP s Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2002) and the corresponding section of Annex B to this prospectus (Information Derived from TCO s Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2002).

***Certain holders of TCO s preferred shares have presented complaints to the CVM, the Brazilian securities regulator, related to the terms of the merger of shares, and the CVM s review is ongoing.***

Certain holders of TCO s preferred shares have presented correspondence to the CVM seeking an investigation into the proposed merger of shares based on the allegation that the terms of the merger of shares are unfair to you as holders of preferred shares. This correspondence is based upon the difference in price paid by us for the common shares of TCO and the implied value for the preferred shares of TCO that you will receive based upon the exchange ratio for the merger of shares. We replied to an inquiry from the CVM denying any wrongdoing.

On November 19, 2003, we were notified of additional correspondence presented to the CVM on November 18, 2003 by a holder of TCO s preferred shares seeking an injunction or postponement of the shareholders meetings originally scheduled for December 22, 2003 pending an investigation of certain allegations related to the merger of shares. The correspondence alleges certain technical deficiencies in the valuation of the shareholders equity of our company at market prices produced in connection with the merger of shares, which we have corrected, and argues that the exchange ratio for the TCO shares is unfair and that the delay between the announcement of the ratio on January 16, 2003 and the proposed closing is too lengthy and unfairly disadvantages TCO s holders of preferred shares. On December 11, 2003, the CVM sent us a letter requiring a postponement of the extraordinary general meetings to approve the merger of shares to permit the CVM additional time to analyze the legality of the proposals for the merger of shares being submitted to the shareholders of our company and TCO, and we and TCO have rescheduled the meetings for January 7, 2004.

Although we affirm that the proposed merger of shares is legal and provides equitable treatment to TCP and TCO and deny the various allegations of unfairness or continuing deficiencies, we cannot predict the outcome of the CVM s analysis of the transaction. In addition, the CVM may initiate administrative proceedings against us and require us to file a defense.

**Risks Relating to Our Preferred Shares and Our ADSs**

***Our preferred shares and our ADSs representing preferred shares generally do not have voting rights.***

In accordance with the Brazilian corporation law and our by-laws, holders of our preferred shares, and therefore of our ADSs representing preferred shares, are not entitled to vote at meetings of our shareholders, except in limited circumstances.

Our bylaws state that holders of preferred shares will have full voting rights in the event that we do not pay minimum dividends to those shareholders for three consecutive fiscal years, and those shareholders will retain those voting rights until the minimum dividends are paid. Because we did not pay minimum dividends for the years ended December 31, 2001 and 2002 and do not anticipate being able to pay dividends for the year ended December 31, 2003, we expect that holders of preferred shares will be able to exercise voting rights after

**PART THREE RISK FACTORS**

the 2004 general shareholders meeting and until we pay the minimum dividends for 2003 or any subsequent year. However, once we pay the minimum dividends for 2003 or any subsequent year, those voting rights will cease.

***If you hold our ADSs after the merger of shares, you will be unable to exercise preemptive rights with respect to our preferred shares unless there is a current registration statement in effect that covers those rights or unless an exemption from registration applies.***

If you hold our ADSs after the merger of shares, you will not be able to exercise the preemptive rights relating to our preferred shares underlying ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights, or unless an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary, or, if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. For more information on the exercise of your rights, see Part Six: Shareholder Rights.

***If you exchange ADSs for preferred shares and do not register your investment with the Central Bank, you will not be able to remit amounts abroad and may lose Brazilian tax advantages.***

The ADSs benefit from the certificate of foreign capital registration that permits The Bank of New York, as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain the appropriate registration, either under Resolution 2,689 of the National Monetary Council and CVM Instruction 325 or under Law No. 4,131/62, as described in Part Six: Shareholder Rights Description of TCP Capital Stock Exchange Controls and Central Bank Registration.

If a former holder of ADSs is not registered under Resolution 2,689, it may be subject to less favorable tax treatment. See Part Five: The Merger of Shares Material Tax Considerations Brazilian Tax Considerations.

***The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of ADSs.***

Investments in securities, such as our preferred shares and our ADSs, of issuers from emerging market countries, including Brazil, involve a higher degree of risk than investments in securities of issuers from more developed countries.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit the ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. BOVESPA had a market capitalization of U.S.$124 billion as of December 31, 2002, and an average monthly trading volume of approximately U.S.$4.1 billion for 2002. In comparison, the NYSE had a market capitalization of U.S.$9.7 trillion as of December 31, 2002, and an average monthly trading volume of approximately U.S.$859 billion for 2002.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented

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approximately 46.8% of the aggregate market capitalization of BOVESPA as of December 31, 2002. The top ten stocks in terms of trading volume accounted for approximately 56.5% of all shares traded on BOVESPA.

**Risks Relating to Brazil**

***The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business, operations and the market price of our preferred shares and our ADSs.***

In the past, the Brazilian economy has experienced unstable economic cycles, and the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in policy. To influence the course of Brazil s economy, control inflation and effect other policies, the Brazilian government has taken various actions, including using wage and price controls, currency devaluations, capital controls, limits on imports and blocking access to bank accounts. We have no control over, and cannot predict, what measures or policies the Brazilian government may take in the future. Our business, financial condition, results of operations and the market price of our preferred shares and ADSs may be adversely affected by changes in government policies, as well as general economic factors, including, without limitation:

- fluctuations in exchange rates;
- inflation;
- exchange control policies;
- Gross Domestic Product growth;
- social instability;
- liquidity of domestic capital and lending markets;
- price instability;
- energy shortages;
- interest rates;
- tax policies; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Luiz Inácio Lula da Silva of the Labor Party took office as President of Brazil on January 1, 2003. While President da Silva s government has adopted economic measures that are more conservative than expected by some observers, there is no certainty that these policies will continue or that President da Silva will continue to pursue economic stabilization and liberalization policies. We cannot predict what future fiscal, monetary, social security and other policies will be adopted by Mr. da Silva s administration and whether these policies will result in adverse consequences to the economy and to our business, results of operations or financial condition.

***Tax reforms may affect our tariff rates.***

President da Silva has proposed tax reforms that are currently being considered by the Brazilian Congress. If TCP or TCO experience a higher tax burden as a result of the tax reform, they may have to pass the cost of that tax increase to their customers. This increase may have a material negative impact on the dividends paid by our subsidiaries to our company and on our revenues and operating results.

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**PART THREE RISK FACTORS**

***Inflation and certain government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market and/or our business and operations.***

Brazil has historically experienced extremely high rates of inflation. Inflation and some of the Brazilian government s measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy. Since 1994, Brazil s inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. In 2002, the IGP DI reflected inflation of 26.4%, compared to 10.4% in 2001 and 9.8% in 2000. Inflation in the first nine months of 2003 was 6.0%. If Brazil experiences significant inflation, we may be unable to increase service rates to our customers in amounts that are sufficient to cover our increasing operating costs, and our business may be adversely affected.

***Fluctuations in the value of the real against the value of the U.S. dollar may adversely affect our ability to pay U.S. dollar-denominated or U.S. dollar-linked obligations and could lower the market value of our preferred shares and our ADSs.***

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* devalued against the U.S. dollar by 9.3% in 2000, and by 18.7% in 2001 and 52.3% in 2002. In the first nine months of 2003, the *real* appreciated 17.3% against the U.S. dollar.

Devaluation of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country s current account and the balance of payments, as well as dampen export-driven growth.

As of September 30, 2003, we had R$5,767.5 million in consolidated total debt, of which 72.7% was denominated in foreign currencies, primarily the U.S. dollar and the euro. Also, significant costs relating to our network infrastructure are payable or linked to payment by us in U.S. dollars. At the same time, while our foreign currency debt obligations were covered by derivative contracts as of September 30, 2003 and we may derive income from these and other derivative transactions, all of our operating revenues are generated in *reais.* To the extent that the value of the *real* decreases relative to the U.S. dollar, our debt becomes more expensive to service and it becomes more costly for us to import the technology and the goods that are necessary to operate our business.

***Brazilian government exchange control policies could adversely affect our ability to make payments on foreign currency-denominated debt.***

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments of principal on external obligations.

Many factors could cause the Brazilian government to institute a more restrictive exchange control policy, including, without limitation, the extent of Brazil s foreign currency reserves, the availability of sufficient foreign exchange, the size of Brazil s debt service burden relative to the economy as a whole, Brazil s policy towards the International Monetary Fund, or IMF, and political constraints to which Brazil may be subject. A more restrictive policy could affect the ability of Brazilian debtors (including us) to make payments outside of Brazil to meet foreign currency-denominated obligations.

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**PART THREE RISK FACTORS**

***Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business.***

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil.

For example, in 2001, after a prolonged recession, followed by political instability, Argentina announced that it would no longer continue to service its public debt. In order to address the deteriorating economic and social crisis, the Argentine government abandoned its decade-old fixed dollar-*peso* exchange rate, allowing the *peso* to float to market rate levels. In 2002, the Argentine *peso* experienced a 237% devaluation against the U.S. dollar. The situation in Argentina has negatively affected investors perceptions towards Brazilian securities.

The recent political crisis in Venezuela may also influence investors perception of risk in Brazil. If market conditions in Argentina and Venezuela continue to deteriorate, they may adversely affect our ability to borrow funds at favorable interest rates or to raise equity capital when and if there is a need. Adverse developments in Argentina, in Venezuela or in other emerging market countries could lead to a reduction in the price for our preferred shares and ADSs.

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**PART FOUR RECENT DEVELOPMENTS**

## PART FOUR RECENT DEVELOPMENTS

### Management s Discussion and Analysis of Financial Condition and Results of Operations

The unaudited consolidated interim financial statements of TCP at September 30, 2003 and for the nine months ended September 30, 2003 and 2002 are included in Part Nine of this prospectus. The unaudited consolidated interim financial statements of TCO at September 30, 2003 and for the nine months ended September 30, 2003 and 2002 are included in Annex D to this prospectus (Information Derived from TCO s Report on Form 6-K Furnished on November 19, 2003). These financial statements have been prepared in accordance with the Brazilian corporate law, standards applicable to holders of authorizations for the provision of Brazilian public telecommunication services and accounting standards and procedures established by the CVM. Brazilian corporate law provided for a simplified method for accounting for the effects of inflation until December 31, 1995.

The accounting provisions of Brazilian corporate law differ in significant respects from U.S. GAAP. For an explanation of these differences, see note 37 to TCP s audited consolidated financial statements at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus; note 29 to TCO s audited consolidated financial statements at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus; and note 17 to TCP s unaudited consolidated financial statements at September 30, 2003 and for the nine months ended September 30, 2002 and 2003 included in this prospectus.

The audited consolidated financial statements of TCO at December 31, 2001 and 2002 and for the three years in the period ended December 31, 2002 included in this prospectus were prepared using generally accepted accounting principles in Brazil, or Brazilian GAAP. Brazilian GAAP requires companies to recognize inflation effects in their financial statements until December 31, 2000. See note 2 to TCO s audited financial statements included in this prospectus containing a reconciliation of shareholders equity and net income from Brazilian corporate law to Brazilian GAAP.

Set forth below is management s discussion and analysis of financial condition and results of operations for the nine months ended September 30, 2003 for TCP and TCO.

***TCP s Results of Operations for the Nine Months Ended September 30, 2002 and 2003***

**All TCP figures at and for the nine months ended September 30, 2003 were affected by the consolidation of the operating results of Global Telecom as from January 1, 2003 and the consolidation of the operating results of TCO as from April 25, 2003.**

As of July 6, 2003, cellular telecommunications operators in Brazil were required by the SMP rules to implement long distance Carrier Selection Codes (*Códigos de Seleção de Prestadora*, or CSP) used by customers to choose their carrier for domestic long distance services (VC2 and VC3) and international cellular calls. VC2 is a designation given to long distance calls within a primary area, and VC3 is a designation given to long distance calls from one primary area to another. A primary area includes cities that have the same decimal range code. For example, calls between cities that have codes from 11 to 19, or from 21 to 29, are calls within a primary area. TCP no longer receives revenues from VC2 or VC3 calls and now receives interconnection revenues from the use of its network to complete those calls.

Additionally, in accordance with Anatel regulations, Bill & Keep rules were adopted for interconnection charges in July 2003. The rules provide that companies under the SMP regime are not required to pay tariffs for the use of the local network of another SMP provider as long as customers use local service (*i.e.*, make calls in the same registration area) and as long as there is a traffic balance between them. However, when traffic from the SMP provider that originates the call to the SMP provider that terminates the call

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**PART FOUR RECENT DEVELOPMENTS**

represents more than 55% of the local traffic between the two providers, the SMP provider who originates the higher traffic must pay the other provider the local usage tariff for the portion of the traffic that exceeds 55%.

The following table sets forth certain components of TCP s income for the periods indicated.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (R$ millions) | |
| Net operating revenue | 2,481.2 | 4,169.0 |
| Cost of services and goods | (1,188.1) | (2,070.9) |
| Gross profit | 1,293.2 | 2,098.1 |
| Operating expenses: | | |
| Selling expenses | (454.3) | (938.9) |
| General and administrative expenses | (254.9) | (392.9) |
| Other net operating (expenses) income | (52.3) | 2.2 |
| Operating income before losses of unconsolidated affiliates and net financial expense | 531.7 | 768.5 |
| Equity in losses of unconsolidated affiliates | (540.6) | |
| Net financial expense | (449.0) | (843.0) |
| Operating loss | (457.9) | (74.5) |
| Net non-operating (expenses) income | 10.6 | (4.9) |
| Loss before minority interests and taxes | (447.3) | (79.4) |
| Income taxes | (113.4) | (228.4) |
| Minority interest | | (154.9) |
| Net loss | (560.7) | (462.8) |

*Net Operating Revenue*

The composition of operating revenues by category of service is presented in TCP s consolidated financial statements and discussed below before deduction of value-added and other taxes. TCP does not determine operating revenues on a net basis (*i.e.*, after deduction of taxes) by category of service.

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The following table sets forth the components of TCP s operating revenues for the periods indicated, as well as the percentage change of each component from period to period.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | **2002** | **2003** | **% Change** |
| | **(R$ millions)** | | |
| Gross operating revenue: | | | |
| Usage charges | 935.9 | 1,478.8 | 58.0% |
| Sales of handsets and accessories | 479.5 | 989.0 | 106.3% |
| Monthly subscription charges | 719.0 | 1,017.5 | 41.5% |
| Interconnection fees | 986.5 | 1,765.6 | 79.0% |
| Other | 29.6 | 163.4 | 452.0% |
| Total gross operating revenue | 3,150.5 | 5,414.3 | 71.9% |
| Value-added and other indirect taxes | (556.5) | (930.7) | 67.2% |
| Sales and services discounts and return of goods sold | (112.8) | (314.5) | 178.8% |
| Net operating revenue | 2,481.2 | 4,169.0 | 68.0% |

The net operating revenue of TCP increased 68.0% to R$4,169.0 million for the nine months ended September 30, 2003 from R$2,481.2 million for the nine months ended September 30, 2002, principally due to the consolidation of R$461.0 million of net operating revenues attributable to Global Telecom and the consolidation of R$836.1 million of net operating revenues attributable to TCO for the months of May through September 2003. Telesp Celular s net operating revenue increased 15.7% to R$2,871.9 million in the nine months ended September 30, 2003 from R$2,481.2 million in the nine months ended September 30, 2002, primarily due to an increase in revenues from sales of goods, interconnection revenues and monthly subscription revenues.

*Usage charges.* Revenues from usage charges increased 58.0% to R$1,478.8 million for the nine months ended September 30, 2003 from R$935.9 million for the nine months ended September 30, 2003, primarily due to the consolidation of R$145.0 million in revenues from usage charges attributable to Global Telecom and the consolidation of R$474.8 million in revenues from usage charges attributable to TCO for the months of May through September 2003. This increase was partially offset by an 8.2% decrease in the revenues from usage charges of Telesp Celular to R$859.0 million in the nine months of September 30, 2003 from R$935.9 million in nine months of September 30, 2002. This decrease was principally due to a change in accounting practices related to prepaid services. Before January 1, 2003, revenues from prepaid services were recognized on a cash basis, and the related costs were estimated and accrued based on past gross margins. As of January 1, 2003, Telesp Celular began to defer revenues from prepaid services and amortize that revenue based on subscriber airtime usage. Management believes this new accounting practice better reflects Telesp Celular s operating performance and industry practices. This change in accounting practices had a negative impact of R$108.5 million in the nine months of September 30, 2003. This decrease was partially offset by the increase of outgoing traffic caused by a 17.3% increase in the customer base to 6.37 million average lines in service for the nine months of September 30, 2003 from 5.43 million average lines in service for nine months of September 30, 2002. Beginning in July 2003, this increase was offset by the impact of the new rules relating to the long distance Carrier Selection Code described above.

*Sales of handsets and accessories.* Revenues from sales of handsets and accessories increased 106.3% to R$989.0 million for the nine months ended September 30, 2003 from R$479.5 million for the nine months ended September 30, 2002. This increase was mainly due to a 50.9% increase in Telesp Celular s revenues from sales of handsets and accessories to R$723.7 million for the nine months ended September 30, 2003 from R$479.5 million for nine months ended September 30, 2002, revenues from sales of handsets and accessories

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of R$99.3 million attributable to the consolidation of Global Telecom and revenues from sales of handsets and accessories of R$166.0 million attributable to the consolidation of TCO for the months of May through September 2003. Telesp Celular s increase in the sales of handsets and accessories was principally due to the sale of more sophisticated and expensive models and an increase in the number of handsets sold.

*Monthly subscription charges.* Revenues from monthly subscription charges increased 41.5% to R$1,017.5 million for the nine months ended September 30, 2003 from R$719.0 million for the nine months ended September 30, 2002. The increase in the monthly subscription charges was principally due to the 20.0% increase in Telesp Celular s revenues from monthly subscription charges to R$862.9 million for the nine months ended September 30, 2003 from R$719.0 million for the nine months ended September 30, 2002. This increase was principally due to increases in tariffs and a 3.6% increase in the postpaid customer base to 1.44 million average lines in service for the nine months ended September 30, 2003 from 1.39 million lines in service for the nine months of September 30, 2002. In addition, the consolidation of revenues from monthly subscription charges attributable to Global Telecom had a positive impact of R$91.2 million and the consolidation of revenues from monthly subscription charges attributable to TCO for the months of May through September 2003 had a positive impact of R$63.4 million.

*Interconnection fees.* Revenues from interconnection fees increased 79.0% to R$1,765.6 million for the nine months ended September 30, 2003 from R$986.5 million for the nine months ended September 30, 2002. The consolidation of revenues from interconnection fees of Global Telecom had a positive impact of R$204.4 million, and the consolidation of revenues from interconnection fees of TCO for the months of May through September 2003 had a positive impact of R$335.9 million. Telesp Celular s revenues from interconnection fees increased 24.2% to R$1,225.4 million for the nine months ended September 30, 2003 from R$986.5 million for the nine months ended September 30, 2002, principally due to an increase in tariffs in February 2003 and an increase in incoming traffic. This increase was partially offset by discounts amounting to R$52.0 million for the nine months ended September 30, 2003 given to Telecomunicações de São Paulo S.A. Telesp on certain tariffs for local calls during off-peak hours under an agreement with Anatel signed in February 2003. After July 2003, this figure was impacted by the new rules relating to the long distance Carrier Selection Code and the Bill & Keep rules described above.

*Other.* Revenues from other services increased 452.0% to R$163.4 million for the nine months ended September 30, 2003 from R$29.6 million for the nine months ended September 30, 2002. This increase was principally due to the increase of Telesp Celular s other revenues to R$125.1 million for the nine months ended September 30, 2003 from R$29.6 million for the nine months ended September 30, 2002. This increase was principally due to an increase in use of data services, including short message services, or SMS, and an increase in use of other value-added services. In addition, as a result in the change in accounting practices described under Usage Charges above, Telesp Celular began as of January 1, 2003 to record prepaid minutes that expired unused as other revenues. The consolidation of revenues from other services of Global Telecom also had a positive impact of R$21.7 million, and the consolidation of revenues from other services of TCO for the months of May through September 2003 had a positive impact of R$16.6 million.

*Value-added and other indirect taxes.* Value-added taxes and other indirect taxes were 17.2% of TCP s gross operating revenue in the nine months ended September 30, 2003 and 17.7% in the nine months ended September 30, 2002. The decrease was principally due to an increase in the proportion of gross operating revenues attributable to revenues from interconnection fees that are not subject to the Tax on the Circulation of Goods and Services *(Imposto sobre Circulação de Mercadorias e Serviços)*, or ICMS, and from goods sold, which are subject to a lower ICMS rate than the rate imposed on telecommunication services. This decrease was partially offset by the increase in the Social Integration Program Tax *(Programa de Integração Social)*, or PIS, rate imposed on goods sold in December 2002 from 0.65% to 1.65%.

*Sales and services discounts and return of goods sold.* Deductions from operating revenues include discounts on cellular handset sales, discounts on services and returns of goods sold. Discounts and returns increased 178.8% to R$314.5 million for the nine months ended September 30, 2003 from R$112.8 million for

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nine months ended September 30, 2002. The increase was principally due to a 173.0% increase in Telesp Celular s deductions from operating revenues resulting from an increase in the recognition of discounts granted on the sales of handsets and accessories and the change in accounting practices described under Usage Charges above, which change in accounting practices had an impact of R$83.4 million in the nine months ended September 30, 2003. In connection with this change in accounting practices, Telesp Celular began to record prepaid service revenues on a gross basis and to recognize free minutes offered to prepaid customers as service discounts. Before the change in accounting practices, Telesp Celular had recognized prepaid services net of service discounts offered to customers. The remaining 5.8% increase in sales and services discounts and return of goods sold was attributable to the consolidation of deductions from operating revenues of Global Telecom in the amount of R$6.5 million.

*Cost of Services and Goods*

The following table sets forth the components of TCP s costs of services and goods sold for the periods indicated, as well as the percentage change of each component from period to period.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | % Change |
| | (R$ millions) | | |
| Depreciation and amortization | 409.8 | 641.3 | 56.5% |
| Material and services | 314.8 | 463.0 | 47.1% |
| Personnel | 19.9 | 33.0 | 65.8% |
| Rental, insurance and condominium fees | 59.2 | 66.5 | 12.3% |
| Cost of goods sold | 380.2 | 811.6 | 113.5% |
| Fistel and other taxes | 4.2 | 55.5 | 1,221.4% |
| Cost of services and goods | 1,188.1 | 2,070.9 | 74.3% |

Cost of services and goods increased 74.3% to R$2,070.9 million for the nine months ended September 30, 2003 from R$1,188.1 million for the nine months ended September 30, 2002, principally due to the consolidation of costs of R$329.5 million attributable to Global Telecom and the consolidation of costs of R$381.1 million attributable to TCO for the months from May through September 2003. Telesp Celular s cost of services and goods increased 14.5% to R$1,360.3 million for the nine months ended September 30, 2003 from R$1,188.1 million for the nine months ended September 30, 2002, mainly due to the sale of more sophisticated and expensive models, an increase in the number of handsets sold and an increase in depreciation and amortization, partially offset by a decrease in costs of material and services. The gross profit margin (gross profit as a percentage of net revenues) of Telesp Celular was 52.6% for the nine months ended September 30, 2003, compared to 52.1% for nine months ended September 30, 2002.

*Depreciation and amortization.* Depreciation and amortization expenses increased 56.5% to R$641.3 million for the nine months ended September 30, 2003 from R$409.8 million for the nine months ended September 30, 2002. The consolidation of depreciation and amortization expenses of Global Telecom had a negative impact of R$121.3 million, and the consolidation of depreciation and amortization expenses of TCO for the months of May through September 2003 had a negative impact of R$71.1 million. Telesp Celular s depreciation and amortization expenses increased 9.5% to R$448.9 million for the nine months ended September 30, 2003 from R$409.8 million for the nine months ended September 30, 2002, principally due to an increase in capital expenditures related to the network and depreciation charges relating to investments that had been classified as construction projects in progress and are now operational.

*Material and services.* Cost of material and services increased 47.1% to R$463.0 million for the nine months ended September 30, 2003 from R$314.8 million for the nine months ended September 30, 2002. The consolidation of costs of material and services of Global Telecom had a negative impact of R$67.5 million, and

**PART FOUR RECENT DEVELOPMENTS**

the consolidation of costs of material and services of TCO for the months of May through September 2003 had a negative impact of R$97.0 million. Telesp Celular s cost of materials and services decreased 5.2% to R$298.5 million in the nine months ended September 30, 2003 from R$314.8 million in the nine months ended September 30, 2002, principally because (1) Telesp Celular s network usage charges decreased 11.5% to R$155.0 million in the nine months ended September 30, 2003 from R$172.8 million in the nine months ended September 30, 2002, mainly due to a decrease in the usage of other networks by Telesp Celular subscribers despite an overall increase in traffic on Telesp Celular s network and (2) Telesp Celular s leased line charges decreased 15.9% to R$46.4 million in the nine months ended September 30, 2003 from R$55.2 million in the nine months ended September 30, 2002, mainly due to favorable renegotiations of existing contracts. This decrease in Telesp Celular s cost of materials and services was partially offset by an increase in the cost of maintaining Telesp Celular s network.

*Personnel.* Personnel expenses increased 65.8% to R$33.0 million in the nine months ended September 30, 2003 from R$19.9 million in the nine months ended September 30, 2002. The consolidation of personnel expenses of Global Telecom had a negative impact of R$3.4 million, and the consolidation of personnel expenses of TCO for the months of May through September 2003 had a negative impact of R$8.2 million. Telesp Celular s personnel expenses increased 7.5% to R$21.4 million in the nine months ended September 30, 2003 from R$19.9 million in the nine months ended September 30, 2002, principally due to a 4.0% average increase in personnel salaries.

*Rental, insurance and condominium fees.* Rental, insurance and condominium fees increased 12.3% to R$66.5 million in the nine months ended September 30, 2003 from R$59.2 million in the nine months ended September 30, 2002. The consolidation of rental, insurance and condominium fees of Global Telecom had a negative impact of R$6.8 million, and the consolidation of rental, insurance and condominium fees of TCO for the months of May through September 2003 had a negative impact of R$6.1 million. Telesp Celular s rental, insurance and condominium fees decreased 9.5% to R$53.6 million in the nine months ended September 30, 2003 from R$59.2 million in nine months ended September 30, 2002, principally due to favorable renegotiations of existing contracts.

*Cost of goods sold.* Cost of goods sold increased 113.5% to R$811.6 million in the nine months ended September 30, 2003 from R$380.2 million in the nine months ended September 30, 2002. The consolidation of cost of goods sold of Global Telecom had a negative impact of R$111.5 million, and the consolidation of cost of goods sold of TCO for the months of May through September 2003 had a negative impact of R$165.6 million. Telesp Celular s cost of goods sold increased 40.6% to R$534.5 million in the nine months ended September 30, 2003 from R$380.2 million in the nine months ended September 30, 2002, principally due to the sale of more sophisticated and expensive handset models and an increase in the number of handsets sold.

*Fistel and other taxes.* TCP recorded Fistel and other taxes of R$55.5 million in the nine months ended September 30, 2003, compared to R$4.2 million in the nine months ended September 30, 2002. This increase was primarily attributable to the consolidation of Fistel and other taxes of Global Telecom in the amount of R$19.0 million and of TCO for the months of May through September 2003 in the amount of R$33.1 million.

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*Operating Expenses*

The following table sets forth the components of TCP s operating expenses for the periods indicated, as well as the percentage change of each component from period to period.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | **2002** | **2003** | **% Change** |
| | **(R$ millions)** | | |
| Selling expenses | (454.3) | (938.9) | 106.7% |
| General and administrative expenses | (254.9) | (392.9) | 54.1% |
| Other net operating (expenses) income | (52.3) | 2.2 | NA |
| Operating expenses | (761.5) | (1,329.6) | 74.6% |

TCP s operating expenses increased 74.6% to R$1,329.6 million in the nine months ended September 30, 2003 from R$761.5 million in the nine months ended September 30, 2002. The increase resulted mainly from the consolidation of operating expenses of Global Telecom in the amount of R$197.7 million, and the consolidation of operating expenses of TCO for the months of May through September 2003 in the amount of R$200.2 million. The increase in Telesp Celular s operating expenses was led by the increase in selling expenses.

*Selling expenses.* Selling expenses increased 106.7% to R$938.9 million for the nine months ended September 30, 2003 from R$454.3 million for the nine months ended September 30, 2002. This increase was principally due to a 52.7% increase in Telesp Celular s selling expenses to R$693.6 million for the nine months ended September 30, 2003 from R$454.3 million for the nine months ended September 30, 2002, principally due to expenses related to the launch of the Vivo brand, an increase in dealers commissions, an exclusivity fee that Telesp Celular negotiated with its dealers, expenses related to Telesp Celular s call center and an increase in depreciation expenses. The increase in depreciation of selling expenses was principally due to a decrease as of January 1, 2003 in the estimated useful life of handsets loaned to customers from 36 months to 18 months to match the terms of the related subscription contracts, resulting in an increase in depreciation expense of R$21.9 million for the nine months ended September 30, 2003. The consolidation of selling expenses of Global Telecom had a negative impact of R$120.6 million, and the consolidation of selling expenses of TCO for the months of May through September 2003 had a negative impact of R$124.7 million.

Provisions for doubtful accounts increased 25.8% to R$57.4 million for the nine months ended September 30, 2003 from R$72.2 million for the nine months ended September 30, 2002, principally due to the consolidation of provisions for doubtful accounts of Global Telecom in the amount of R$7.9 million and the consolidation of provisions for doubtful accounts of TCO for the months of May through September 2003 in the amount of R$24.5 million. Provisions for doubtful accounts of Telesp Celular decreased 30.7% to R$39.8 million for the nine months ended September 30, 2003 from R$57.4 million for the nine months ended September 30, 2002. In spite of the increase in provisions for doubtful accounts, these provisions were 1.3% of gross revenues for the nine months ended September 30, 2003, compared to 1.8% of gross revenues for the nine months ended September 30, 2002. The decrease in the ratio of provisions for doubtful accounts to gross revenues was principally due to the adoption of more effective methods of evaluating customer credit and the growth of TCP s prepaid customer base.

*General and administrative expenses.* General and administrative expenses increased 54.1% to R$392.9 million for the nine months ended September 30, 2003 from R$254.9 million for the nine months ended September 30, 2002. The consolidation of general and administrative expenses of Global Telecom had a negative impact of R$50.6 million, and the consolidation of general and administrative expenses of TCO for the months of May through September 2003 had a negative impact of R$77.8 million. General and administrative expenses of Telesp Celular and TCP (on an unconsolidated basis) increased 3.8% to

R$264.5 million for the nine months ended September 30, 2003 from R$254.9 million for the nine months ended September 30, 2002, principally due to an increase in outsourced services.

*Other net operating expense (income).* TCP recorded other net operating income of R$2.2 million for the nine months ended September 30, 2003, compared to other net operating expense of R$52.3 million in the nine months ended September 30, 2002. TCP (on an unconsolidated basis) and Telesp Celular recorded other net operating income of R$26.4 million in the nine months ended September 30, 2003, compared to other net operating expense of R$52.3 million in the nine months ended September 30, 2002. The other net operating income recorded by TCP (on an unconsolidated basis) and Telesp Celular in the nine months ended September 30, 2003 was principally due to the reversal of a R$68.5 million provision relating to litigation over the assessment of ICMS tax on activation fees. Telesp Celular had established the provision in connection with litigation in the Treasury Court of the State of São Paulo seeking a decision that the ICMS tax does not apply to cellular activation fees. Telesp Celular reversed the provision on March 31, 2003 when the Higher Justice Court *(Superior Tribunal de Justiça)* determined in an action filed by Teleamazon Celular, another wireless operating company, that the ICMS tax could not be assessed on activation fees. The other net operating income recorded by TCP and Telesp Celular in the nine months ended September 30, 2003 was partially offset by the consolidation of other net operating expense of Global Telecom of R$26.5 million. TCP s other net operating income also included R$2.3 million attributable to the consolidation of other net operating revenue of TCO for the months of May through September 2003.

*Net Financial Expense*

Net financial expense increased 87.8% to R$843.0 million in the nine months ended September 30, 2003 from R$449.0 million in the nine months ended September 30, 2002. This increase reflected (1) the consolidation of R$282.7 million in net financial expense of Global Telecom, (2) a 10.1% increase in the CDI rate, an interbank market interest rate to which a portion of the debt and derivatives of Telesp Celular, Global Telecom and TCO is subject and (3) an increase in the consolidated debt of TCP to R$5,767.5 million at September 30, 2003 compared to R$3,693.6 million at September 30, 2002, of which R$1,819.3 million represented an increase in the debt of Telesp Celular and TCP relating to the acquisition of the remaining 17% stake in Global Telecom in December 2002 and the acquisition of a controlling interest in TCO in April 2003. This increase in net financial expense was partially offset by the consolidation of net financial income of TCO for the months of May through September 2003 in the amount of R$50.7 million.

In the second quarter of 2003, TCP unwound an excess euro hedge position of Global Telecom. Because hedging transactions are not recorded at fair value under Brazilian corporate law, accounting losses recorded in the nine months ended September 30, 2003 due to this reversal amounted to R$166.6 million. From a cash flow perspective, the unwinding of the hedge resulted in R$247.1 million of additional cash, net of R$42.4 million of withholding tax TCP intends to use as a tax credit.

*Income Taxes*

Income taxes increased 101.4% to R$228.4 million for the nine months ended September 30, 2003 from R$113.4 million for the nine months ended September 30, 2002. The increase was principally due to the consolidation of income taxes of Global Telecom in the amount of R$21.2 million and the consolidation of income taxes of TCO in the amount of R$107.5 million for the months of May through September 2003, partially offset by a decrease of R$13.7 million in Telesp Celular s income taxes. Telesp Celular s income taxes decreased 12.1% to R$99.7 million for the nine months ended September 30, 2003 from R$113.4 million for the nine months ended September 30, 2002, primarily due to Telesp Celular s distribution of interest on shareholders equity in June 2003.

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*Equity Losses in Unconsolidated Affiliates*

TCP s equity losses in unconsolidated affiliates, all of which were attributable to Global Telecom, were R$540.6 million in the nine months ended September 30, 2002. Global Telecom s results were consolidated in TCP s results during the nine months ended September 30, 2003.

*Net Loss*

As a result of the foregoing, TCP recorded R$462.8 million of net losses for the nine months ended September 30, 2003, compared with R$560.7 million of net losses for the nine months ended September 30, 2002.

***TCP s Liquidity and Capital Resources***

*Sources of Funds*

TCP generated cash flow from operations of R$871.1 million and R$824.2 million in the nine months ended September 30, 2003 and 2002, respectively. In addition to the R$247.1 million in cash received from unwinding the excess euro hedge position of Global Telecom described under TCP s Results of Operations for the Nine Months Ended September 30, 2002 and 2003 Net Financial Expense, TCP had cash flow from investing activities in the amount of R$760.4 million related to the payment by Fixcel S.A., the former controlling shareholder of TCO, on debentures held by TCO, which payment date coincided with the terms of the scheduled payments for the acquisition of TCO from Fixcel S.A.

TCP had R$3,273.4 million in long-term loans and financing as of September 30, 2003. TCP s R$2,494.1 million in short-term indebtedness as of September 30, 2003 consisted primarily of funding from financial institutions and related parties. At September 30, 2003, TCP had a working capital deficit (current liabilities minus current assets) of R$710.8 million, attributable primarily to R$2,494.1 million in short-term debt. This working capital deficit represented an improvement of R$1,142.9 million compared to negative working capital of R$1,853.7 million recorded at December 31, 2002, primarily due to (1) an increase of R$1,089.8 million in cash and cash equivalents, due primarily to the consolidation of cash and cash equivalents of TCO in the amount of R$995.8 million and (2) an increase in net trade accounts receivable of R$502.4 million, due primarily to the consolidation of net trade accounts receivable of TCO in the amount of R$367.2 million.

TCP s principal assets are the shares of its subsidiaries. TCP relies exclusively on dividends from TCO, Telesp Celular and Global Telecom to meet its cash needs, including the payment of dividends to its shareholders. TCP controls the payment of dividends by TCO, Telesp Celular and Global Telecom, subject to limitations under Brazilian law. There are no contractual restrictions on the payment of dividends by TCP s subsidiaries to it.

*Uses of Funds*

TCP s principal uses of funds are for capital expenditures, servicing of its debt, payments of dividends to shareholders and, in the nine months ended September 30, 2003, the acquisition of a controlling interest in TCO.

During the nine months ended September 30, 2003, TCP paid R$1,310.7 million to Fixcel S.A. (including interest expenses) in connection with the acquisition of a controlling interest in TCO. Capital expenditures (including capitalized interest) consumed cash flows of R$256.3 million in the nine months ended September 30, 2003 (including capital expenditures of Global Telecom in the amount of R$48.1 million and capital expenditures of TCO in the months of May through September 2003 in the amount of R$70.5 million), compared to R$193.3 million in the nine months ended September 30, 2002. Repayment of debt consumed cash flows of R$3,308.0 million and R$2,470.7 million in the nine months ended September 30, 2003 and 2002,

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respectively. TCP did not pay dividends or interest on shareholders equity in the nine months ended September 30, 2003 and 2002, respectively. Capital expenditures were as set forth in the table below.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (R$ millions) | |
| Switching equipment | 76.3 | 59.2 |
| Transmission equipment | 34.4 | 70.1 |
| Information Technology | 46.5 | 58.7 |
| Others(1) | 36.1 | 68.3 |
| Total capital expenditures | 193.3 | 256.3 |

(1) Handsets to be loaned to customers, network construction, furniture and fixtures, office equipment and store layouts.

We believe that our available borrowing capacity, together with funds generated by operations, should provide sufficient liquidity and capital resources to pursue our business strategy for the foreseeable future with respect to working capital, capital expenditures and other operating needs.

*Contractual Obligations and Commercial Commitments*

The following table represents our consolidated contractual obligations and commercial commitments as of September 30, 2003:

| | Payments Due by Period in Millions of R*eais* | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Contractual obligations: | | | | | |
| Long-term debt | 3,774.7 | 501.3 | 2,371.8 | 900.0 | 1.6 |
| Capital lease obligations(1) | 24.2 | 22.3 | 1.9 | | |
| Operating leases | 440.4 | 35.7 | 206.1 | 71.2 | 127.4 |
| Unconditional purchase obligations | 516.5 | 498.4 | 17.8 | 0.3 | |
| Other long-term obligations(2) | 715.4 | 697.3 | 12.0 | 4.9 | 1.2 |
| Total contractual cash obligations | 5,471.2 | 1,755.0 | 2,609.6 | 976.4 | 130.2 |

(1) This lease represents a network equipment lease that is accounted for as an operating lease under Brazilian corporate law. This lease has been presented above as a capital lease since it contains a bargain purchase option. Under U.S. GAAP, this lease is accounted for as a capital lease.

(2) Contracted long-term suppliers or contracted short-term suppliers with penalties for early termination and exclusivity fees paid to dealers.

Additionally, we have a rental commitment with Telecomunicações de São Paulo S.A. Telesp, a related party, in an annual amount of R$32.3 million that includes all costs related to the rental of certain facilities used in providing telecommunications services, including electrical and air conditioning equipment.

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*Debt*

As of September 30, 2003, TCP s total debt position was as follows:

| Debt | Amount Outstanding as of September 30, 2003 |
|---|---|
| | (R$ millions) |
| Loans | 1,578.3 |
| Financing from suppliers | 11.9 |
| Related parties | 1,683.2 |
| Total long-term debt, excluding the short-term portion | 3,273.4 |
| Short-term debt | 2,494.1 |
| Total debt | 5,767.5 |

TCP s long-term debt as of September 30, 2003 matures in accordance with the following schedule. The table below represents only the long-term debt as of September 30, 2003 and does not include the short-term portion of long-term debt in the amount of R$501.3 million outstanding as of September 30, 2003.

| Year Ending December 31, | Principal Amount |
|---|---|
| | (R$ millions) |
| 2004 (from September 30 to December 31) | 1,943.1 |
| 2005 | 314.2 |
| 2006 | 153.4 |
| 2007 | 352.3 |
| 2008 | 510.4 |

As of September 30, 2003, TCP s total debt was R$5,767.5 million, of which R$4,194.6 million, or 72.7%, was denominated in foreign currencies and therefore exposed to currency fluctuations. Of that amount, R$2,514.6 million was denominated in U.S. dollars (U.S.$860.2 million), R$1,591.0 million was denominated in euros ( 466.1 million) and R$89.0 million was denominated in yen (¥3,391.6 million). Devaluation of the *real* results in exchange losses on foreign currency indebtedness. In order to protect against the risk of devaluation of the *real*, we have entered into over-the-counter derivatives transactions with international and domestic financial institutions. In the nine months ended September 30, 2003, our derivatives positions produced a loss of R$864.1 million, which was partially offset by the R$460.1 million of exchange gains on our foreign currency-denominated debt. At September 30, 2003, we had derivative contracts that covered amounts in excess of our foreign currency-denominated debt.

We are exposed to interest rate risk as a consequence of our floating rate debt. At September 30, 2003, approximately 59.0% of our interest-bearing liabilities bore interest at floating rates, primarily EURIBOR for euro-denominated debt, LIBOR for U.S. dollar-denominated debt and CDI, TJLP and UMBND, a local index, for *real*-denominated debt.

In February 2003, TCP issued promissory notes in the aggregate principal amount of R$700.0 million with maturity of six months. In August 2003, this debt was partially refinanced with an issue of debentures in the aggregate principal amount of R$506.7 million. (We issued R$700.0 million of debentures but sold only R$506.7 million.) The debentures bear interest at 104.6% of the CDI rate per annum. The stated maturity of the debentures is in August 2008, but the debentures provide for an annual renegotiation (*repactuação*) of their terms beginning in 2004. Holders of debentures that do not agree to the revised terms in any given year may require us to purchase the debentures they hold.

## PART FOUR RECENT DEVELOPMENTS

In June 2003, TCP issued eurobonds in the aggregate principal amount of U.S.$150 million. The bonds bear interest at 6.75% and mature in December 2004.

As of September 30, 2003, TCP had R$767.6 million of outstanding indebtedness to Banco Nacional de Desenvolvimento Econômico e Social BNDES, the Brazilian national development bank, under a *real*-denominated loan secured by a pledge of accounts receivable. See note 10 to TCP s unaudited consolidated interim financial statements included in this prospectus.

Some of the debt agreements of TCP and its subsidiaries contain restrictive covenants. Financial ratios apply to some indebtedness of Global Telecom and TCO and involve (1) current ratios, (2) capitalization ratios, (3) EBITDA margins, (4) interest coverage ratios and (5) debt to capital ratios. At September 30, 2003, Global Telecom was not in compliance with certain of those covenants with respect to debt in the aggregate amount of R$278.9 million owed to BNDES, but it has obtained a waiver that expires in December 2003. Global Telecom is currently seeking to amend the terms and conditions of such contract. Other than as described above, at September 30, 2003, TCP and its subsidiaries were in compliance with their restrictive covenants in all material respects.

All majority-owned subsidiaries are included in our consolidated financial statements. We do not have any interests in, or relationships with, any special purpose entities that are not reflected in its consolidated financial statements.

On November 18, 2003 as a result of the tender offer, TCP acquired 32,205,823 thousand shares of TCO, representing 74.2% of TCO s outstanding common shares not already owned by TCP. The total purchase amount was R$538.8 million and was funded by new loans.

***TCO s Results of Operations for the Nine Months Ended September 30, 2002 and 2003***

As of July 6, 2003, cellular telecommunications operators in Brazil were required by the SMP rules to implement long distance Carrier Selection Codes (*Códigos de Seleção de Prestadora*, or CSP) used by customers to choose their carrier for domestic long distance services (VC2 and VC3) and international cellular calls. VC2 is a designation given to long distance calls within a primary area, and VC3 is a designation given to long distance calls from one primary area to another. A primary area includes cities that have the same decimal range code. For example, calls between cities that have codes from 11 to 19, or from 21 to 29, are calls within a primary area. TCO no longer receives revenues from VC2 or VC3 calls and now receives interconnection revenues from the use of its network to complete those calls.

Additionally, in accordance with Anatel regulations, Bill & Keep rules were adopted for interconnection charges in July 2003. The rules provide that companies under the SMP regime are not required to pay tariffs for the use of the local network of another SMP provider as long as customers use local service (*i.e.*, make calls in the same registration area) and as long as there is a traffic balance between them. However, when traffic from the SMP provider that originates the call to the SMP provider that terminates the call represents more than 55% of the local traffic between the two providers, the SMP provider who originates the higher traffic must pay the other provider the local usage tariff for the portion of the traffic that exceeds 55%.

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**PART FOUR RECENT DEVELOPMENTS**

The following table sets forth certain components of TCO s income for the periods indicated.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (R$ millions) | |
| Net operating revenue | 1,124.7 | 1,406.4 |
| Cost of services and goods | (500.7) | (642.4) |
| Gross profit | 624.0 | 764.0 |
| Operating expenses: | | |
| Selling expenses | (149.0) | (206.2) |
| General and administrative expenses | (100.7) | (139.4) |
| Other net operating (expenses) income | (9.9) | 1.5 |
| Operating income before net financial (expense) income | 364.4 | 419.9 |
| Net financial (expenses) income | (63.9) | 94.5 |
| Operating income | 300.5 | 514.4 |
| Net non-operating expense | | (2.8) |
| Income before minority interests, income taxes and reversal of interest on own shareholders equity | 300.5 | 511.6 |
| Income and social contribution taxes | (106.6) | (179.3) |
| Minority interests | (4.5) | (6.0) |
| Reversal of interest on own shareholders equity | 40.8 | |
| Net income | 230.2 | 326.3 |

*Net Operating Revenue*

The composition of operating revenues by category of service is presented in TCO s consolidated financial statements and discussed below before deduction of valued-added and other taxes. TCO does not determine operating revenues on a net basis (*i.e.*, after deductions of taxes) by category of service.

The following table sets forth the components of TCO s operating revenues for the periods indicated, as well as the percentage change of each component from period to period.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | % Change |
| | (R$ millions) | | |
| Usage charges | 490.2 | 577.5 | 17.8% |
| Monthly subscription charges | 82.7 | 108.5 | 31.2% |
| Network usage charges | 476.7 | 579.0 | 21.5% |
| Sales of handsets and accessories | 352.1 | 490.6 | 39.3% |

| | | | |
|---|---|---|---|
| Others | 10.8 | 24.1 | 123.1% |
| Gross operating revenue | 1,412.5 | 1,779.7 | 26.0% |
| Value-added and other indirect taxes | (265.5) | (342.1) | 28.9% |
| Sales and services discount and return of goods sold | (22.3) | (31.2) | 39.9% |
| Net operating revenue | 1,124.7 | 1,406.4 | 25.0% |

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**PART FOUR RECENT DEVELOPMENTS**

Net operating revenue increased 25.0% to R$1,406.4 million for the nine months ended September 30, 2003 from R$1,124.7 million for the nine months ended September 30, 2002. The increase in net revenues was principally due to tariff increases and an increase in demand for cellular service.

*Usage charges.* Revenues from usage charges increased 17.8% to R$577.5 million for the nine months ended September 30, 2003 from R$490.2 million for the nine months ended September 30, 2002. This increase was principally due to an increase of 26.6% in the total number of subscribers to 3.33 million average total lines in service for the nine months ended September 30, 2003 from 2.63 million average total lines in service for the nine months ended September 30, 2002. Beginning in July 2003, this increase was partially offset by the impact of the new rules relating to the long distance Carrier Selection Code described above.

*Monthly subscription charges.* Revenues from monthly subscription charges increased 31.2% to R$108.5 million for the nine months ended September 30, 2003 from R$82.7 million for the nine months ended September 30, 2002. This increase was principally due to an increase of 15.9% in the number of postpaid customers and the launch of new postpaid plans that are designed to fit a customer s profile.

*Network usage charges.* Revenues from network usage charges increased 21.5% to R$579.0 million for the nine months ended September 30, 2003 from R$476.7 million for the nine months ended September 30, 2002. This increase was principally due to an increase in the total number of subscribers to 3.59 million at September 30, 2003 from 2.85 million at September 30, 2002, which led to an increase of the traffic originating from outside TCO s network to TCO s subscribers and an increase in interconnection tariffs in February 2003. Beginning in July 2003, this figure was also impacted by the new rules relating to the long distance Carrier Selection Code and the Bill & Keep rules described above.

*Sales of handsets and accessories.* Revenues from sales of handsets and accessories increased 39.3% to R$490.6 million for the nine months ended September 30, 2003 from R$352.1 million for the nine months ended September 30, 2002. This increase was principally due to an increase in sales volume, especially in sales of medium and higher value handsets. Revenues from handset sales are reported before commissions and promotional discounts and include value-added taxes. In general, the purpose of handset sales is to encourage growth in customers and traffic, as opposed to generating profits on the sales, and TCO therefore subsidizes varying portions of the costs of handsets. Although profit margins vary from one handset model to another and from time to time, profit margins are generally negative after taxes and discounts.

*Others.* Revenues from other services increased 123.1% to R$24.1 million for the nine months ended September 30, 2003 from R$10.8 million for the nine months ended September 30, 2002. The increase was principally due to an increase in the revenues from data services caused by the growth in their use (especially short message services) and in number of subscribers.

*Value-added and other indirect taxes.* Value-added and other indirect taxes increased 28.9% to R$342.1 million for the nine months ended September 30, 2003 from R$265.5 million for the nine months ended September 30, 2002. This increase was principally due to an increase of 26.0% in the gross operating revenue, an increase in the ICMS rate of the State of Rondonia from 25% to 35% in July 2002 and in the State of Mato Grosso do Sul from 25% to 27% in January 2003, and an increase in the PIS rate imposed on goods sold in December 2002 from 0.65% to 1.65%. This increase was partially offset by the effects of the decrease in the ICMS rate imposed by the State of Mato Grosso on prepaid cards from 30% to 25% in January 2003.

*Sales and services discount and return of goods sold.* Deductions from operating revenues include discounts on cellular handset sales, discounts on services and returns of goods sold. Discounts and returns increased 39.9% to R$31.2 million for the nine months ended September 30, 2003 from R$22.3 million for the nine months ended September 30, 2002. The increase was principally due to an increase in the recognition of discounts in connection with the sales of prepaid cards to retailers.

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**PART FOUR    RECENT DEVELOPMENTS**

*Cost of Services and Goods*

The following table sets forth the components of TCO s costs of services and goods sold for the periods indicated, as well as the percentage change of each component from period to period.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | % Change |
| | (R$ millions) | | |
| Depreciation and amortization | 92.0 | 122.7 | 33.4% |
| Materials and services | 123.9 | 158.1 | 27.6% |
| Personnel | 11.3 | 13.8 | 22.1% |
| Rental, insurance and condominium fees | 32.7 | 37.6 | 15.0% |
| Cost of goods sold | 199.2 | 258.7 | 29.9% |
| Fistel and other taxes | 41.6 | 51.5 | 23.8% |
| Cost of services and goods | 500.7 | 642.4 | 28.3% |

TCO s cost of services and goods increased 28.3% to R$642.4 million for the nine months ended September 30, 2003 from R$500.7 million for the nine months ended September 30, 2002. The increase was principally due to (1) an increase in the cost of goods sold; (2) an increase in materials and services and (3) an increase in depreciation and amortization costs.

*Depreciation and Amortization.* Depreciation and amortization expenses increased 33.4% to R$122.7 million for the nine months ended September 30, 2003 from R$92.0 million for the nine months ended September 30, 2002. The increase was principally due to an expansion of TCO s network and increased investments in technical support systems.

*Materials and services.* Materials and services include cost of materials and services received from third-parties, including network usage charges paid to other cellular telecommunications service providers, to fixed-line companies and carriers for the completion on their networks of calls originated by TCO s customers. Cost of materials and services increased 27.6% to R$158.1 million for the nine months ended September 30, 2003 from R$123.9 million for the nine months ended September 30, 2002. The increase was principally due to (1) an increase of R$21.2 million in the network usage chargers payable to other telecommunications service providers, due to increases in traffic and in tariffs and (2) an increase in the cost of maintaining TCO s network.

*Personnel.* Personnel expenses increased 22.1% to R$13.8 million for the nine months ended September 30, 2003 from R$11.3 million for the nine months ended September 30, 2002. This increase was principally due to severance costs relating to a former executive and to an overall increase in personnel salaries.

*Rentals, insurance and condominium fees.* Rentals, insurance and condominium fees increased 15.0% to R$37.6 million for the nine months ended September 30, 2003 from R$32.7 million for the nine months ended September 30, 2002. The increase was principally due to annual adjustments of fees under contracts, including inflation adjustments.

*Cost of goods sold.* The cost of goods sold increased 29.9% to R$258.7 million for the nine months ended September 30, 2003 from R$199.2 million for the nine months ended September 30, 2002. The increase was principally due to an increase in sales volume and an increase in the average cost of handsets and the sale of more sophisticated and expensive handset models.

*Fistel and other taxes.* The Fistel tax increased 23.8% to R$51.5 million for the nine months ended September 30, 2003 from R$41.6 million for the nine months ended September 30, 2002. The increase was principally due to the expansion of TCO s network.

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**PART FOUR RECENT DEVELOPMENTS**

*Operating Expenses*

The following table sets forth the components of TCO s operating expenses for the periods indicated, as well as the percentage change of each component from period to period.

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2002 | 2003 | % Change |
| | (R$ millions) | | |
| Selling expense | (149.0) | (206.2) | 38.4% |
| General and administrative expense | (100.7) | (139.4) | 38.4% |
| Other net operating income (expense), net | (9.9) | 1.5 | NA |
| Operating expense | (259.6) | (344.1) | 32.6% |

Operating expenses increased 32.6% to R$344.1 million for the nine months ended September 30, 2003 from R$259.6 million for the nine months ended September 30, 2002. The increase resulted mainly from an increase of 38.4% in selling expense, which included sales commissions to independent distributors, and an increase of 38.4% in general and administrative expense.

*Selling expense.* Selling expense increased 38.4% to R$206.2 million for the nine months ended September 30, 2003 from R$149.0 million for the nine months ended September 30, 2002. The increase was principally due to an increase of R$39.3 million in outside services, which included sales commissions to independent distributors reflecting net additions of subscribers, and a 54.4% increase in provisions for doubtful accounts to R$38.3 million for the nine months ended September 30, 2003 from R$24.8 million for the nine months ended September 30, 2002. These provisions were 2.0% and 2.5% of gross revenues in the nine months ended September 30, 2002 and 2003. During the nine months ended September 30, 2002, the provision for doubtful accounts was positively affected by agreements made with other operators, which resulted in the recovery of approximately R$7.5 million.

*General and administrative expense.* General and administrative expense increased 38.4% to R$139.4 million for the nine months ended September 30, 2003 from R$100.7 million for the nine months ended September 30, 2002. The increase was principally due to an increase of R$18.5 million in outside services, primarily related to corporate information technology services.

*Other net operating (expense) income.* For the nine months ended September 30, 2003, TCO had other net operating income in the amount of R$1.5 million, and in the nine months ended September 30, 2002, TCO had net operating expenses in the amount of R$9.9 million. The income in the nine months ended September 30, 2003 was mainly due to the reversal of a R$5.3 million provision relating to litigation over the assessment of ICMS tax on activation fees similar to that reversed by Telesp Celular, as described under TCP s Results of Operations for the Nine Months Ended September 30, 2002 and 2003 Operating Expense Other net operating expense (income).

*Net Financial Income (Expenses)*

TCO had net financial income of R$94.5 million for the nine months ended September 30, 2003, compared to net financial expenses of R$63.9 million for the nine months ended September 30, 2002. This change was principally due to the appreciation of the *real* in relation to the U.S. dollar, leading to gains on the TCO s unhedged debt positions.

*Income and Social Contribution Taxes*

TCO recorded income and social contribution expense of R$179.3 million and R$106.6 million for the nine months ended September 30, 2003 and 2002, respectively. The increase in income and social contribution

**PART FOUR RECENT DEVELOPMENTS**

expense occurred primarily because TCO recorded interest on shareholders equity in each quarter of 2002, reducing income before minority interests and taxes, but did not record interest on shareholders equity in 2003. TCO s effective tax rate was 35.0% and 35.5% for the nine months ended September 30, 2003 and 2002, respectively.

*Net Income*

As a result of the foregoing, TCO recorded net income of R$326.3 million for the nine months ended September 30, 2003, compared to R$230.2 million for the nine months ended September 30, 2002.

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**PART FIVE THE MERGER OF SHARES**

**PART FIVE THE MERGER OF SHARES**

**Reasons for the Merger of Shares**

We acquired 61.10% of the common shares of TCO on April 25, 2003. Our acquisition of a controlling interest required us under Brazilian law to launch a tender offer for the remaining publicly held common shares of TCO. We commenced that tender offer on October 9, 2003, and the tender offer expired on November 18, 2003. We now hold 90.7% of the common shares of TCO, excluding treasury shares.

We believe that the merger of shares will enable us to:

- align the interests of the shareholders of TCP and TCO;
- take advantage of commercial and financial synergies because we will be a larger company;
- simplify our shareholding structure and expand our shareholder base;
- provide you with securities that we expect will enjoy greater market liquidity than the securities you currently hold; and
- eliminate the costs of separate public reporting requirements for TCO and the separate listing of TCO securities.

**Background for the Merger of Shares**

***Privatization of Telebrás***

Before its privatization in the 1998, Telebrás and its operating subsidiaries, which we refer to collectively as the Telebrás system, held a near monopoly over the provision of public telecommunications services in Brazil. In 1995, the Brazilian federal government began a comprehensive reform of Brazil s telecommunications regulatory system.

In July 1997, Brazil s national congress adopted the General Telecommunications Law, which provided for the establishment of a new regulatory framework, the introduction of competition and the privatization of the Telebrás system.

In January 1998, in preparation for the restructuring and privatization of the Telebrás system, the cellular telecommunications operations of the Telebrás system were spun off into separate companies. In May 1998, the Telebrás system was restructured to form, in addition to Telebrás, 12 new holding companies. Virtually all of the assets and liabilities of Telebrás s operating subsidiaries were allocated to the new holding companies, which we refer to as the New Holding Companies. The New Holding Companies, together with their respective subsidiaries, consisted of (1) eight cellular holding companies, each in one of eight cellular regions, holding one or more operating companies that provide cellular services; (2) three wireline holding companies, each in one of three wireline regions, holding one or more operating companies that provide local and intraregional long distance services; and (3) Embratel Participações S.A., a holding company of Empresa Brasileira de Telecomunicações S.A. Embratel.

TCP and TCO were New Holding Companies. In connection with the reorganization of the Telebrás system:

- TCP was allocated all of the share capital held by Telebrás in Telesp Celular, one of the cellular operating companies that provided cellular telecommunications service in the State of São Paulo; and
- TCO was allocated all of the share capital held by Telebrás in the operating subsidiaries that provided cellular telecommunications service in the concession region formerly known as Area 7.

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## PART FIVE THE MERGER OF SHARES

In July 1998, as part of its restructuring and privatization plan, the Brazilian federal government sold substantially all of its common shares of the New Holding Companies, including TCP and TCO, to private sector buyers.

### *Ownership of TCP and TCO After Privatization*

*TCP and its Subsidiaries*

The federal government s shares of TCP were purchased by Portelcom Participações S.A., or Portelcom, a consortium comprised of Portugal Telecom S.A., or Portugal Telecom, which owned 64.2% of Portelcom, and Telefónica, which owned the remaining 35.8% of the shares in Portelcom. In July 1998, Portelcom acquired 51.8% of the common stock of TCP. Through a subsequent reorganization, Telesp Celular became a wholly owned subsidiary of TCP in January 2000. In 2000, Portugal Telecom increased its participation in TCP to 85.1% of the common shares and 17.7% of the preferred shares through a public tender offer and a later capital increase of TCP.

In November 2000, after the approval of Anatel, Telefónica effected a stock swap transaction with Portugal Telecom involving their participations in Telesp Celular and Telecomunicações de São Paulo S.A.-TELESP, known as Telesp, respectively. In the stock swap transaction, Telefónica swapped 35.8% of its direct and indirect stake in Portelcom for Portugal Telecom s 23% indirect stake in SP Telecomunicações Holding. This transaction increased Portugal Telecom s participation in Telesp Celular from 36.2% to 41.2%.

In September 2002, TCP undertook a R$2.5 billion capital increase. After this capital increase, Portugal Telecom s participation in TCP increased to 93.7% of the voting shares, 49.8% of the preferred shares and 65.1% of the total capital.

On January 23, 2001, Portugal Telecom and Telefónica Móviles entered into a strategic agreement to create a cellular services company in Brazil that would aggregate all of their investments in cellular telecommunications businesses to the extent permitted under Brazilian law. In December 2002, Anatel approved the joint venture between Portugal Telecom and Telefónica Móviles. This joint venture, named Brasilcel N.V., or Brasilcel, with headquarters in the Netherlands, is managed by Portugal Telecom and Telefónica Móviles on an equal basis.

In December 2002, Portugal Telecom and Telefónica Móviles transferred to Brasilcel all their direct and indirect interests in TCP, Tele Leste Celular Participações S.A., Tele Sudeste Celular Participações S.A. and Celular CRT Participações S.A.

At September 30, 2003, we were controlled by Brasilcel (57.26% of our total capital stock) and Portelcom (7.86% of our total capital stock). Portelcom is an indirect wholly owned subsidiary of Brasilcel.

Global Telecom was formed to acquire a B Band cellular concession in the states of Paraná and Santa Catarina, known as Area 5. In April 1998, Global Telecom won the concession for Area 5 and, after building out its network, began commercial operations in December 1998. In February 2001, we acquired an 81.61% indirect economic interest in Global Telecom through the acquisition of 49% of the voting shares and 100% of the non-voting shares of each of three holding companies that collectively held 95% of the voting shares and 100% of the non-voting shares of Global Telecom. The remaining 5% of Global Telecom s voting shares were held by another investor who, upon authorization from Anatel in July 2001, sold them to the three holding companies. On December 11, 2002, after all of the TCP operators had switched over to the SMP system, Anatel approved our acquisition of the remaining capital stock of the three holding companies, and we acquired the remaining portion of those three holding companies on December 27, 2002. On March 31, 2003, after a restructuring process, TCP became the direct holder of 100% of the capital stock of Global Telecom.

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**PART FIVE THE MERGER OF SHARES**

*TCO and its Subsidiaries*

The federal government s shares of TCO were purchased by Splice do Brasil Telecomunicações e Electrônica S.A., or Splice, through BID S.A., its subsidiary at the time.

Telebrasília, Telegoiás, Telemat, Telems, Teleron and Teleacre were formed on January 5, 1998 by spinning off the cellular telecommunications operations of operating subsidiaries of Telebrás. Telebrasília merged into TCO on April 26, 2002.

On October 19, 1998, Tele Centro Oeste/ Inepar, a consortium comprised of Inepar S.A. Indústria e Construções and TCO, was awarded a license to provide cellular telecommunications services in the concession area formerly known as Area 8. On May 21, 1999, TCO acquired 45% of Tele Centro Oeste/ Inepar from Inepar, increasing its holding in the consortium to 95%. Upon acquiring control, TCO renamed Tele Centro Oeste/ Inepar Norte Brasil Telecom S.A., or NBT, and registered it as a non-publicly held company.

On November 21, 2000, SPLICE IP S.A. was formed as a closed corporation. TCO held 100% of its preferred shares and Splice held 99.99% of its common shares. As of March 5, 2001, the control of SPLICE IP S.A. changed to TCO when TCO bought 99.99% of the common shares from Splice and renamed the entity TCO IP S.A.

On December 31, 2001, Splice transferred all of its shares of BID S.A. to Fixcel S.A., or Fixcel.

In 2000 and 2001, TCO conducted tender offers for the remaining publicly held common and preferred shares of Telegoiás, Telemat, Telems, Teleron and Teleacre. Although these tender offers are complete, from time to time TCO voluntarily repurchases small numbers of publicly held shares.

***Acquisition of TCO and Subsequent Tender Offer***

On April 25, 2003, we acquired 61.10% of the voting capital stock of TCO from Fixcel, representing 20.37% of TCO s total capital. The total consideration was R$1,529.0 million at April 25, 2003 (including a payment of R$23.5 million to acquire a future obligation by TCO to issue capital stock to its previous owner). Of this amount, R$1,287.2 million had been paid (including cash payments and debt and deferred payments that have been paid in full) and the remaining R$294.3 million consists of debt and deferred payments, as further detailed in the table below. The amounts paid and to be paid reflect interest and exchange variation from April 25, 2003 to the date of payment or to September 30, 2003, as applicable. We made an additional payment of R$145.5 million in November 2003.

The table below sets forth the debt and deferred payments outstanding at April 25, 2003, the date of the acquisition of TCO. Since April 25, 2003, we have paid an aggregate amount of R$1,456.2 in respect of these deferred payments and debt.

| Item | Maturity Date | Amount in R$ million | Remuneration |
|---|---|---|---|
| Deferred payment | April 25, 2004 | 80.2 | CDI plus 2% p.a. |
| Retained payment(1) | April 25, 2004 | 42.8 | CDI plus 2% p.a. |
| Retained payment(1) | Up to April 25, 2008 | 10.7 | CDI plus 2% p.a. |
| U.S. dollar-denominated debt | March 2004 - Sept. 2004 | 6.6 | LIBOR 2.625% p.a., plus exchange variation and income tax applicable to interest payments (at a rate of 15%) |
| *Real*-denominated debt | January 2004 - April 2004 | 128.0 | 108% to 110% of CDI |

(1) This payment has been retained by the buyer as a guarantee for contingent liabilities.

Under Brazilian law, our acquisition of control of TCO triggered a requirement that we launch a tender offer for the remaining publicly held common shares of TCO for a price not less than 80% of the price paid per

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**PART FIVE THE MERGER OF SHARES**

share in our acquisition of a controlling interest in TCO. At the time we signed an agreement with Fixcel to purchase a controlling interest in TCO, we announced our intention to consummate the merger of shares after the completion of the acquisition of the controlling interest and the tender offer using an exchange ratio of 1.27 shares of TCP for each share of TCO, subject to adjustment based on our due diligence.

We launched the tender offer for the remaining common shares of TCO on October 9, 2003. We completed the tender offer for the TCO common shares on November 18, 2003, paying R$16.73 per 1,000 outstanding common shares. We now hold 90.7% of the voting capital stock of TCO, representing 29.3% of TCO s total capital, excluding treasury shares.

***Merger of Shares***

On October 27, 2003, the boards of executive officers *(diretorias)* of TCP and TCO signed separate documents *(protocolos)* containing the terms and conditions of the merger of shares. On the same date, the boards of directors *(conselhos de administração)*, of TCP and TCO approved the *protocolos* and approved separate documents *(justificações)* outlining the reasons for the merger of shares of TCO with TCP.

On October 27, 2003, the auditors councils *(conselhos fiscais)* of TCP and TCO reviewed the terms and conditions of the merger of shares in separate meetings and issued favorable opinions with respect to the merger of shares.

On October 29, 2003, TCP and TCO published notice of extraordinary meetings of their respective common shareholders to approve the merger of shares.

On November 21, 2003, TCP and TCO amended the *protocolos* and *justificações* to reflect revisions to the appraisal of shareholders equity of TCP at market value prepared in connection with the merger of shares and to provide updated information regarding the capital increase of TCP that will occur as a result of the merger of shares.

On December 11, 2003, the CVM sent us a letter requiring a postponement of the extraordinary general meetings to approve the merger of shares to permit the CVM additional time to analyze the legality of the proposals for the merger of shares being submitted to the shareholders of our company and TCO, and we rescheduled the meetings for January 7, 2004.

***Conversion of TCP Preferred Shares Into Common Shares***

On November 20, 2003, we extended to our preferred shareholders the opportunity to convert all or a portion of their preferred shares into common shares of TCP at a one-to-one ratio up to a limit of 78,752,717,772 preferred shares in the aggregate for all shareholders. The conversion is intended to ensure that, after the merger of shares, our preferred shares do not exceed two-thirds of our total capital stock in violation of Brazilian law. If the conversion option is exercised for more shares than this maximum number, shares will be converted pro rata among the shares for which the option is exercised. If the conversion option is exercised for fewer shares than this maximum number, Brasilcel, our controlling shareholder, has agreed to convert sufficient preferred shares so that the maximum number is converted, so long as there is no legal or other impediment at that time to the approval of the merger of shares of TCO with TCP immediately after the conversion. Our preferred shareholders must make this election by January 6, 2004. We expect the conversion to be approved by the holders of our common shares. If it is approved, the conversion will become effective immediately before the merger of shares. The conversion is not available to you as a future shareholder of TCP.

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## PART FIVE THE MERGER OF SHARES

### Terms of the Merger of Shares

***General***

The merger of shares must be approved at extraordinary general meetings of the shareholders of TCP and TCO scheduled to be held on January 7, 2004. The completion of the merger of shares is contingent upon the approval of holders of at least 50% of the outstanding common shares of both TCP and TCO at the shareholder meetings. If the merger of shares is approved:

TCO will become a wholly owned subsidiary of TCP;

holders of ADSs of TCO will receive 1.524 ADSs of TCP for each ADS they hold upon surrender of the TCO ADSs and payment of the fees and expenses of the depositary; and

holders of preferred shares of TCO, other than preferred shares underlying ADSs of TCO, will automatically receive 1.27 preferred shares of TCP for each preferred share they hold without any further action by those holders.

The exchange ratios for the TCO preferred shares and ADSs are different because the ADS exchange ratio takes into account the difference in the ratio of ADSs to preferred shares under the TCO and TCP ADS programs. Under the TCO ADS program, each ADS represents 3,000 shares, while under the TCP ADS program, each ADS represents 2,500 preferred shares.

Brasilcel holds, directly and indirectly, 93.66% of the common shares of our company, and we hold 90.7% of the common shares of TCO, excluding treasury shares. Brasilcel and its subsidiaries will hold no less than 76.33% of our common shares after the conversion described under Background for the Merger of Shares Conversion of TCP Preferred Shares Into Common Shares and the merger of shares, assuming that Brasilcel does not convert any shares in the conversion and that none of the common shareholders of our company or TCO exercises appraisal rights in connection with the merger of shares. Brasilcel has represented to us that it and its subsidiaries will vote the common shares of our company they hold in favor of the merger of shares. We intend to vote the common shares of TCO we hold in favor of the merger of shares.

Under the *protocolos,* or agreements, governing the merger of shares, we will undergo a capital increase in the amount of R$1,012,907,956.77 as a result of the merger of shares, from R$4,373,661,469.73 to R$5,386,569,426.50, assuming that common shareholders of TCP and TCO do not exercise appraisal rights in connection with the merger of shares. The agreements also provide that TCO shares held in treasury will be canceled and that our common shareholders must approve the conversion of certain preferred shares into common shares, as described under Background to the Merger of Shares Conversion of TCP Preferred Shares Into Common Shares. The following documents, which are filed as exhibits to the registration statement of which this prospectus is a part, are incorporated by reference into this prospectus:

Protocol of the Merger of Shares of Tele Centro Oeste Celular Participações S.A. into Telesp Celular Participações S.A. for the purpose of the former s conversion into a Wholly Owned Subsidiary;

Justification of the Merger of Shares of Tele Centro Oeste Celular Participações S.A. into Telesp Celular Participações S.A. for the purpose of the former s conversion into a Wholly Owned Subsidiary;

First Amendment to the Protocol of the Merger of Shares of Tele Centro Oeste Celular Participações S.A. by Telesp Celular Participações S.A. for the Conversion of TCO into a Wholly Owned Subsidiary; and

First Amendment to the Justification of the Merger of Shares of Tele Centro Oeste Celular Participações S.A. by Telesp Celular Participações S.A. for the Conversion of TCO into a Wholly Owned Subsidiary.

See Part Seven: Additional Information for Shareholders Where You Can Find More Information for instructions on how to obtain copies of these documents.

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**PART FIVE THE MERGER OF SHARES**

There are no conditions to the completion of the merger of shares other than shareholder approval by both TCP and TCO and the completion of the conversion of TCP preferred shares into common shares described above.

Although the approval of the merger of shares by the CVM is not a condition to the merger of shares, on December 11, 2003, the CVM sent us a letter requiring a postponement of the extraordinary general meetings to approve the merger of shares to permit the CVM additional time to analyze the legality of the proposals for the merger of shares being submitted to the shareholders of our company and TCO, and we and TCO have rescheduled the meetings from December 22, 2003 to January 7, 2004. Although we affirm that the proposed merger of shares is legal and provides equitable treatment to TCP and TCO, we cannot predict the outcome of the CVM s analysis of the transaction. See Part Three: Risk Factors Risks Relating to the Brazilian Telecommunications Industry and the Business Certain holders of TCO s preferred shares have presented complaints to the CVM, the Brazilian securities regulator, related to the terms of the merger of shares, and the CVM s review is ongoing.

***Date, Time and Place of the Meeting***

The extraordinary general meeting of TCO is scheduled to be held as follows:

January 7, 2004

8 a.m., local time
Tele Centro Oeste Celular Participações S.A.
SCS Quadra 2, Bloco C, 226,
Edifício Telebrasília Celular 7° andar
70319-900 Brasília, D.F.
Brazil

If you hold preferred shares directly, you may attend the meeting. Under the Brazilian corporation law, you may be required to show a document proving your identity to gain admittance to the meeting. However, no holder of preferred shares or ADSs of TCO may vote at the meeting.

**Receipt of Shares and ADSs of TCP**

If the merger of shares is approved, each preferred share of TCO will automatically become 1.27 preferred shares of TCP without any action by you. Because the preferred shares of TCP are book-entry shares, an entry or entries will be made in the share registry of TCP to evidence the preferred shares you receive in the merger of shares. Neither you nor any other person will receive certificates evidencing preferred shares of TCP.

For 30 days after the publication of the minutes of the shareholders meeting of TCO to approve the merger of shares, TCP preferred shares received by direct holders of TCO preferred shares will trade on the São Paulo Stock Exchange under the ticker symbol for TCO s preferred shares, TCOC4. After 30 days, those shares will trade under the ticker symbol for TCP s preferred shares, TSPP4. TCP intends to submit a request to the São Paulo Stock Exchange that this 30-day period be eliminated and that all TCP preferred shares be allowed to trade under the same ticker symbol as soon as possible after the merger of shares. However, TCP cannot predict whether the São Paulo Stock Exchange will grant this request.

***Delivery of TCP ADRs***

If you hold ADSs representing preferred shares of TCO, you will receive 1.524 ADSs representing preferred shares of TCP in the merger of shares for each TCO ADS you hold.

When the merger of shares becomes effective, TCP will deposit with a custodian for The Bank of New York, as depositary under TCO s ADS program, the TCP preferred shares issuable in respect of the

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TCO preferred shares then held in that program. In accordance with an amendment to the TCO preferred share deposit agreement that has been entered into and will become effective at the time of the merger of shares, The Bank of New York, as depositary, will consider itself to have been directed by TCO and the holders of the TCO ADSs to deposit those TCP preferred shares with the custodian for The Bank of New York, as depositary under TCP s ADS program, and instruct that depositary to cause to be issued and to deliver, subject to payment of the fees and expenses of the depositary under the TCP deposit agreement (which will not be in excess of $5.00 or less per 100 ADSs (or portion thereof)), ADSs representing those TCP preferred shares to the depositary for the TCO ADS program. When the TCP ADSs are received in the TCO ADS program, the TCO ADSs will be deemed to have been converted into a right only to receive TCP ADSs, and The Bank of New York, as depositary under TCO s ADS program, will call for the surrender of the ADRs evidencing those former TCO ADSs. Upon surrender of those ADRs and payment of the depositary s fees and expenses as provided in the TCO deposit agreement (which will not be in excess of $5.00 or less per 100 ADSs (or portion thereof)), the depositary will deliver the TCP ADSs (and cash in lieu of any fractions as described below) to the holders of the former TCO ADSs.

***Termination of TCO ADS Program***

The Bank of New York, as depositary under TCO s ADS program, has, at the direction of TCO, mailed notice to the owners of all outstanding TCO ADRs in accordance with the deposit agreement of the termination of the deposit agreement and the ADS program at the time of effectiveness of the merger of shares. The notice mailed by the depositary also contained notice that the depositary and TCO would amend the deposit agreement, effective 30 days after notice of the amendment was given to authorize and provide for the procedures described under Delivery of TCP ADRs.

The terms of the ADSs of TCP that will be received upon the effectiveness of the merger of shares are described in Part Six: Shareholder Information Description of American Depositary Shares.

**Fractional Shares and ADSs**

If you hold TCO preferred shares directly and the product of 1.27 and the number of TCO preferred shares you hold is not a whole number, the number of preferred shares of TCP you will receive in the merger of shares will be rounded up to the largest whole number.

If you hold TCO ADSs and the product of 1.524 and the number of TCO ADSs you hold is not a whole number, the number of TCP ADSs you will receive in the merger of shares will be rounded down to the largest whole number. The depositary under TCP s ADS program will:

- sell into the open market the fractional TCP ADS to which you would otherwise be entitled; and
- remit to your broker or custodian or mail you a check for cash in lieu of any fractional TCP ADS you are entitled to receive based on the net proceeds (after deducting applicable fees and expenses, including sales commissions) from the sale on the New York Stock Exchange of the aggregate number of fractional entitlements to TCP ADSs.

You will receive your cash payment, if applicable, at or about the time that you receive your new TCP ADRs. You do not have to pay in cash any fees or commissions to the depositary for the sale of your fractional ADS, since fees and expenses will have already been deducted from any amounts you receive.

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**Management**

A description of TCP s management is set forth below.

***Board of Directors***

Our administration consists of a board of directors and a board of executive officers. Our shareholders elect the members of the board of directors. The board of directors should maintain a number of members ranging from eight to 12, each serving a three-year term. The term of office of the current members of the board of directors will expire in March 2006, except for António Gonçalves de Oliveira, who was elected on April 10, 2001 (his term will expire in April 2004). The board of directors holds regular quarterly meetings, and the chairman or two board members may call special meetings.

The following are the current members of our board of directors and their respective positions.

| Name | Position |
|---|---|
| Félix Pablo Ivorra Cano | President of the Board of Directors |
| Iriarte José Araújo Esteves | Director |
| Fernando Xavier Ferreira | Director |
| Antonio Viana Baptista | Director |
| Ernesto Lopez Mozo | Director |
| Ignacio Aller Malo | Director |
| Zeinal Abedin M. Bava | Director |
| Carlos Manuel L. Vasconcellos Cruz | Director |
| Eduardo Perestrelo Correia de Matos | Director |
| Pedro Manuel Brandão Rodrigues | Director |
| António Gonçalves de Oliveira | Director |

Set forth below are brief biographical descriptions of the directors.

*Félix Pablo Ivorra Cano,* 56 years old, is the president of the board of directors. He is also the president of the boards of directors of Tele Leste Celular Participações, Celular CRT Telecomunicações S.A., Tele Sudeste Celular Telecomunicações S.A. and TCP and a member of the board of directors of Telecomunicações de São Paulo S.A. Telesp and TCO. He is a director of Atento Brasil S.A., 4A Telemarketing, Telefónica Peru and Portelcom Participações S.A. He is the main executive officer for Telefónica Móviles in Brazil and the vice president of Telefónica Móviles Latino-America. He is also the president of the board of directors of Brasilcel. After graduating, he joined the Telefónica Group, where he worked in the areas of technical specifications, network planning and commercial planning and developed new services. In 1993 he was the general director of the group that funded and developed Telefónica Móviles. In 1997 and a portion of 1998, Mr. Cano was the president of the board of directors of Mensatel S.A. and Radiored S.A., which are part of Telefónica Móviles. He has a degree in telecommunication engineering from Escola Técnica Superior de Engenharia ETSI in Madrid, and a post-graduate degree in Business Administration from the Instituto Católico de Administração de Empresas ICADE.

*Iriarte José Araújo Esteves,* 53 years old, is currently also the chairman of the board of directors of TMN-Telecomunicações Móveis Nacionais, S.A., the chief executive officer of TMN, the chief executive officer of PT Móveis, S.G.P.S., S.A., and a member of the board of directors of each of Portugal Telecom S.G.P.S., S.A., PT Prime S.G.P.S., S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Tele Sudeste Celular Participações S.A., TCO and TCP. From 1981 until 1992, Mr. Esteves performed several functions at CTT, Correios e Telecomunicações de Portugal, including regional telecommunications general manager, manager of the telecommunications business planning department, deputy general manager of telecommunications, director-general of telecommunications and member of the board of directors. From

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1991 until 1997, Mr. Esteves was the chairman of the board of directors of Telepac, Serviços de Telecomunicações, S.A., and from 1991 until 1992 he was the vice chairman of the board of directors of TMN. Mr. Esteves was also a vice chairman of the board of directors of Portugal Telecom Internacional S.G.P.S., S.A. from 2000 until 2002. He holds a degree in electronic engineering from the Higher Education Technical Institute, Portugal.

*Fernando Xavier Ferreira,* 55 years old, is currently also the president of the Telefónica Group in Brazil, the chairman of the board of directors and chief executive officer of Sudestecel Participações S.A, TBS Celular Participações S.A., Iberoleste Participações S.A. and Telecomunicações de São Paulo S.A. Telesp, and vice chairman of the board of directors of Telefônica Data Brasil Holding S.A. He is also member of the board of directors of each of Telefónica Móviles, Brasilcel, Tele Sudeste Celular Participações S.A., TCP, Tele Leste Celular Participações S.A., Celular CRT Participações S.A. and TCO. He also currently serves as chief executive officer of SP Telecomunicações Holding S.A. and Telefônica Data Brasil Holding S.A. Participações S.A. Beginning in 1971, he held various positions at Telecomunicações do Paraná S.A. Telepar, including those of vice president, economic-financial and market relations officer and president. Since that time he has served on the board of directors of Telebrás, Telesp Participações S.A., Embratel Participações S.A., Embratel-Empresa Brasileira de Telecomunicações S.A., Empresa Brasileira de Corrêios e Telégrafos-ECT, Companhia Riograndense de Telecomunicações, Telebahia Celular, Telergipe Celular, Telesp Celular and Portugal Telecom S.A. Mr. Ferreira served as officer and chief executive officer of Telecomunicações Brasileiras S.A.-Telebrás, chairman of the board of directors of Telerj Celular, chairman of the board of directors of Telest Celular, chairman of the board of directors of Ceterp-Centrais Telefônicas de Ribeirão Preto S.A., and chief financial officer, chief executive officer, chairman and vice chairman of the board of directors of Tele Sudeste Celular Participações S.A. From December 2001 to April 2003, he was chief executive officer of Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. During 1998, he has also served as a member of a consulting committee of Anatel, and at present is a member of the Latin American Committee of the New York Stock Exchange and the Global Information Infrastructure Commission GIIC. He holds a degree in electrical engineering from the Catholic University of Rio de Janeiro, Brazil, and attended a business administration course at Western Ontario University, Canada, in 1982.

*Antonio Viana Baptista,* 45 years old, is an economist who graduated from the Catholic University of Lisbon in 1980. He has a post-graduate degree in European Economy (1981) and an MBA, obtained with a mention of distinction, from INSEAD (Fontainebleu). In August 2002, he was appointed as Executive President of Telefónica Móviles. He is member of the board of directors of the Delegate Committee and the Executive Committee of Telefónica S.A. He is also a member of the board of directors of Terra Network, S.G.P.S., S.A., Portugal Telecom S.G.P.S., S.A., Brasilcel, TCP, Tele Sudeste Celular Participações S.A., TCO and Celular CRT Participações S.A. Until July 2002, he served as President of Telefónica Internacional and Executive President of Telefónica LATAM. Before that he also served from 1991 until 1996, as Executive Director of BPI (Banco Português de Investimento). From 1985 until 1991 he was Principal Partner of McKinsey & Co. in Madrid and Lisbon.

*Ernesto Lopez Mozo,* 39 years old, serves as Chief Financial Officer General Manager for Finance and Management Control of Telefónica Móviles S.A. Mr. Lopez is a member of the board of directors of each of Telefónica Móviles de España, S.A., Terra Mobile, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel, TCP, Tele Sudeste Celular Participações S.A., TCO, Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. He was previously a senior manager in the financing department of Telefónica, S.A., where he was also responsible for relationships with credit rating agencies. Before joining Telefónica in March 1999, Mr. Lopez worked for five years at J.P. Morgan where he was a vice president in charge of the interest rate derivatives trading desk for Spain and Portugal for three years. At J.P. Morgan, he was also involved in sales to mutual and pension funds. Before joining J.P. Morgan, Mr. Lopez worked as an engineer, managing the construction of highways and other infrastructure. He holds a degree in civil engineering from ETSICCP in Madrid and a master s degree in business administration from the Wharton School.

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*Ignacio Aller Malo,* 58 years old, serves as Chief Operating Officer of Telefónica Móviles. Mr. Aller is a member of the board of directors of Terra Mobile, S.A., Mobipay España, S.A., Mobipay Internacional, S.A., Medi Telecom, Telefónica Móviles de España, S.A., Telefónia Móviles México, S.A. de C.V., Brasilcel, TCP, Tele Sudeste Celular Participações S.A., TCO, Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. Mr. Aller has held several positions at Telefónica de España since 1967, including Director of Operations and Information Services in 1986, General Director of Mensatel in 1995 and General Executive Director of Operations of Telefónica Servicios Móviles in 1999. Mr. Aller has also served as a member of the board of directors of Venturini España, S.A., Mensatel and is currently a board member of Telyco and PMT.

*Zeinal Abedin Mahomed Bava,* 37 years old, is currently also the chief financial officer of Portugal Telecom S.G.P.S., S.A., the vice chairman of the board of directors of PT Multimédia-Serviços Telecomunicações e Multimédia, S.G.P.S., S.A., a member of the board of directors of Brasilcel, the chairman of the board of directors of P T PRO-Serviços de Gestão S.A., and a member of the board of directors of each of BEST-Banco Electrónico de Serviço Total, S.A., Tele Sudeste Celular Participações S.A., TCP, TCO, Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. Mr. Bava was vice chairman of the board of directors of Portugal Telecom Internacional, S.G.P.S., S.A. from 2000 until 2002; the director and relationship manager for Portugal of Merrill Lynch International from 1998 until 1999; an executive director of Deutsche Morgan Grenfell from 1997 until 1998; and an executive director of Warburg Dillon Read from 1989 until 1996. He holds a degree in electronic and electrical engineering from the University of London B.S.C.

*Carlos Manuel L. Vasconcellos Cruz,* 45 years old, is currently also a member of the board of directors of Portugal Telecom S.G.P.S., S.A., the chairman and chief executive officer of PT Prime S.G.P.S., S.A., the chairman of the board of directors of PT Contact-Telemarketing e Serviços de Informação, S.A., chief executive officer of PT Comunicações, S.A. and a member of the board of directors of each of Brasilcel, Telecomunicações Móveis Nacionais S.A. TMN, Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Tele Sudeste Celular Participações S.A., TCO and TCP. From 1978 to 1983, Mr. Cruz was an economist at the Ministry of Finance of Portugal, and from 1983 to 1985 he was a senior economist at LEASEINVEST. From 1985 until 1999, Mr. Cruz performed several functions worldwide at Dun & Bradstreet Corporation, including president and chief executive officer of Dun & Bradstreet for Portugal, Iberia and the Middle East, executive vice president of Dun & Bradstreet for Europe, president and chief executive officer of Dun & Bradstreet GMC and member of the worldwide board and executive vice president of Dun & Bradstreet Corporation. From 1990 to 1993, he was also vice president of Associação Portuguesa para a Qualidade. In 1996, he was vice president of A.P.E.I.N.-Associação Portuguesa de Empresas de Informação de Negócios. From 1999 to 2001, Mr. Cruz was the president and chief executive officer of Tradecom S.G.P.S., and from 2000 he also served as executive manager of PT Prime S.G.P.S., S.A. From 2000 to 2001 he was an invited professor at Portuguese Catholic University and ISCTE for postgraduate courses and MBA programs. He also served as president of Telesp Celular, from May 2001 until May 2002, and as vice president of TCP from September 2001 until May 2002. Mr. Cruz holds a degree in business from the I.S.C.T.E. (Instituto Superior de Ciências do Trabalho e da Empresa or Higher Education Institute for Labor and Corporate Sciences), Portugal, and a post-graduate degree in management from D.S.E. (the German Foundation for International Development), Germany.

*Eduardo Perestrelo Correia de Matos,* 54 years old, is currently also the president of Portugal Telecom Brasil S.A. and a member of the board of directors of each of PT Móveis, Serviços de Telecomunicações, S.G.P.S., S.A., Tele Sudeste Celular Participações S.A., TCP, TCO, Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. From 1976 to 1984, Mr. Matos held various operational positions in the planning and control areas of CTT Correios e Telecomunicações de Portugal S.A. and TLP Telefones de Lisboa e Porto S.A. From 1984 to 1987 he served as general post master of CTT and from 1987 to 1990 he was the secretary of state for external transportation and communications in Portugal. In addition, he served as president at Marconi S.G.P.S. Comunicações, S.A. from 1990 to 1991 and at Mobitel S.A. from 1991 to 1996.

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Mr. Matos was also a member of the board of Portugal Telecom, S.G.P.S., S.A. from 1996 until May 2002. He holds a degree in economics from the Technical University of Lisbon, Portugal.

*Pedro Manuel Brandão Rodrigues,* 52 years old, is currently a director and member of the executive committee of Telecomunicações Móveis Nacionais    TMN and PT Móveis, S.G.P.S., S.A. Mr. Brandão was elected to the Portuguese Parliament *(Assembleia da República)* in March 2002 and has been a member of the Portuguese National Education Council *(Conselho Nacional de Educação)* since July 2000. He is a director of the Portuguese Business Directors Forum *(Forum de Administradores de Empresas)* and is President of Portuguese Permanent Offset Commission *(Comissão Permanente de Contrapartidas)*. From 1980 to 1987, Mr. Brandão performed various functions at Alusuisse-Lonza AG group in Zurich. At various times from 1987 to 1993, he was Managing Director of Promindústria, Sociedade Portuguesa de Capital de Risco, SA, a director of EVCA    European Venture Capital Association and president of APCRI    Associação Portuguesa de Capital de Risco. From 1987 to 2000, he was a Professor at the Instituto Superior Técnico in Lisbon in the Autonomous Section for Economics and Management and in the Department of Materials. From 1993 to 2000, Mr. Brandão was also a member of the Board and the Executive Committee of Banco Mello and Banco Mello de Investimentos, where he oversaw the Division of Investment Banking and performed other functions. Mr. Brandão has served as a member of the boards of directors and other supervisory bodies of numerous Portuguese companies. He holds a degree in chemical engineering from Instituto Superior Técnico and holds a Masters degree in Production Processes and Management and a Ph.D. in Engineering from the University of Birmingham, England. He has been honored with the Portuguese National Defense Medal, first class *(Medalha da Defesa Nacional, primeira classe)*.

*Antonio Gonçalves de Oliveira,* 58 years old, was nominated to serve on our board of directors by Previ, a board member of the Small and Medium Company Working Group sponsored by the Brazilian government, a coordinator of the international integration foreign trade committee of the Small Company Permanent Forum sponsored by the Brazilian government, a coordinator for the Small Company National Seminar, the vice president of the Brazilian Businessmen Association for Market Reintegration (ADEBIM), a member of the orientation and steering council of Banco do Povo do Estado de São Paulo and a member of the decision council of the National Employee Association of Banco do Brasil (ANABB). From 1991 to 1995 he served as director of the Latin American Sociology Association and from 1993 to 1994 he served as the executive coordinator of the Small and Medium Company National Movement (MONAMPE). He was also a member of the Group for Company/ University Technological Integration sponsored by the Development Forum of the State of São Paulo from 1992 to 1994, a member of the   Science and Technology   Group of the Competition Corporate Commission from 1991 to 1994; a consultant for the Inter-American Development Bank in 1995; a director of the Micro and Small Industry Union of the State of São Paulo    SIMPI and the president of the ESP Sociology Association from 1990 to 1993. He holds a degree in social sciences from the University of São Paulo, Brazil, and a master  s degree in communication sciences from the same university.

In accordance with Brasilcel  s shareholders agreement, PT Movéis is responsible for the appointment of our Chief Executive Officer and Telefónica Móviles is responsible for the appointment of our Chief Financial Officer. PT Movéis and Telefónica Móviles appointed 10 (five each) of the 11 members of our Board of Directors.

***Executive Officers***

Our bylaws provide for a board of executive officers with eight positions, and each executive officer is elected by the board of directors for a term of three years. Our board of executive officers currently has seven members, one of whom holds two positions. The chief executive officer is the chairman and, in his absence or temporary inability to perform his duties, he will be replaced by the vice president for finance, planning and control. In the case of a vacancy in any position in the board of executive officers, the respective replacement will be appointed by the board of directors. In the case of any inability, the chief executive officer will choose a replacement for that officer from among the remaining officers. One officer may be elected for more than one

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position on the board of executive officers, but the members of the board of executive officers cannot be elected to the board of directors. The board of directors may remove executive officers from office at any time.

The following are the current executive officers, appointed on April 16, 2003, and their respective positions.

| Name | Position |
|---|---|
| Francisco José Azevedo Padinha | Chief Executive Officer |
| Fernando Abella Garcia | Executive Vice President for Finance, Planning and Control and Investor Relations Officer |
| Paulo Cesar Pereira Teixeira | Executive Vice President for Operations |
| Javier Rodriguez Garcia | Vice President for Technology and Networks |
| Guilherme Silverio Portela Santos | Vice President for Customers |
| Luis Filipe Saraiva Castel-Branco de Avelar | Executive Vice President for Marketing and Innovation and Vice President for IT and Product and Service Engineering |
| José Carlos de la Rosa Guardiola | Vice President for Regulatory Matters and Institutional Relations |

Set forth below are brief biographical descriptions of the executive officers.

*Francisco José Azevedo Padinha,* 56 years old, is currently also the chief executive officer of each of Brasilcel, Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom; the chairman of the board of directors of each of PT Prime Tradecom Soluções Empresariais de Comércio Electrónico, S.A., Megamedia Soluções Multimédia, S.A., PT Prime, S.G.P.S., S.A., the vice chairman of the board of directors of PT Ventures S.A.; a member of the board of directors of PT Comunicações S.A.; and a member of the scientific committee of Taguspark Sociedade de Promoção e Desenvolvimento do Parque da Ciência e Tecnologia da área de Lisboa, S.A. He was also the chairman of the board of directors of Prymesys Soluções Empresariais S.A. From 1989 until 1992 Mr. Padinha was the manager of the central department for research and development of Companhia Portuguesa Rádio Marconi, S.A., and from 1992 until 1994 he was the chairman of the board of directors of Telecom Portugal, S.A. Mr. Padinha was also the chairman of the board of directors of each of Cabo TV Açoreana, S.A. (from 1993 until 1996) and INESCTEL Engenharia de Sistemas e Computadores nas Telecomunicações, Lda (from 1996 until 1999). From 1994 until 1998, he was a member of the board of directors of Taguspark Sociedade de Promoção e Desenvolvimento do Parque da Ciência e Tecnologia da Área de Lisboa, S.A., and from 1999 until 2000, he was the chairman of the board of directors of each of PT Inovação, S.A. and PT Sistemas de Informação, S.A. From 2000 until 2001, Mr. Padinha was the chief executive officer of PT Prime S.G.P.S., S.A., and from 1994 until 2002, he was a member of the board of directors of Portugal Telecom. He holds a telecommunications and electronic engineering degree from the Technical University of Lisbon, Portugal, a degree in corporate upper management from AESE/ University of Navarra, Spain, and a master s degree in innovation and technology management from the Sloan School of Management/ MIT, United States.

*Fernando Abella Garcia,* 39 years old, is currently also the executive vice president for finance, planning and control of each of Brasilcel, Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom; the investor relations officer of Tele Sudeste Celular Participações S.A., TCP, Celular CRT Participações S.A. and Tele Leste Celular Participações S.A.; and a member of the board of directors of Telefónica Factoring do Brasil Ltda. From 1994 until 1997, Mr. Garcia worked as an external consultant for the Telefónica Group in several different areas. He joined the Telefónica Group in 1997, where he served in different positions in the financial and strategic planning areas in Spain and Brazil. He was also a member of the board of directors of Telefónica Móviles S.A.C. in Peru, Telefónica

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Móvil S.A. in Chile, Telefónica Móviles El Salvador, S.A. de C.V. in El Salvador and Telefónica Centroamérica Guatemala, S.A. in Guatemala. Mr. Garcia holds a degree in business from the Faculty of Economic and Corporate Sciences at Valladolid, Spain, and master s degree in business administration from the Corporate Institute of Madrid, Spain.

*Paulo Cesar Pereira Teixeira,* 45 years old, is currently also the executive vice president for operations of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom. From 1980 until 1987, Mr. Teixeira performed several different managerial duties at Companhia Riograndense de Telecomunicações S.A. CRT and was also a member of the board of directors (1985-1986). In 1987 and 1988, he served at several different positions in Telebrás or in the companies of the Telebrás group, including vice president of Tele Celular Sul Participações S.A., Superintendent Officer of Telepar Celular S.A., Telesc Celular S.A. and CTMR Celular S.A., engineering officer of Telecomunicações do Mato Grosso do Sul S.A., manager of the investment management department of Telecomunicações Brasileiras S.A. Telebrás, assistant to the planning and engineering officer of Telecomunicações Brasileiras S.A. Telebrás and manager of the coordination and expansion division of Telecomunicações Brasileiras S.A. Telebrás. Mr. Teixeira holds an electrical engineering degree from the Catholic University of Pelotas, Brazil.

*Javier Rodríguez García,* 47 years old, is currently also the chief technology officer of each of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom. From 1986 until 1988, Mr. García worked at INDELEC Indústria Electrónica de Comunicaciones S.A., as the manager responsible for the implementation of an automatic mobile telecommunications project for Telefónica de España S.A. From 1988 until 1990, he worked at Red Electrica de España S.A., as the person responsible for the project, installation and maintenance of radio mobile systems in Spain. From 1990 until 1992, Mr. García served as an engineering manager at Telcel S.A., where he was responsible for the implementation of automatic mobile telecommunication system for Telefónica de España S.A. in Barcelona, Madrid and Palma de Mallorca. From 1992 until 1996, he was an engineering manager responsible for the installation and maintenance of systems at Compañia Europea de Radiobusqueda S.A., and from 1996 until 1998, he worked in cellular businesses for Telefónica Group in Spain and Peru, as a network quality manager and technical area sub-manager, respectively. From 1998 until 2000, Mr. García was the technology manager in the cellular business of Telefónica Group in Brazil and from 2000 until 2002 he was the network manager of Telerj Celular and Telest Celular. He holds a degree in technical telecommunications engineering from the Technical University of Madrid, Spain.

*Guilherme Silvério Portela Santos,* 37 years old, is also currently the vice president for customers of each of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom; and an executive manager at PT Móveis, S.G.P.S., S.A. From 1989 until 1993, Mr. Santos was a consultant at McKinsey & Co., and from 1994 until 1998 he worked as an officer for operations and an officer for special projects at Parque Expo 98, S.A. He was also a coordination officer at Companhia de Seguros Tranquilidade (1998 - 2000) and a member of our board of directors (April 2001-April 2003). Mr. Santos holds a civil engineering degree from the Higher Education Technical Institute, Portugal, and a master s degree from INSEAD, France.

*Luis Filipe Saraiva Castel-Branco de Avelar,* 49 years old, is also currently the vice president for IT and product and service engineering and Executive Vice President for Marketing and Innovation of each of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom. In 1989, 1991 and 1993, Mr. Avelar was respectively the corporate accounts director of Telefones de Lisboa e Porto, an expert in telecommunications services for the European Commission (DG XIII, Telecom

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Policy Unit) and a strategic planning director at Comunicações Nacionais. From 1993 to 1998 he was a consultant in privatization and regulation projects for the World Bank, the European Bank for Reconstruction and Development and the European Commission. From 1996 to 1998 he was a portfolio director of Portugal Telecom Group in the strategic marketing board of Portugal Telecom. From 1998 to 2000, Mr. Avelar was a special consultant to the president of TCP for the areas of marketing, sales, strategy, regulation and special projects, and, from 2000 to 2001, he was a director at the internet and e-commerce business unit at the same company. He holds an electrical-technical engineering degree (specialized in telecommunications and electronics) from the Lisbon Higher Education Technical Institute.

*José Carlos de la Rosa Guardiola,* 55 years old, is also currently the vice president for regulatory matters and institutional relations of each of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., TCP, Celular CRT Participações S.A., Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Telesp Celular and Global Telecom. From November 1998 until February 2002, Mr. Guardiola was engaged in the Regulation and Operations Departments of these companies, and occupied the function of vice president of Operations responsible for the commercial, administrative and operations activities of each of Telebahia Celular and Telergipe Celular. During the last 25 years, he worked in American, European and Japanese multinational companies in the areas of commercialization to security instrumentation equipments to petrochemical, semiconductors, IT companies and communication equipment. He occupies the position of chairman in companies as Saint Gobain (France), National Semiconductors (USA) and NEC Electronics (Japan). He holds a degree in telecommunications engineering from Universidad Politecnica de Madrid, Spain.

***Auditors Council (Conselho Fiscal)***

We have a permanent auditors council that consists of a minimum of three and a maximum of five members. They are elected annually at a general shareholders meeting. The council currently consists of three members.

The auditors council is responsible for overseeing our management. Its main duties are:

- to review and provide an opinion on the annual report of our management;
- to review and approve the proposals of management to be submitted to shareholders meetings regarding changes in share capital, issuance of debentures and subscription rights, capital investment plans and budgets, distribution of dividends, changes in corporate form, consolidations, mergers or split-ups; and
- to review and approve the financial statements for the fiscal year.

The following are the current members of our auditors council and their alternates.

| Name | Position |
| --- | --- |
| Sidney Alberto Latini(1) | Member |
| Norair Ferreira do Carmo | Member |
| José Alberto Bettencourt da Câmara Graça | Member |
| Nelson Jimenes(1) | Alternate |
| Wolney Quirino Schüler Carvalho | Alternate |
| João Luís Tenreiro Barroso | Alternate |

(1) Appointed by our preferred shareholders.

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***Compensation***

For the year ended December 31, 2002, we paid to our directors and executive officers as compensation an aggregate amount of R$6.2 million, including bonuses and profit sharing plans. This amounts includes performance remuneration and profit sharing arrangements applicable to all employees. Furthermore, the members of our board of executive officers are eligible to participate in the same complementary retirement pension plan available to our employees, called TCP Prev. In 2002, we contributed R$71,556 to TCP Prev on behalf of our executive officers. The aggregate amount of compensation we paid to members of our board of auditors was approximately R$1,107.

***Share Ownership***

As of December 31, 2002, each of the members of the board of directors and the board of executive officers owned, directly or indirectly, less than 0.01% of any class of our shares.

**Mailing of Prospectus**

We will mail the prospectus to record holders of TCO preferred shares who are residents of the United States and whose names appear on our shareholder list. We will mail the prospectus to record holders of TCO ADSs whose names appear on the list of record holders of TCO ADSs maintained by the depository, and will also furnish the prospectus to brokers, banks and similar persons who are listed as participants in a clearing agency s security position listing for subsequent transmission to beneficial owners of TCO ADSs.

**Brokerage Commissions**

You do not have to pay any brokerage commissions in connection with the merger of shares if you have your TCO shares registered in your name. If your securities are held through a bank or broker or a custodian linked to a stock exchange, you should consult with them as to whether or not they charge any transaction fee or service charges in connection with the merger of shares. If you hold TCO ADSs, you will have to pay the fees and expenses described in Receipt of Shares and ADSs of TCP Delivery of TCP ADSs in connection with the merger of shares.

**Accounting Treatment of the Merger of Shares**

Under Brazilian corporate law, the body of accounting principles we use to prepare our consolidated financial statements, the merger of shares will be accounted for at book value.

Under U.S. generally accepted accounting principles, the exchange of shares between TCP and the holders of common and preferred shares of TCO other than TCP will be accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations.*

**Material Tax Considerations**

***Brazilian Tax Considerations***

*The Merger of Shares*

The following discussion is the opinion of Machado, Meyer, Sendacz e Opice Advogados, our Brazilian counsel, as to the material tax consequences to you of the merger of shares. The following discussion is based on Brazilian law and practice as applied and interpreted as of the date of this prospectus, which are subject to change at any time. There is currently no treaty for the avoidance of double taxation between Brazil and the United States. The following discussion does not address all possible Brazilian tax consequences relating to the merger of shares. **You should consult your own tax advisor regarding taxes that may arise in connection with the merger of shares.**

**PART FIVE THE MERGER OF SHARES**

Despite the lack of specific provisions in Brazilian tax legislation with respect to the merger of shares, there are reasonable Brazilian legal grounds to sustain that the exchange (resulting from the merger of shares) by a U.S. person of preferred shares that are registered as a foreign portfolio investment under Resolution 2,689 of the National Monetary Council or are registered as a foreign direct investment under Law 4,131/62 would not be subject to income tax pursuant to Brazilian law.

*Acquiring, Owning and Disposing of Preferred Shares and ADSs*

The following discussion mainly summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by a U.S. holder not deemed to be domiciled in Brazil for Brazilian tax purposes (a U.S. holder ). This discussion does not address all the Brazilian tax considerations that may be applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult its own tax advisor about the Brazilian tax consequences of investing in preferred shares or ADSs.

*Taxation of Dividends.* Dividends paid by us in cash or in kind from profits generated on or after January 1, 1996 (i) to the depositary in respect of preferred shares underlying ADSs or (ii) to a U.S. holder or non-Brazilian holder in respect of preferred shares will generally not be subject to Brazilian withholding tax. We do not have any undistributed profits generated before January 1, 1996.

*Distributions of Interest on Capital.* Brazilian corporations may make payments to shareholders characterized as interest on capital as an alternative form of making dividend distributions. The rate of interest may not be higher than the federal government s long-term interest rate, or the TJLP, as determined by the Central Bank from time to time. The total amount distributed as interest on capital may not exceed the greater of (i) 50% of net income (before taking the distribution and any deductions for income taxes into account) for the year in respect of which the payment is made or (ii) 50% of retained earnings for the year prior to the year in respect of which the payment is made. Payments of interest on capital are decided by the shareholders on the basis of recommendations of the company s board of directors.

Distributions of interest on capital paid to Brazilian and non-Brazilian holders of preferred shares, including payments to the depositary in respect of preferred shares underlying ADSs, are deductible by us for Brazilian corporate income tax purposes. These payments to U.S. holders or non-Brazilian holders are subject to Brazilian withholding tax at the rate of 15%. If the recipient of the payment is domiciled in a tax haven jurisdiction (*i.e.*, a country that does not impose any income tax or that imposes tax at a rate of less than 20%), the rate will be 25%.

No assurance can be given that our board of directors will not recommend that future distributions of profits will be made by means of interest on capital instead of by means of dividends.

Amounts paid as interest on capital (net of applicable withholding tax) may be treated as payments in respect of the dividends we are obligated to distribute to our shareholders in accordance with our by-laws (*estatutos*) and the Brazilian corporate law. Distributions of interest on capital in respect of the preferred shares, including distributions to the depositary in respect of preferred shares underlying ADSs, may be converted into U.S. dollars and remitted outside of Brazil, subject to applicable exchange controls.

*Taxation of Gains.* Gains realized outside Brazil by a U.S. holder or a non-Brazilian holder on the disposition of ADSs or preferred shares to another U.S. holder or non-Brazilian holder are not subject to Brazilian tax. However, the Brazilian government enacted Provisional Measure No. 135 on October 30, 2003 that may cause the taxation of the gains realized outside Brazil by a U.S. holder or a non-Brazilian holder on the disposition of preferred shares to another U.S. holder or non-Brazilian holder as of January 1, 2004.

Gains realized by a U.S. holder or a non-Brazilian holder on dispositions of preferred shares in Brazil or in transactions with Brazilian residents may be free of Brazilian tax, taxed at a rate of 20% or taxed at a rate of 15%, depending on the circumstances.

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Gains on the disposition of preferred shares obtained upon cancellation of ADSs are not taxed in Brazil if the disposition is made and the proceeds are remitted abroad within five business days after cancellation, unless the investor is a resident of a jurisdiction that, under Brazilian law, is deemed to be a tax haven.

Gains realized through transactions with Brazilian residents or through transactions in Brazil off of the Brazilian stock exchanges are generally subject to tax at a rate of 15%.

Gains realized through transactions on Brazilian stock exchanges are generally subject to tax at a rate of 20%, unless the investor is entitled to tax-free treatment for the transaction under Resolution 2,689 of the National Monetary Council Regulations, described immediately below.

Resolution 2,689, which as of March 31, 2000 superseded the Annex IV Regulations that previously provided tax benefits to foreign investors, extends favorable tax treatment to a U.S. holder or non-Brazilian holder of preferred shares who has (i) appointed a representative in Brazil with power to take action relating to the investment in preferred shares, (ii) registered as a foreign investor with the CVM and (iii) registered its investment in preferred shares with the Central Bank. Under Resolution 2,689 securities held by foreign investors must be maintained under the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the CVM. In addition, the trading of securities is restricted under Resolution 2,689 to transactions on Brazilian stock exchanges or qualified over-the-counter markets. Investors previously holding preferred shares under the Annex IV Regulations were required to bring their investments into conformity with Resolution 2,689 by June 30, 2000. The preferential treatment generally afforded under Resolution 2,689 and afforded to investors in ADSs is not available to residents of tax havens.

There can be no assurance that the current preferential treatment for U.S. holders and non-Brazilian holders of ADSs and U.S. holders and non-Brazilian holders of preferred shares under Resolution 2,689 will be maintained.

Gain on the disposition of preferred shares is measured by the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost of the shares sold, measured in Brazilian currency, without any correction for inflation. The acquisition cost of shares registered as an investment with the Central Bank is calculated on the basis of the foreign currency amount registered with the Central Bank. See Part Six: Shareholders Rights Description of TCP Capital Stock Exchange Controls and Central Bank Registration.

Under current law, the tax rate for transactions on a Brazilian stock exchange is 20%. Brazil s tax treaties do not grant relief from taxes on gains realized on sales or exchanges of preferred shares.

Gains realized by a U.S. holder and non-Brazilian holder upon the redemption of preferred shares will be treated as gains from the disposition of such preferred shares to a Brazilian resident occurring off of a stock exchange and will accordingly be subject to tax at a rate of 15%.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to the preferred shares will be treated differently for Brazilian tax purposes depending on (i) whether the sale or assignment is made by the depositary or the investor and (ii) whether the transaction takes place on a Brazilian stock exchange. Gains on sales or assignments made by the depositary on a Brazilian stock exchange are not taxed in Brazil, but gains on other sales or assignments may be subject to tax at rates up to 15%.

The deposit of preferred shares in exchange for the ADSs is not subject to Brazilian income tax if the preferred shares we registered under Resolution 2,689 and the respective holder is not in a tax haven jurisdiction. If the preferred shares are not so registered or the holder is in a tax haven jurisdiction, the deposit of preferred shares in exchange for ADSs may be subject to Brazilian capital gains tax at a rate of 15%.

The withdrawal of preferred shares in exchange for ADSs is not subject to Brazilian tax. On receipt of the underlying preferred shares, a U.S. holder or non-Brazilian holder entitled to benefits under Resolution 2,689

**PART FIVE THE MERGER OF SHARES**

will be entitled to register the U.S. dollar value of such shares with the Central Bank. If a U.S. holder or non-Brazilian holder does not qualify under Resolution 2,689, he will be subject to the less favorable tax treatment described above in respect of exchanges of preferred shares.

*Other Brazilian Taxes.* There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes levied by some states in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant state to individuals or entities that are resident or domiciled within this state in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares or ADSs.

A financial transaction tax, or the IOF tax, may be imposed on a variety of transactions, including the conversion of Brazilian currency into foreign currency (*e.g.*, for purposes of paying dividends and interest). The IOF tax rate on such conversions is currently 0%, but the minister of finance has the legal power to increase the rate to a maximum of 25%. Any increase will be applicable only prospectively.

The IOF may also be levied on transactions involving bonds or securities, or IOF/ Títulos, even if the transactions are effected on Brazilian stock, futures or commodities exchanges. The rate of the IOF/ Títulos with respect to preferred shares and ADSs is currently 0%. The minister of finance, however, has the legal power to increase the rate to a maximum of 1.5% of the amount of the taxed transaction per each day of the investor s holding period, but only to the extent of gain realized on the transaction and only on a prospective basis.

In addition to the IOF tax, a second, temporary tax that applies to the removal of funds from accounts at banks and other financial institutions, or the CPMF tax, will be imposed on distributions in respect of ADSs at the time these distributions are converted into U.S. dollars and remitted abroad by the custodian for the preferred shares underlying the ADSs. The CPMF tax was to expire in June 2002 but was extended until December 31, 2004. It is currently imposed at a rate of 0.38%. This rate will continue until December 31, 2003. After that date, the rate will be decreased to 0.08% beginning on January 1, 2004. From July 13, 2002, transactions conducted through the Brazilian stock exchanges in current accounts specified for stock exchange transactions are exempt from the CPMF tax.

The tax consequences described under this subsection Acquiring, Owning and Disposing of Preferred Shares and ADSs also apply to the acquisition, ownership and disposition of TCO preferred shares or ADSs by a U.S. holder.

***United States Federal Income Tax Considerations***

The following summary describes the material U.S. federal income tax consequences of the merger of shares and the consequences of ownership of TCP preferred shares or TCP ADSs received pursuant to the merger of shares. The discussion set forth below is only applicable to U.S. Holders (as defined below). Except where noted, it deals only with preferred shares or ADSs held as capital assets and does not address all aspects of U.S. federal income taxation that may be applicable to a holder subject to special treatment under the Internal Revenue Code of 1986, as amended (the Code ) (including, but not limited to, banks, tax-exempt organizations, insurance companies and dealers in securities or foreign currency, holders who have a functional currency other than the U.S. dollar, and holders who acquired shares pursuant to the exercise of an employee stock option or otherwise as compensation). In addition, the discussion does not address the state, local or foreign tax consequences (or other tax consequences such as estate or gift tax consequences) of the merger of shares or ownership of TCP preferred shares or TCP ADSs. The discussion below is based upon the provisions of the Code, and U.S. Treasury regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified (with possible retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. **Shareholders should consult their own tax advisors concerning the U.S. federal tax consequences of the merger of shares and ownership of**

**PART FIVE THE MERGER OF SHARES**

**TCP preferred shares or TCP ADSs in light of their particular situations, as well as any consequences arising under the laws of any other taxing jurisdiction.**

If a partnership holds preferred shares of TCP or TCO (or TCP ADSs or TCO ADSs), the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner of a partnership holding such preferred shares or ADSs, the holder is urged to consult its tax advisors regarding the tax consequences of the merger of shares and the ownership of TCP preferred shares or TCP ADSs.

As used herein, the term U.S. Holder means a beneficial holder of TCP preferred shares or TCP ADSs that is (i) a citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust (X) that is subject to the supervision of a court within the United States and the control of one or more United States persons as described in section 7701(a)(30) of the Code or (Y) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

***The Merger of Shares***

*Consequences of the Merger of Shares*

The receipt of TCP preferred shares (or TCP ADSs) and cash, if any (including cash in lieu of fractional TCP ADSs), in exchange for TCO preferred shares (or TCO ADSs) pursuant to the merger of shares will be a taxable transaction for U.S. federal income tax purposes. A U.S. Holder of TCO preferred shares or TCO ADSs will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the sum of (i) the fair market value of the TCP preferred shares (or TCP ADSs) received (determined as of the date of the closing of the merger of shares) plus (ii) the amount of cash received, if any, (including cash received in lieu of fractional TCP ADSs) and the U.S. Holder s tax basis in the TCO preferred shares (or TCO ADSs) exchanged. Gain or loss must be calculated separately for each block of TCO preferred shares (or TCO ADSs) exchanged by the U.S. Holder. Subject to the discussion under Passive Foreign Investment Company Rules and TCO, such gain or loss generally will be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year at the time the preferred shares or ADSs are exchanged are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Any TCP preferred shares (or TCP ADSs) received in the merger of shares will have a basis for U.S. federal income tax purposes equal to their fair market value (determined as of the closing date of the merger of shares) and a holding period beginning on the day after the closing of the merger of shares.

If a U.S. Holder exchanges TCO preferred shares or TCO ADSs with underlying TCO preferred shares that qualify as section 306 stock as defined in section 306 of the Code, such holder s tax consequences may be different than those described above. Such holders should consult their own tax advisors with respect to their TCO preferred shares (or TCO ADSs) and the application of the rules thereto under section 306 of the Code.

*Passive Foreign Investment Company Rules and TCO*

Based on the projected composition of its income and valuation of its assets, including goodwill, TCP, as the majority shareholder in TCO, does not believe that TCO will be in the current year or has been in 1998 or any subsequent taxable year a passive foreign investment company ( PFIC ), although there can be no assurance in this regard. However, PFIC status is a factual determination that is made annually. Accordingly, it is possible that TCO may have been a PFIC in prior taxable years or may become a PFIC in the current taxable year. If TCO has been or becomes a PFIC, U.S. Holders could be subject to certain adverse U.S. federal income tax consequences as more fully described below.

**PART FIVE THE MERGER OF SHARES**

In general, a company is considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income, or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of TCO s assets for each quarter during the taxable year. If TCO owns at least 25% by value of another company s stock, it will be treated, for purposes of the PFIC rules, as owning its proportionate share of the assets and receiving its proportionate share of the income of that company.

In determining that TCP does not believe TCO is a PFIC in the current year, TCP is relying on TCO s projected capital expenditure plans and projected revenue for the current year. In addition, its determination is based on a current valuation of its assets, including goodwill. In calculating goodwill, TCP has valued TCO s total assets based on its total market value, which, in turn, is based on the market value of TCO s shares and is subject to change. In addition, TCP has made a number of assumptions regarding the amount of this value allocable to goodwill. TCP believes its valuation approach is reasonable. However, it is possible that the Internal Revenue Service may challenge the valuation of TCO s goodwill, which may also result in it being classified as a PFIC. Because TCP has valued TCO s goodwill based on the market value of TCO s shares, a decrease in the price of TCO s shares may also result in TCO becoming a PFIC.

If TCO is or was a PFIC for any taxable year during which a U.S. Holder holds TCO preferred shares or TCO ADSs, such U.S. Holder will be subject to special tax rules with respect to any gain realized from the merger of shares, including a pledge, of TCO preferred shares or TCO ADSs. Under these special tax rules (i) the gain will be allocated ratably over the U.S. Holder s holding period for the TCO preferred shares or TCO ADSs, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which TCO was a PFIC, will be treated as ordinary income, and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If a U.S. Holder holds TCO preferred shares or TCO ADSs in any year in which TCO is classified as a PFIC, such holder would be required to file Internal Revenue Service Form 8621.

In certain circumstances, a U.S. Holder, in lieu of being subject to the excess distribution rules discussed above, may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method provided that such stock is regularly traded on a qualified exchange. If a valid mark-to-market election was made by a U.S. Holder in the current or any prior taxable year (and such election remains in effect), the special tax rules discussed above do not apply. Any gain recognized pursuant to the merger of shares will be treated as ordinary income in the current taxable year. U.S. Holders are urged to consult their tax advisor about the mark-to-market election and whether any such election would be applicable with respect to their particular circumstances.

U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding TCO preferred shares or TCO ADSs if TCO is or has been a PFIC in any taxable year.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to the cash payments received pursuant to the merger of shares paid within the United States (and in certain cases, outside of the United States) to U.S. Holders other than certain exempt recipients (such as corporations), and backup withholding may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report dividends required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or a credit against the U.S. Holder s U.S. federal income tax liability provided the required information is provided to the Internal Revenue Service.

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***Ownership of TCP Preferred Shares or TCP ADSs***

*ADSs*

In general, for U.S. federal income tax purposes, a U.S. Holder who is a beneficial owner of a TCP ADS will be treated as the owner of the underlying TCP preferred share that is represented by such ADS. However, the U.S. Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of Brazilian taxes described in this registration statement could be affected by future actions that may be taken by the U.S. Treasury. Deposits or withdrawals of TCP preferred shares by U.S. Holders for ADSs will not be subject to U.S. federal income tax.

*Distributions on TCP Preferred Shares*

Subject to the discussion under Passive Foreign Investment Company Rules and TCP, the gross amount of distributions paid to U.S. Holders of TCP preferred shares or TCP ADSs will be treated as dividend income to such U.S. Holders, to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income will be includable in the gross income of a U.S. Holder as ordinary income on the day received by the U.S. Holder. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

The amount of any dividend paid in *reais* will equal the United States dollar value of the *reais* received calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. Holder regardless of whether the *reais* are converted into United States dollars. If the *reais* received as a dividend is not converted into United States dollars on the date of receipt, a U.S. Holder will have a basis in the *reais* equal to its United States dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the *reais* will be treated as United States source ordinary income or loss for U.S. federal income tax and foreign tax credit limitation purposes.

Subject to certain conditions and limitations, Brazil s withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against a U.S. Holder s U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the TCP preferred shares (including TCP preferred shares underlying TCP ADSs) will be treated as income from sources outside the United States and will generally constitute passive income or, in the case of certain U.S. Holders, financial services income. Special rules apply to certain individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed $300 ($600 in the case of a joint return). Further, in certain circumstances, a U.S. Holder that (i) has held TCP preferred shares or TCP ADSs for less than a specified minimum period during which it is not protected from risk of loss, (ii) is obligated to make payments related to the dividends or (iii) holds the TCP preferred shares or TCP ADSs in arrangements in which the U.S. Holder s expected economic profit, after non-U.S. taxes, is insubstantial will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on TCP preferred shares or TCP ADSs. The rules governing the foreign tax credit are complex. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

To the extent that the amount of any distribution exceeds TCP s current and accumulated earnings and profits for a taxable year (as determined under U.S. federal income tax principles), the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the TCP preferred shares or TCP ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the investor on a subsequent disposition of the TCP preferred shares or TCP ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange (as discussed below). Consequently, such distributions in excess of TCP s current and accumulated earnings and profits would not give rise to foreign source income and a U.S. Holder would not be able to use the foreign tax credit arising

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from Brazilian withholding tax, if any, imposed on such distribution unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other foreign source income in the appropriate category for foreign tax credit purposes.

Subject to the discussion under Passive Foreign Investment Company Rules and TCP, with respect to U.S. Holders who are individuals, certain dividends received from a foreign corporation before January 1, 2009, on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States may be subject to reduced rates of taxation. The TCP preferred shares are traded on the São Paulo Stock Exchange and the TCP ADSs are listed on the NYSE. However, with respect to preferred stock, it is unclear which securities markets, if any, will be considered to be established securities markets and what constitutes readily tradable for purposes of the reduced rates of taxation on dividends. As a result, there can be no assurance that dividends received by U.S. Holders will be eligible for such reduced rates. Individuals that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of the trading status of TCP preferred shares or TCP ADSs. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

*Sale or Exchange of TCP Preferred Shares or TCP ADSs*

Subject to subject to the discussion under Passive Foreign Investment Company Rules and TCP, for U.S. federal income tax purposes, a U.S. Holder will recognize taxable gain or loss on any sale or exchange of a TCP preferred share or TCP ADS in an amount equal to the difference between the amount realized for the TCP preferred share or TCP ADS and the U.S. Holder s adjusted tax basis (determined in United States dollars) in such preferred share or ADS. Such gain or loss will generally be capital gain or loss. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder will generally be treated as United States source gain or loss for foreign tax credit purposes. Consequently, a U.S. Holder may not be able to use any foreign tax credits arising from any Brazilian withholding or other taxes imposed on the disposition of a TCP preferred share or TCP ADS unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

*Other Brazilian Taxes*

Certain other Brazilian taxes, as discussed in Brazilian Tax Consequences, may not be creditable foreign taxes for U.S. federal income tax purposes, but U.S. holders may be able to deduct such taxes, subject to certain limitations under the Code. U.S. Holders are urged to consult their tax advisors regarding the U.S. federal income tax consequences of these taxes.

*Passive Foreign Investment Company Rules and TCP*

Based on the projected composition of its income and valuation of its assets, including goodwill, TCP does not believe that it will be a PFIC for the current year and does not expect to become one in the future, although there can be no assurance in this regard. However, PFIC status is a factual determination that is made annually. Accordingly, it is possible that TCP may become a PFIC in the current or any future taxable year due to changes in valuation or composition of its income or assets. If TCP is or becomes a PFIC, U.S. Holders could be subject to certain adverse U.S. federal income tax consequences as more fully described below.

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In general, a company is considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income, or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of TCP s assets for each quarter during the taxable year. If TCP owns at least 25% by value of another company s stock, it will be treated, for purposes of the PFIC rules, as owning its proportionate share of the assets and receiving its proportionate share of the income of that company.

In determining that it does not expect to be a PFIC, TCP is relying on its projected capital expenditure plans and projected revenue for the current year and for future years. In addition, its determination is based on a current valuation of its assets, including goodwill. In calculating goodwill, TCP has valued its total assets based on its total market value, which, in turn, is based on the market value of its shares and is subject to change. In addition, TCP has made a number of assumptions regarding the amount of this value allocable to goodwill. TCP believes its valuation approach is reasonable. However, it is possible that the Internal Revenue Service may challenge the valuation of TCP s goodwill, which may also result in it being classified as a PFIC. Because TCP has valued its goodwill based on the market value of its shares, a decrease in the price of its shares may also result in TCP becoming a PFIC.

If TCP is a PFIC for any taxable year during which a U.S. Holder holds its TCP preferred shares or TCP ADSs, such U.S. Holder will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of TCP preferred shares or TCP ADSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the U.S. Holder s holding period for the TCP preferred shares or TCP ADSs will be treated as excess distributions. Under these special tax rules (i) the excess distribution or gain will be allocated ratably over the U.S. Holder s holding period for the TCP preferred shares or TCP ADSs, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which TCP was a PFIC, will be treated as ordinary income, and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If a U.S. Holder holds TCP preferred shares or TCP ADSs in any year in which TCP is classified as a PFIC, such holder would be required to file Internal Revenue Service Form 8621.

In certain circumstances, a U.S. Holder, in lieu of being subject to the excess distribution rules discussed above, may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method provided that such stock is regularly traded on a qualified exchange. The TCP preferred shares are listed on the São Paulo Stock Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the TCP preferred shares will be regularly traded for purposes of the mark-to-market election. Under current law, however, the mark-to-market election may be available to U.S. Holders, because the TCP ADSs are listed on the NYSE, which constitutes a qualified exchange as designated in the Code, although there can be no assurance that the TCP ADSs will be regularly traded.

If a U.S. Holder makes an effective mark-to-market election, such holder will include in each year as ordinary income the excess of the fair market value of such holder s PFIC shares or ADSs at the end of the year over such holder s adjusted tax basis in the shares or ADSs. U.S. Holders will be entitled to deduct as an ordinary loss each year the excess of such holder s adjusted tax basis in the TCP preferred shares or TCP ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

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A U.S. Holder s adjusted tax basis in PFIC preferred shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the TCP preferred shares or TCP ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. U.S. Holders are urged to consult their tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Alternatively, a U.S. Holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the PFIC as a qualified electing fund under section 1295 of the Code. This option is not available to U.S. Holders because TCP does not intend to comply with the requirements necessary to permit U.S. Holders to make this election.

U.S. Holders who are individuals will not be eligible for reduced rates of taxation on any dividends received from TCP prior to January 1, 2009, if TCP is a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding TCP preferred shares or TCP ADSs if TCP is considered a PFIC in any taxable year.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to dividends in respect of the TCP preferred shares or TCP ADSs or the proceeds received on the sale, exchange, or redemption of TCP preferred shares or TCP ADSs paid within the United States (and in certain cases, outside of the United States) to U.S. Holders other than certain exempt recipients (such as corporations), and backup withholding may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report dividends and interest required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or a credit against the U.S. Holder s U.S. federal income tax liability provided the required information is provided to the Internal Revenue Service.

**Valuation Reports**

Under Article 30 of TCP s by-laws, approval of any merger, spin-off, share exchange, consolidation, or dissolution transaction involving, or winding up, any of TCP s controlled subsidiaries must be preceded by an economic and financial analysis conducted by an independent firm as to whether any such transaction provides equitable treatment to TCP and any of the other companies involved in the transaction. Accordingly, TCP retained each of Citigroup Global Markets and Merrill Lynch to render a report on the valuation of the shares of TCP and TCO solely for the purpose of valuing such shares and expressing its view as to whether, as of the date of its report and subject to the assumptions and considerations described in its report, the exchange ratio of 1.27 TCP shares for each TCO share proposed in the merger of shares provided equitable treatment to TCP and TCO as required by Article 30 of TCP s by-laws.

***Valuation Report of Citigroup Global Markets Inc.***

On October 27, 2003, Citigroup Global Markets rendered a valuation report to TCP solely for the purpose of valuing the TCP shares and the TCO shares and expressing its view, based upon its valuations of TCP and TCO and subject to the considerations and limitations set forth in the report, that the exchange ratio proposed in the merger of shares provided equitable treatment to TCP and TCO as required by Article 30 of TCP s by-laws. Citigroup Global Markets valuation report should not be relied upon for any other purpose.

The summary of Citigroup Global Markets valuation report set forth below is qualified in its entirety by reference to the full text of the report, which is included as part of Exhibit 2.1 to our registration statement on

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Form F-4 filed in connection with the proposed merger of shares, and which you can obtain as described below in Part Seven: Additional Information for Shareholders Where You Can Find More Information.

In rendering its valuation report, Citigroup Global Markets held discussions with TCP and TCO representatives concerning the past performance and future prospects of the business, financial, and operating results of TCP and TCO. Citigroup Global Markets valuation report was also based upon business plans of TCP and TCO approved by the boards of directors of TCP and TCO respectively, certain publicly available information on the sector in which TCP and TCO operate, and financial statements of TCP and TCO for the year ended December 31, 2002 and for September 30, 2003. In addition to the foregoing, Citigroup Global Markets also reviewed such other financial studies and analyses and took into account such other matters as it deemed necessary, including its assessment of general economic and market conditions.

In rendering its valuation report, Citigroup Global Markets assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with it. With respect to financial forecasts and other information and data provided to or otherwise revised by or discussed with Citigroup Global Markets, Citigroup Global Markets was advised and assumed that such information and data were reasonably prepared and reflect the best currently available estimates and judgments of TCP and TCO s management, respectively, as to the expected future financial performance of TCP and TCO. Citigroup Global Markets was advised that the boards of directors of TCP and TCO had approved the business plans that were provided to Citigroup Global Markets and were used in its analysis. Notwithstanding the foregoing, neither TCP nor TCO, nor its managers or controlling shareholders, imposed any restrictions on Citigroup Global Markets ability to (i) obtain all information required by Citigroup Global Markets to produce the valuation report and reach the conclusions set forth in the report, (ii) choose independently the methodologies used by Citigroup Global Markets to reach the conclusions set forth in the report, and (iii) reach independently the conclusions set forth in the report.

For purposes of its valuation analysis, Citigroup Global Markets did not take into account tax-related effects that TCO shareholders may experience in connection with the exchange of TCO shares for TCP shares, and any fees and expenses that may be incurred in connection with the settlement of that exchange (such as fees that TCO ADS holders may be charged for certain depositary services). Citigroup Global Markets also did not take into account tax-related effects relating to the unamortized goodwill resulting from the acquisition by TCP of 61.10% of the outstanding common shares of TCO on April 25, 2003.

Citigroup Global Markets valuation report relates to the relative values of TCP and TCO. Citigroup Global Markets did not express any opinion as to what the value of the TCP shares actually will be when issued pursuant to the merger of shares or the price at which the TCP shares will trade subsequent to the merger of shares. Citigroup Global Markets did not make and was not provided with an independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of TCP or TCO nor did Citigroup Global Markets make any physical inspection of the properties or assets of TCP or TCO. Citigroup Global Markets was not requested to, and did not participate in, the negotiation or structuring of the merger of shares, nor was Citigroup Global Markets requested to, and its valuation report did not, address the relative merits of the merger for TCP or TCO or the effect of any other transaction in which TCP or TCO might engage. Citigroup Global Markets was not requested to, and did not, solicit third-party indications of interest in the possible acquisition of all or a part of TCP or TCO.

Citigroup Global Markets valuation report is necessarily based on information available to it, and financial, stock market and other conditions and circumstances existing and disclosed to Citigroup Global Markets as of the date of the valuation report. Citigroup Global Markets has no obligation to update or otherwise revise the valuation report.

The scope of Citigroup Global Markets valuation analysis was limited to the economic value of TCP and TCO and did not distinguish between different classes of shares of the companies. Citigroup Global Markets

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conducted its analysis on the basis that the proposed exchange ratio would provide equitable treatment to both companies, within the meaning of Article 30 of TCP s by-laws, if it fell within the range of exchange ratios resulting from Citigroup Global Markets valuations of TCP and TCO.

**Citigroup Global Markets valuation report was not intended to be and does not constitute a recommendation to TCP, TCO or their respective stockholders, nor does it constitute a recommendation to any stockholder as to any matters relating to the merger of shares.**

The following is a summary of the material analyses undertaken by Citigroup Global Markets in connection with the rendering of its valuation report. The summary includes information presented in tabular format. **In order to understand fully the financial analyses used by Citigroup Global Markets, the table must be read together with the text of the summary. The table alone does not constitute a complete description of the financial analyses.** The following quantitative information, to the extent it is based on market data, is, except as otherwise indicated, based on market data as it existed at or prior to September 30, 2003 and is not necessarily indicative of current or future market conditions.

Given the availability of ten-year management business plans for TCP, TCO and their respective subsidiaries, which were approved by the boards of directors of TCP and TCO respectively, and the opportunity to review those plans with representatives of TCP and TCO, and given the limitations of the public market comparables and precedent transaction methodologies, Citigroup Global Markets elected discounted cash flow analysis as the best methodology for the assessment of TCP and TCO s economic values.

Citigroup Global Markets performed a discounted cash flow analysis to estimate a range of implied present values per share of each of TCP and TCO, as of September 30, 2003. This analysis assumed that each of TCP and TCO continued to operate as a stand-alone entity but took into account TCP s existing 61.10% ownership of the outstanding common shares of TCO acquired on April 25, 2003, valued at the value estimated for TCO in the valuation report as described further below. This range was determined in each case by adding (1) the present value of TCP s or TCO s projected unlevered free cash flows from 2003 through 2012 and (2) the present value of the terminal value of TCP or TCO, respectively, as of 2012. Present value refers to the current value of future cash flows obtained by discounting such future cash flows at an interest rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns, and other appropriate factors. Terminal value refers to the value of a particular asset at a specific future time. In the case of each company, Citigroup Global Markets calculated, on the basis of management s forecasts, unlevered free cash flow as net income, plus or minus net interest expenses (and the related tax impact), plus depreciation and amortization, minus capital expenditures and plus or minus additional changes in net working capital (but, in the case of TCP, without taking into account the value of the unamortized goodwill relating to the acquisition by TCP of 61.10% of the outstanding common shares of TCO on April 25, 2003). Unlevered free cash flow was calculated on the basis of projections in nominal Brazilian *reais* and then converted into U.S. dollars for purposes of the valuation analysis. Citigroup Global Markets assumed, for purposes of its analysis, that the tender offer by TCP for the remaining publicly held common shares of TCO (launched on October 9, 2003) had not yet been consummated; however, Citigroup Global Markets expressed the view that the results of the tender offer would not affect the conclusion reached in its valuation report that the proposed exchange ratio would provide equitable treatment to both companies.

In calculating a terminal value of TCP shares at the end of the period, Citigroup Global Markets applied a range of multiples of management s forecasted EBITDA in 2012 ranging from 5.5x to 6.5x with the respective implied perpetuity growth rates of unlevered free cash flow in 2012 ranging from 4.5% to 4.8%. In calculating a terminal value of TCO shares at the end of the period, Citigroup Global Markets applied a range of multiples of management s forecasted EBITDA in 2012 ranging from 4.5x to 5.5x with the respective implied perpetuity growth rates of unlevered free cash flow in 2012 of 3.5% to 4.1%. These different EBITDA multiples and perpetuity growth rates reflected the impact of future expected differences in per capita income and relevant penetration rates in the markets covered by TCP and TCO. In the case of each company, the unlevered free cash flows and terminal values were then discounted back to September 30, 2003 using a low-

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end U.S. dollar-based weighted average cost of capital (adjusted for Brazilian risk) of 14.4% and a high-end U.S. dollar-based weighted average cost of capital (adjusted for Brazilian risk) of 15.9%. Citigroup Global Markets viewed this discount rate range as appropriate for companies with TCP s and TCO s risk characteristics.

Based on these assumptions, Citigroup Global Markets derived a range of implied equity values per TCP share and per TCO share and a resulting range of implied exchange ratios, as set forth in the following table:

| | Low | High |
|---|---|---|
| TCO Equity Value Per Share | U.S.$11.46 | U.S.$13.39 |
| TCP Equity Value Per Share | U.S. $8.85 | U.S.$10.94 |
| Selected Exchange Ratio Range | 1.22x | 1.30x |

Citigroup Global Markets noted that the exchange ratio of 1.27 TCP shares for each TCO share proposed in the merger of shares fell within the range of implied exchange ratios. Subject to the foregoing and on the basis of the results of the above valuations of TCP and TCO, Citigroup Global Markets expressed the view that the exchange ratio proposed in the merger of shares provided equitable treatment to TCP and TCO as required by Article 30 of TCP s by-laws.

The preceding discussion is a summary of the material financial analyses furnished by Citigroup Global Markets to TCP s board of directors but it does not purport to be a complete description of the analyses performed by Citigroup Global Markets or its presentation to TCP s Board of Directors. The preparation of financial analyses and valuation reports is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. Citigroup Global Markets made no attempt to assign specific weights to particular factors considered, but rather made qualitative judgments as to the significance and relevance of all the factors considered and determined to give its valuation report as described above. Accordingly, Citigroup Global Markets believes that its analyses, and the summary set forth above, must be considered as a whole, and that selecting portions of the analyses and of the factors considered by Citigroup Global Markets, without considering all of the analyses and factors, could create a misleading or incomplete view of the processes underlying the analyses conducted by Citigroup Global Markets and its valuation report.

In its analyses, Citigroup Global Markets made numerous assumptions with respect to TCP, TCO, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of TCP and TCO. Any estimates contained in Citigroup Global Markets analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by these analyses. Estimates of values of companies do not purport to be appraisals or necessarily to reflect the prices at which companies may actually be sold. Because these estimates are inherently subject to uncertainty, none of TCP, TCO, Citigroup Global Markets or any other person assumes responsibility if future results or actual values differ materially from the estimates.

Citigroup Global Markets is an internationally recognized investment banking firm engaged, among other things, in the valuation of businesses and their securities in connection with mergers and acquisitions, restructurings, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. TCP selected Citigroup Global Markets to prepare valuations of TCP and TCO in connection with the proposed exchange on the basis of Citigroup Global Markets international reputation. Citigroup Global Markets has in the past provided investment banking services to TCP and to its controlling shareholders unrelated to the merger of shares, for which Citigroup Global Markets has received compensation. An affiliate of Citigroup Global Markets is currently acting as a lender to TCP. In the ordinary course of its business, Citigroup Global Markets and its affiliates may actively trade or hold the securities of TCP and TCO for their own account or for the accounts of customers and, accordingly, may at any time hold a long or short position in these

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securities. In addition, Citigroup Global Markets and its affiliates may maintain other relationships with TCP and TCO and their respective affiliates. Additionally, the research department and other divisions within Citigroup Global Markets may base their analysis and publications on different market and operating assumptions and on different valuation methodologies when compared with Citigroup Global Markets valuation report. As a result, the research reports and other publications prepared by them may contain entirely different results.

Pursuant to Citigroup Global Markets engagement letter, TCP agreed to pay Citigroup Global Markets a fee for preparation of its valuation report, which fee became payable upon the publication of the report. TCP has also agreed to reimburse Citigroup Global Markets for its reasonable travel and other out-of-pocket expenses incurred in connection with its engagement, including the reasonable fees and expenses of its counsel, and to indemnify Citigroup Global Markets against specific liabilities and expenses arising out of its engagement.

***Valuation Report of Merrill Lynch & Co.***

On October 27, 2003, Merrill Lynch rendered a valuation report to TCP in order to express its view, based upon its valuations of TCP and TCO and subject to the assumptions made, matters considered and limits of the review set forth in the report, that the exchange ratio proposed in the merger of shares constituted equitable treatment for TCP and TCO as required by Article 30 of TCP s by-laws. Merrill Lynch s valuation report should not be relied upon for any other purpose.

**The following summary, which sets forth the material terms of Merrill Lynch s valuation report, is qualified in its entirety by reference to the full text of the report, which contains many of the assumptions made, matters considered, and qualifications and limitations on the review undertaken by Merrill Lynch in connection with the delivery of the report, is included as part of Exhibit 2.1 to our registration statement on Form F-4 filed in connection with the proposed merger of shares, and which you can obtain as described below in Part Seven: Additional Information for Shareholders Where You Can Find More Information. The valuation report was exclusively addressed to TCP and, although it may be available to all shareholders of TCP and TCO in accordance with Article 30 of TCP s by-laws, its scope was limited to the exchange ratio proposed in the merger of shares; the results in the valuation report related only to the scope of Merrill Lynch s assignment and did not extend, and should not be construed as extensive to, the acquisition by TCP of 61.10% of the outstanding common shares of TCO on April 25, 2003 or the tender offer by TCP for the remaining publicly held common shares of TCO launched on October 9, 2003, nor to any other present or future issues or transactions regarding TCP or TCO, the economic group to which they belong or the industry in which they operate. The valuation report did not address the underlying business decision by TCP and TCO to engage in the merger of shares and did not constitute a recommendation to TCP, TCO and/or any holders of TCP shares or TCO shares.**

In arriving at its valuation report, Merrill Lynch, among other things:

- reviewed certain publicly available business and financial information relating to TCP and TCO that Merrill Lynch deemed to be relevant;
- reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of TCP and TCO furnished to Merrill Lynch by TCP;
- conducted discussions with members of senior management of TCP and TCO concerning the matters described in the preceding two bullet points, and the businesses and prospects of TCP and TCO;
- reviewed the results of operations of TCP and TCO and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;
- reviewed such other financial studies and analyses and took into account such other matters as Merrill Lynch deemed necessary, including Merrill Lynch s assessment of general economic, market and monetary conditions; and

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prepared its valuation report on the basis that if the exchange ratio proposed in the merger of shares fell within the range of exchange ratios resulting from Merrill Lynch s valuations of TCP and TCO, then its application would constitute equitable treatment for both companies, within the meaning of Article 30 of TCP s by-laws.

In preparing its valuation report and in order to carry out the actions described in the preceding paragraph, Merrill Lynch assumed and relied on the accuracy and completeness of all information supplied to or otherwise made available to it, discussed with or reviewed by or for it, or publicly available, and Merrill Lynch did not assume any responsibility for independently verifying such information or undertake an independent evaluation or appraisal of any of the assets or liabilities of TCP and TCO, nor did Merrill Lynch evaluate the solvency or fair value of TCP and TCO under any laws relating to bankruptcy, insolvency or similar matters. In addition, Merrill Lynch did not assume any obligation to conduct any physical inspection of the properties or facilities of TCP and TCO. Accordingly, Merrill Lynch obtained a statement executed by officers of TCP as of October 27, 2003, whereby they reasserted the accuracy, legitimacy, and completeness of all such information, documents and reports which were supplied to Merrill Lynch on the dates when those were supplied to it, and whereby they confirmed that there had not been, since those dates, any material changes to the companies business, financial condition, assets, liabilities, business perspectives or commercial transactions and any other significant fact which would have rendered any such information incorrect or misleading in any material aspect and which could have a material effect on the results of the valuation report. Notwithstanding the foregoing, neither TCP nor TCO, nor its managers or controlling shareholders (i) interfered or limited in any manner Merrill Lynch s ability to obtain the information required to produce the valuation report, (ii) determined, or restrained Merrill Lynch s ability to determine, the methodologies used by Merrill Lynch to reach the conclusions set forth in the report, or (iii) determined, or restrained Merrill Lynch s ability to determine, the conclusions set forth in the report.

With respect to the financial forecast information furnished to or discussed with Merrill Lynch by TCP in respect of TCP and TCO, Merrill Lynch assumed that they had been reasonably prepared and reflected, at that time, the best currently available estimates and judgments of TCP and TCO s management, respectively, as to the expected future financial performance of TCP and TCO. In addition, TCP informed Merrill Lynch that the boards of directors of TCP and TCO had approved such financial forecasts. Given that Merrill Lynch s valuation report was based on financial projections and forecasts, it should not be construed as indicative of future results, which may be significantly more or less favorable than what was suggested as a result of the analyses conducted in connection with the preparation of the valuation report. Given that these analyses are intrinsically subject to uncertainties and various events or factors which are beyond the control of TCP, TCO and of Merrill Lynch, neither Merrill Lynch nor any of its affiliates or representatives assume any responsibility if future results differ substantially from the forecasts presented in the valuation report and makes no representation or warranty as to such forecasts.

Merrill Lynch s valuation report was necessarily based on market, economic and other conditions as they existed and could be evaluated on, and on the information made available to Merrill Lynch as of, the date of the valuation report. As a result, the valuation report was valid exclusively as at the date of the valuation report as future events and developments may affect its conclusions. Merrill Lynch did not assume any obligation to update, review, revise or revoke the valuation report as a result of any future development. In connection with the preparation of the valuation report, Merrill Lynch was not authorized by TCP or TCP s board of directors to solicit, nor did Merrill Lynch solicit, third-party indications of interest for the acquisition of all or any part of the TCP or TCO shares. As a result, the results determined in the valuation report did not necessarily correspond to, and should not be construed as representative of, the effective sale value of TCP or TCO or their stock today or at a given future time.

In addition, Merrill Lynch s valuation report did not address: (i) the incremental value to TCO and TCP which may arise from the consummation of the exchange, and (ii) any adjustments to compensate for or which may reflect the specific rights associated with any specific class of shares of either TCP or TCO. As a

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result, Merrill Lynch did not express, and its valuation report did not contain, any views regarding the distribution of the economic value among the several classes of shares of any of TCP and TCO. In preparing the valuation report, Merrill Lynch disregarded (i) the tax consequences of the exchange of TCO shares for TCP shares on holders of TCO shares, and (ii) the impact of any fees and expenses that may result from the settlement of the exchange, including without limitation, those related to the depositary services that may be charged to holders of TCO ADSs. In addition, with the consent of TCP, Merrill Lynch excluded the tax-related effects associated with the unamortized goodwill that resulted from the acquisition by TCP of 61.10% of the outstanding common shares of TCO on April 25, 2003.

The summary set forth below does not purport to be a complete description of the analyses performed by Merrill Lynch. The preparation of a valuation report is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances and therefore, such a report is not readily susceptible to partial or summary description. The estimates contained in those analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual or predictive of future results or values, which may be significantly more or less favorable than those suggested by those analyses. In addition, analyses relating to the value of businesses or securities are not appraisals and may not reflect the prices at which businesses, companies or securities actually may be sold. Accordingly, these analyses are estimates are inherently subject to substantial uncertainty.

In arriving at its opinion, Merrill Lynch made qualitative judgments as to the significance and relevance of each analysis and factor considered by it. Accordingly, Merrill Lynch believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors, without considering all analyses and factors, could create an incomplete view of the processes underlying such analyses and its valuation report. In its analyses, Merrill Lynch made numerous assumptions with respect to TCP, TCO, industry performance, general business, economic, market and financial conditions as well as other matters, many of which are beyond the control of TCP and TCO and involve the application of complex methodologies and educated judgment.

The following is a summary of the material analyses undertaken by Merrill Lynch in connection with the rendering of its valuation report.

The range of values presented in Merrill Lynch s valuation report, in which the economic values of TCP and TCO were found to lie, was ascertained in accordance with the discounted cash flow methodology. Merrill Lynch performed a discounted cash flow analysis to estimate a range of implied present values per share of each of TCP and TCO, as of September 30, 2003, assuming for illustrative purposes that the tender offer by TCP for the remaining publicly held common shares of TCO (launched on October 9, 2003) had already been consummated at a 90% acceptance rate. Merrill Lynch expressed the view that assuming different acceptance rates would not affect the conclusion reached in its valuation report.

Merrill Lynch calculated TCP s enterprise value (including its current stake in TCO) as the sum of the following items: (i) present value as of September 30, 2003 of TCP s projected unlevered free cash flows from 2003 through 2012 (based on management forecasts); (ii) present value of TCP s terminal value as of 2012; and (iii) present value of the value of the tax benefits obtained from the utilization of Global Telecom s net operating losses. For purposes of this analysis, the value of TCP s current stake in TCO was derived by applying TCP s percentage ownership in TCO to TCO s estimated equity value, calculated as described further below. TCP s value per share was then calculated by subtracting TCP s net debt from TCP s enterprise value and dividing the remainder by the number of TCP shares outstanding. Similarly, Merrill Lynch calculated TCO s enterprise value as the sum of the following items: (i) present value as of September 30, 2003 of TCO s projected unlevered cash flows (based on management forecasts), and (ii) present value of TCP s terminal value in 2012. For purposes of this analysis, TCO s cash flows were adjusted to reflect TCO s weighted average ownership of 98.1% of TCO s operating subsidiaries other than NBT (which was not adjusted given TCO s 100% ownership of it). TCO s value per share was then calculated by subtracting TCO s

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net debt from TCO s enterprise value and dividing the remainder by the number of TCO shares outstanding. After calculating a range of values per TCO share and TCP share as described above, Merrill Lynch derived a resulting range of implied exchange ratios.

In calculating a terminal value of TCP and TCO at the end of the period, Merrill Lynch applied a range of annual perpetuity growth rates of unlevered free cash flow ranging from 4% to 5%. The unlevered free cash flows and terminal values were then discounted back to September 30, 2003 using a range of U.S. dollar-based discount rates (adjusted for Brazilian risk) from 13.5% to 15%. Merrill Lynch viewed this discount rate range as appropriate for companies with TCP s and TCO s risk characteristics.

Based on these analyses, Merrill Lynch was of the view that the economic value of TCP ranged from R$10.7 billion to R$14.3 billion, determined as the lowest and the highest value, corresponding to a value per share of R$9.12 to R$12.20, while the economic value of TCO ranged from R$4.5 billion to R$5.6 billion, determined as the lowest and the highest value, corresponding to a value per share of R$12.16 to R$14.98. Subject to and based on the foregoing, Merrill Lynch expressed the view that the exchange ratio proposed in the merger of shares constituted equitable treatment to TCP and TCO.

Pursuant to Merrill Lynch s engagement letter, TCP agreed to pay Merrill Lynch a fee for the preparation of its valuation report, which fee became payable upon the rendering of the report. TCP has also agreed to indemnify Merrill Lynch and certain related persons for certain liabilities arising out of Merrill Lynch s engagement.

TCP retained Merrill Lynch to prepare valuations of TCP and TCO in connection with the proposed exchange based upon Merrill Lynch s qualifications, experience, reputation and expertise. Merrill Lynch is an internationally recognized investment banking and advisory firm. Merrill Lynch, as part of its investment banking business, is continually engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Merrill Lynch does not have any interest, whether direct or indirect, in TCP or in the acquisition by TCP of 61.10% of the outstanding common shares of TCO on April 25, 2003, the tender offer by TCP for the remaining publicly held common shares of TCO launched on October 9, 2003, or the merger of shares, as well as in any other relevant event that may constitute a conflict of interest. Merrill Lynch has in the past provided financial advisory and financing services to TCP and/or its affiliates, and expects to continue to do so and has received, and may receive, fees for the rendering of such services. In the ordinary course of its business, Merrill Lynch may actively trade or hold the securities of TCP and/or TCO for its own account or for the accounts of customers and, accordingly, may at any time hold a long or short position in these securities. In addition, professionals in Merrill Lynch s research department and other divisions may base their analyses and publications on different market and operating assumptions and on different valuation methodologies when compared with Merrill Lynch s valuation report. As a result, the research reports and other publications prepared by them may contain entirely different results.

**Comparative Share and Dividend Information**

***Historical Share Information***

Our preferred shares are currently listed on the São Paulo Stock Exchange under the ticker symbol TSPP4. Our ADSs representing preferred shares are listed on the NYSE under the ticker symbol TCP. Each of our ADSs represents 2,500 preferred shares of our company. The Bank of New York is our depositary and issues the ADRs evidencing our ADSs. Our ADSs commenced trading on the NYSE on November 16, 1998.

TCO s preferred shares are currently listed on the São Paulo Stock Exchange under the ticker symbol and TCOC4. TCO s ADSs representing preferred shares are listed on the NYSE under the ticker symbol TRO. Each TCO ADS represents 3,000 preferred shares of TCO. The Bank of New York is TCO s

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depositary and issues the ADRs evidencing TCO s ADSs. TCO s ADSs commenced trading on the NYSE on November 16, 1998.

The following table shows, for the periods indicated, the high and low of the last reported closing prices per 1,000 TCP preferred shares and per ADS and per 1,000 TCO preferred shares and per ADS. Preferred share prices are as reported on the São Paulo Stock Exchange, and ADS prices are as reported on the NYSE.

| | TCP | | | | TCO | | | |
|---|---|---|---|---|---|---|---|---|
| | 1,000 Preferred Shares | | ADSs | | 1,000 Preferred Shares | | ADSs | |
| | Low | High | Low | High | Low | High | Low | High |
| | *(reais)* | | (U.S. dollars) | | *(reais)* | | (U.S. dollars) | |
| 1998 | | | | | | | | |
| Annual(1) | 6.80 | 14.50 | 16.94 | 30.44 | 0.39 | 2.26 | 2.0000 | 5.9375 |
| 1999 | | | | | | | | |
| Annual | 6.70 | 32.00 | 13.88 | 44.69 | 1.24 | 3.98 | 2.3750 | 7.0625 |
| 2000 | | | | | | | | |
| Annual | 16.66 | 45.30 | 21.06 | 64.50 | 3.45 | 8.90 | 5.4375 | 15.3750 |
| 2001 | | | | | | | | |
| Annual | 5.20 | 23.00 | 4.63 | 31.69 | 3.20 | 9.00 | 4.280 | 13.625 |
| First quarter | 12.68 | 23.00 | 14.81 | 31.69 | 5.66 | 9.00 | 8.000 | 13.625 |
| Second quarter | 12.40 | 17.96 | 14.12 | 19.50 | 5.16 | 7.21 | 6.85 | 9.50 |
| Third quarter | 5.21 | 15.17 | 4.72 | 16.05 | 3.20 | 6.81 | 4.28 | 8.57 |
| Fourth quarter | 5.20 | 8.74 | 4.63 | 9.55 | 4.34 | 5.87 | 4.73 | 7.25 |
| 2002 | | | | | | | | |
| Annual | 2.60 | 9.26 | 1.71 | 10.03 | 2.36 | 5.79 | 2.20 | 7.45 |
| First quarter | 5.72 | 9.26 | 6.33 | 10.03 | 4.36 | 5.79 | 5.40 | 7.45 |
| Second quarter | 4.30 | 6.08 | 3.68 | 6.65 | 3.58 | 5.07 | 3.85 | 6.50 |
| Third quarter | 2.60 | 4.07 | 1.73 | 3.66 | 2.36 | 4.20 | 2.20 | 4.46 |
| Fourth quarter | 2.66 | 4.42 | 1.71 | 3.20 | 2.85 | 4.90 | 2.27 | 4.24 |
| 2003 | | | | | | | | |
| First quarter | 3.17 | 5.05 | 2.20 | 3.81 | 3.90 | 5.73 | 3.28 | 5.01 |
| Second quarter | 4.19 | 4.85 | 3.31 | 4.25 | 5.19 | 5.90 | 4.90 | 6.17 |
| Third quarter | 3.93 | 5.99 | 3.19 | 5.20 | 4.90 | 7.67 | 4.74 | 7.86 |
| Last six months | | | | | | | | |
| June 2003 | 4.38 | 4.79 | 3.81 | 4.25 | 5.36 | 5.80 | 5.58 | 6.17 |
| July 2003 | 4.19 | 4.69 | 3.52 | 4.20 | 5.15 | 5.71 | 5.23 | 6.08 |
| August 2003 | 3.93 | 4.90 | 3.19 | 4.15 | 4.90 | 6.15 | 4.74 | 6.20 |
| September 2003 | 4.80 | 5.99 | 4.15 | 5.20 | 6.00 | 7.67 | 6.25 | 7.86 |
| October 2003 | 5.63 | 6.51 | 4.85 | 5.72 | 7.33 | 8.30 | 7.55 | 8.80 |
| November 2003 | 6.64 | 7.47 | 5.82 | 6.50 | 8.35 | 9.39 | 8.81 | 9.67 |
| December 2003 (through December 15, 2003) | 7.51 | 8.29 | 6.61 | 7.08 | 9.49 | 10.47 | 9.84 | 10.55 |

(1) The preferred shares of TCP and TCO began trading on the São Paulo Stock Exchange on September 21, 1998. The ADSs of TCP and TCO began trading on the New York Stock Exchange on November 16, 1998.

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***Dividend Information***

The following table shows the amount of dividends and interest on shareholders equity declared by each of TCP and TCO on each lot of 1,000 preferred shares and on each ADS for the years 1998 to 2002. The dividend amounts set forth below for each year were paid in the immediately following year.

| | TCP Dividends and Interest on Shareholders Equity Per | | TCO Dividends and Interest on Shareholders Equity Per | |
|---|---|---|---|---|
| | 1,000 Preferred Shares | ADS | 1,000 Preferred Shares | ADS |
| | (R$ per thousand) | (U.S.$ per ADS) | (R$ per thousand) | (U.S.$ per ADS) |
| 1998 | 0.270 | 0.449 | 0.153 | 0.254 |
| 1999 | 0.092 | 0.148 | 0.085 | 0.139 |
| 2000 | 0.245 | 0.281 | 0.096 | 0.121 |
| 2001 | | | 0.204 | 0.155 |
| 2002 | | | 0.212 | 0.220 |

**We urge you to obtain current market quotations.**

**Certain Contracts**

We acquired 61.10% of the common shares of TCO from Fixcel on April 25, 2003. Since that date, TCO has been our subsidiary.

We are parties to a number of agreements and transactions with our affiliates, who are also the affiliates of TCO by virtue of our acquisition of control of TCO. See Item 7.B. Related Party Transactions in Annex A to this prospectus (Information Derived from TCP s Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2002). Before the acquisition of TCO, we had no material contracts, arrangements, understandings, relationships, negotiations or transactions during the periods for which financial statements are included in this prospectus except the negotiations that led to our acquisition of control of TCO.

**Unaudited Pro Forma Combined Financial Data**

The following unaudited pro forma combined financial data gives pro forma effect to our acquisition of control of Global Telecom in December 2002, our acquisition of control of TCO in April 2003, and our acquisition of the remaining common shares and preferred shares of TCO through the tender offer described in Background for the Merger of Shares Acquisition of TCO and Subsequent Tender Offer and the merger of shares, which we refer to in this subsection as the acquisitions. The unaudited pro forma combined financial data also gives pro forma effect to our financial expense relating to indebtedness we incurred to finance the acquisitions. This financial information was prepared from, and should be read in conjunction with, the following historical financial statements, including the applicable notes thereto:

The audited consolidated financial statements of TCP as of and for the year ended December 31, 2002 included in this prospectus;

The unaudited consolidated financial statements of TCP as of and for the nine months ended September 30, 2003 included in this prospectus;

The audited consolidated financial statements of TCO as of and for the year ended December 31, 2002 included in this prospectus;

The unaudited consolidated financial statements of TCO as of and for the nine months ended September 30, 2003 included in this prospectus; and

The audited financial statements of Globaltelcom Telecomunicações S.A., Daini do Brasil S.A. and GTPS S.A. Participações em Investimentos de Telecomunicações, which we refer to collectively as Global Telecom Holdings, for the period from January 1 to

December 27, 2002 included in this prospectus.

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The unaudited pro forma combined statement of operations for the year ended December 31, 2002 and nine months ended September 30, 2003 give effect to the acquisitions described above as if they had occurred on January 1, 2002. The unaudited pro forma combined balance sheet as at September 30, 2003 gives effect to the tender offer and merger of shares as if they had occurred on that date.

The unaudited pro forma combined financial information was prepared in accordance Brazilian corporate law, which differs in certain material respects from U.S. GAAP. Note 17 to the TCP unaudited consolidated financial statements for the nine months ended September 30, 2003 included in this prospectus, and note 37 to the TCP audited consolidated financial statements for the year ended December 31, 2002 included in this prospectus describe the principal differences between Brazilian corporate law and U.S. GAAP as they relate to TCP. The unaudited pro forma combined financial information includes a pro forma reconciliation from Brazilian corporate law to U.S. GAAP of net loss for the nine months ended September 30, 2003 and for the year ended December 31, 2002 and of shareholders equity as of September 30, 2003.

The audited consolidated financial statements of TCO for the year ended December 31, 2002 were prepared using Brazilian GAAP. Brazilian GAAP requires companies to recognize inflationary effects in their financial statements until December 31, 2000. For purposes of presenting the unaudited pro forma combined financial information, the historical financial information relating to TCO was adjusted to include unaudited adjustments to conform TCO s historical financial information to Brazilian corporate law.

As discussed in Note 2 to the unaudited consolidated financial statements of TCP as of and for the nine months ended September 30, 2003, on January 1, 2003, Telesp Celular began to defer revenues from prepaid services and amortize that revenue based on subscriber airtime usage. The unaudited pro forma combined financial information includes pro forma adjustments to adopt this change in accounting policy as of January 1, 2002.

The pro forma adjustments presented in the unaudited pro forma combined financial information give effect to estimates made by TCP s management and assumptions that it believes to be reasonable. The unaudited pro forma combined financial information does not include pro forma adjustments to take into account any synergies or cost savings which may or are expected to occur as a result of the acquisitions.

The unaudited pro forma combined financial information was prepared for illustrative purposes only. This information does not purport to represent what the actual results of operations or financial position of TCP would have been if the acquisitions had actually occurred on the dates assumed and does not necessarily indicate what TCP s future operating results or combined financial position will be.

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**Telesp Celular Participações S.A.**

**Pro Forma Condensed Statement of Loss**
**For the Year Ended December 31, 2002**

| | | | | | Pro Forma Adjustments | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **TCP** | **Global Telecom Holdings** | **TCO(1)** | **Change in Accounting Policy(2)** | **Acquisition of Global Telecom Holdings(3)** | **Acquisition of TCO and Subsequent Tender Offer(4)** | **Effect of Merger of Shares(5)** | **Eliminations** | **Pro Forma TCP** |
| NET OPERATING REVENUE | 3,390.6 | 512.2 | 1,561.3 | (11.8) | | | | (13.7) | 5,438.6 |
| COST OF SERVICES AND GOODS | (1,648.4) | (423.8) | (741.8) | 6.0 | | | | 13.7 | (2,794.3) |
| GROSS PROFIT | 1,742.2 | 88.4 | 819.5 | (5.8) | | | | | 2,644.3 |
| OPERATING EXPENSES: | | | | | | | | | |
| Selling expenses | (617.9) | (124.4) | (215.3) | | | | | | (957.6) |
| General and administrative expenses | (288.5) | (45.7) | (141.8) | | | | | | (476.0) |
| Other net operating income (expenses) | (70.1) | (26.1) | (3.8) | | | (175.0) | (3.0) | (6.5) | (284.5) |
| OPERATING INCOME BEFORE EQUITY IN LOSSES OF UNCONSOLIDATED SUBSIDIARY AND NET FINANCIAL EXPENSES | 765.7 | (107.8) | 458.6 | (5.8) | | (175.0) | (3.0) | (6.5) | 926.2 |
| EQUITY IN LOSSES OF UNCONSOLIDATED SUBSIDIARY | (890.7) | | | | | | | 890.7 | |
| NET FINANCIAL EXPENSES | (808.4) | (663.1) | 4.0 | | (71.3) | (420.2) | | 6.5 | (1,952.5) |
| OPERATING INCOME (LOSS) | (933.4) | (770.9) | 462.6 | (5.8) | (71.3) | (595.2) | (3.0) | 890.7 | (1,026.3) |
| Net nonoperating income (expenses) | 10.0 | (0.4) | (17.6) | | | | | | (8.0) |
| INCOME (LOSS) BEFORE EXTRAORDINARY ITEM, MINORITY INTEREST AND INCOME TAXES | (923.4) | (771.3) | 445.0 | (5.8) | (71.3) | (595.2) | (3.0) | 890.7 | (1,034.3) |
| Extraordinary item | (170.9) | | | | | | | (250.5)**(6)** | (421.4) |
| INCOME (LOSS) BEFORE MINORITY INTEREST AND INCOME TAXES | (1,094.3) | (771.3) | 445.0 | (5.8) | (71.3) | (595.2) | (3.0) | 640.2 | (1,455.7) |
| Minority interest | | | (6.1) | | | (232.7) | 232.7 | | (6.1) |
| Income taxes | (46.5) | | (109.6) | 2.0 | | | | | (154.1) |
| NET INCOME (LOSS) | (1,140.8) | (771.3) | 329.3 | (3.8) | (71.3) | (827.9) | 229.7 | 640.2 | (1,615.9) |
| U.S. GAAP ADJUSTMENTS | (354.9) | (146.9) | (8.8) | 3.8 | (24.6) | (19.7) | (430) | 121.9 **(7)** | (859.1) |
| NET INCOME (LOSS) UNDER U.S. GAAP | (1.495.7) | (918.2) | 320.5 | | (95.9) | (847.6) | (200.3) | 762.1 | (2,475.2) |
| EARNINGS PER SHARE: | | | | | | | | | |
| Loss per thousand shares common and preferred Brazilian corporate law | | | | | | | | | (1.07) |
| Basic and diluted loss per thousand shares common and preferred U.S. GAAP | | | | | | | | | (2.42) |

(1) As discussed above, the audited consolidated financial statements of TCO for the year ended December 31, 2002 were prepared using Brazilian GAAP. Brazilian GAAP requires companies to recognize inflationary effects in their financial statements until December 31, 2000. For purposes of presenting the unaudited pro forma combined financial information, the historical financial information relating to TCO was adjusted to include unaudited adjustments to conform TCO s historical financial information to Brazilian corporate law. The pro forma U.S. GAAP adjustments have been adjusted from the amount included in the audited consolidated financial statements of TCO for the year ended December 31, 2002 included in this prospectus as follows:

| | |
|---|---|
| U.S. GAAP adjustments to net income included in the audited consolidated financial statements of TCO for the year ended December 31, 2002 | (17.7) |
| Impact on U.S. GAAP adjustments for differences in accounting for inflation between Brazilian GAAP, Brazilian corporate law and U.S. GAAP | 13.3 |
| Tax effect on the above adjustment | (4.4) |
| As adjusted | (8.8) |

(2) As discussed in Note 2 to the unaudited condensed consolidated financial statements of TCP as of and for the nine-months ended September 30, 2003, on January 1, 2003, Telesp Celular began to defer revenues from prepaid services and amortize that revenue based on subscriber airtime usage. The pro forma adjustments are made to adopt this change in accounting policy as of January 1, 2002. For U.S. GAAP purposes, this adjustment has been reversed since the Company already records a U.S. GAAP adjustment to defer revenues from prepaid services.

(3) The pro forma adjustments for Global Telecom Holdings represent (i) pro forma interest expense associated with the acquisition of Global Telecom Holdings and (ii) pro forma U.S. GAAP adjustments associated with the acquisition of the remaining 17% of the capital of Global Telecom Holdings. The pro forma U.S. GAAP adjustments related to the acquisition of the remaining capital of Global Telecom Holdings represent the amortization of the purchase accounting adjustments described in Note 37d., Acquisition of remaining interest in the Holdings, to the audited consolidated financial statements of TCP as of and for the year ended December 31, 2002. As discussed in Note 37d. to the audited consolidated financial statements of TCP as of and for the year ended December 31, 2002, the goodwill recorded under Brazilian corporate law related to the acquisition of Global Telecom Holdings is not being amortized.

(4) The pro forma adjustments for the acquisition of TCO and subsequent tender offer represent (i) pro forma amortization of the goodwill recorded under Brazilian corporate law, (ii) pro forma interest expense associated with the financings obtained to fund the acquisition of TCO and subsequent tender offer, and (iii) pro forma U.S. GAAP adjustments to reflect purchase accounting in accordance with SFAS No. 141, Business Combinations, for these transactions.

*Brazilian Corporate Law*

Under Brazilian corporate law, the goodwill associated with the acquisition of TCO and subsequent tender offer has been attributed to (i) an excess of the fair values of property, plant and equipment over book value of R$170.9 and (ii) R$1,483.2 related to future profitable operations. A pro forma adjustment has been recorded to give effect to the amortization of goodwill associated with the purchase of TCO. TCP amortizes goodwill attributed to the fair values of property, plant and equipment over the respective useful lives of the underlying assets. The goodwill related to future profitable operations is amortized on a straight-line basis over a 10 year period. The pro forma adjustment to minority interests represents the recognition of the 70.69% minority interests in TCO.

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*U.S. GAAP*

The pro forma U.S. GAAP adjustments represent the difference between the pro forma adjustment for the amortization of goodwill under Brazilian corporate law described above and the application of purchase accounting in accordance with SFAS No. 141, Business Combinations. Following is the estimated purchase price allocation that was used for purposes of calculating the U.S. GAAP pro forma adjustments.

| | **Amount** |
|---|---|
| Amounts representing the historical net assets of TCO under U.S. GAAP(g) | 422.5 |
| Fair value adjustments: | |
| Property, plant and equipment | 43.7(a) |
| Intangible assets customer list | 161.1(b) |
| Debt | 19.0(c) |
| Intangible related to concession | 566.1(d) |
| Goodwill | 865.0(e) |
| Purchase price(f) | 2,077.4 |

(a) Difference being amortized over approximately 10 years, representing the average remaining useful lives of the relating assets.

(b) Difference being amortized over two years, representing the average customer life.

(c) The adjustment to long-term debt is being amortized by the effective interest method over the remaining maturities of the underlying TCO debt obligations.

(d) The concession is being amortized on a straight-line basis over respective remaining term of TCO s licenses, representing a weighted average period of 6 years.

(e) In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not being amortized for U.S. GAAP purposes.

(f) The purchase price is comprised of R$1,538.6 related to the acquisition of control of TCO and R$538.8 related to the tender offer.

(g) Represents purchases of 20.37% on April 25, 2003 and 8.62% on November 18, 2003.

(5) The pro forma adjustments for the merger of shares of TCO with TCP represent (i) the pro forma amortization of negative goodwill recorded under Brazilian corporate law, (ii) pro forma U.S. GAAP adjustments to reflect purchase accounting in accordance with SFAS No. 141, Business Combinations and (iii) the elimination of minority interest based on expected 100% ownership of TCO.

*Brazilian Corporate Law*

Under Brazilian corporate law, the merger of shares of TCO with TCP will result in pro forma negative goodwill amounting to R$29.7, representing the excess of the book value of the TCO shares to be exchanged over the book value of the TCP shares to be issued in exchange. The pro forma negative goodwill is being amortized on a straight-line basis over a 10 year period.

*U.S. GAAP*

The pro forma U.S. GAAP adjustments represent difference between the pro forma adjustment for the amortization of pro forma negative goodwill under Brazilian corporate law described above and the application of purchase accounting in accordance with SFAS No. 141, Business Combinations, for the

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**PART FIVE THE MERGER OF SHARES**

acquisition of the minority interest of TCO. Under U.S. GAAP, the pro forma purchase price for the TCO shares was calculated based on the market price of TCP common and preferred shares on December 3, 2003 of R$6.10 and R$7.85, respectively. As disclosed in Note 16 to TCP s unaudited consolidated financial statements for the nine months ended September 30, 2003 included in this prospectus, TCP expects to issue 14,198,233 thousand common shares and 321,013,707 preferred shares to complete the merger. Following is the estimated purchase price allocation that was used for purposes of calculating the U.S. GAAP pro forma adjustments.

| | Amount |
|---|---|
| Amounts representing 70.69% of the historical net assets of TCO under U.S. GAAP | 1,028.9 |
| Fair value adjustments: | |
| Property, plant and equipment | 114.5(a) |
| Intangible assets customer list | 438.0(b) |
| Debt | 15.3(c) |
| Intangible related to concession | 1,009.9(d) |
| Purchase price(e) | 2,606.6 |

(a) Difference being amortized over approximately 10 years, representing the average remaining useful lives of the relating assets.

(b) Difference being amortized over two years, representing the average customer life.

(c) The adjustment to long-term debt is being amortized by the effective interest method over the remaining maturities of the underlying TCO debt obligations.

(d) The concession is being amortized on a straight-line basis over respective remaining term of TCO s licenses, representing a weighted average period of 6 years.

(e) Based on the market price on December 3, 2003 of the TCP shares to be issued to complete the merger of shares.

(6) Pro forma elimination represents an adjustment for TCP s portion of the negative equity of Global Telecom Holdings on the date of acquisition. This amount was recorded as equity in losses of unconsolidated subsidiary under Brazilian corporate law. For the purposes of these pro forma financial statements, this amount has been reclassified to an extraordinary item. The extraordinary item in TCP s audited consolidated financial statements for the year ended December 31, 2002 included in this prospectus represents an impairment recorded on the goodwill associated with the acquisition of Global Telecom Holdings.

(7) Pro forma U.S. GAAP adjustment represents the elimination of U.S. GAAP adjustments relating to the equity in losses of Global Telecom Holdings included in Note 37 TCP s audited consolidated financial statements for the year ended December 31, 2002.

**PART FIVE THE MERGER OF SHARES**

**Telesp Celular Participações S.A.**

**Pro Forma Condensed Statement of Loss**
**For the Nine Month Period Ended September 30, 2003**

| | | | | | Pro Forma Adjustments | | | |
|---|---|---|---|---|---|---|---|---|
| | **TCP** | **TCO** | **TCO Eliminations May-September(1)** | **Change in Accounting Policy(2)** | **Acquisition of TCO and Subsequent Tender Offer(3)** | **Effect of Merger of Shares(4)** | **Eliminations** | **Pro Forma TCP** |
| NET OPERATING REVENUE | 4,169.0 | 1,406.4 | (838.4) | 93.9 | | | (15.2) | 4,815.7 |
| COST OF SERVICES AND GOODS | (2,070.9) | (642.4) | 383.3 | (33.4) | | | 15.2 | (2,348.2) |
| GROSS PROFIT | 2,098.1 | 764.0 | (455.1) | 60.5 | | | | 2,467.5 |
| OPERATING EXPENSES: | | | | | | | | |
| Selling expenses | (938.9) | (206.2) | 124.7 | | | | | (1,020.4) |
| General and administrative expenses | (392.9) | (139.4) | 77.8 | | | | | (454.5) |
| Other net operating income (expenses) | 2.2 | 1.5 | (2.3) | | (75.4) | 2.2 | | (71.8) |
| OPERATING INCOME BEFORE NET FINANCIAL EXPENSES | 768.5 | 419.9 | (254.9) | 60.5 | (75.4) | 2.2 | | 920.8 |
| NET FINANCIAL EXPENSES | (843.0) | 94.5 | (50.7) | | (179.9) | | | (979.1) |
| OPERATING INCOME (LOSS) | (74.5) | 514.4 | (305.6) | 60.5 | (255.3) | 2.2 | | (58.3) |
| Net nonoperating income (expenses) | (4.9) | (19.2) | 3.6 | | | | | (20.5) |
| INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND INCOME TAXES | (79.4) | 495.2 | (302.0) | 60.5 | (255.3) | 2.2 | | (78.8) |
| Extraordinary item | | | | | | | | |
| INCOME (LOSS) BEFORE INCOME TAXES | (79.4) | 495.2 | (302.0) | 60.5 | (255.3) | 2.2 | | (78.8) |
| Minority interest | (155) | (6.0) | 3.4 | | (79.1) | 230.7 | | (6.0) |
| Income taxes | (228.4) | (162.9) | 107.5 | (20.6) | | | | (304.4) |
| NET INCOME (LOSS) | (462.8) | 326.3 | (191.1) | 39.9 | (334,4) | 232.9 | | (389.2) |
| U.S. GAAP ADJUSTMENTS | 537.3 | 17.2 | 4.3 | (39.9) | (14.6) | (314.9) | (13.7) | 175.7 |
| NET INCOME (LOSS) UNDER U.S. GAAP | 74.5 | 343.5 | (186.8) | | (349.0) | (82) | (13.7) | (213.5) |
| EARNINGS PER SHARE: | | | | | | | | |
| Loss per thousand shares common and preferred Brazilian corporate law | | | | | | | | (0.26) |
| Basic and diluted loss per thousand shares common and preferred U.S. GAAP | | | | | | | | (0.14) |

(1) Represents the reversal of five months of operations of TCO that were consolidated in TCP.

(2) See Note 2 to the pro forma condensed statement of loss for the year ended December 31, 2002. The pro forma adjustments are made to reverse the impact of the cumulative effect of adopting this change in accounting policy as of January 1, 2002. For U.S. GAAP purposes, this adjustment has been reversed since TCP already records a U.S. GAAP adjustment to defer revenues from prepaid services.

(3) See Note 4 to the pro forma condensed statement of loss for the year ended December 31, 2002.

(4) See Note 7 to the pro forma condensed statement of loss for the year ended December 31, 2002.

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**Telesp Celular Participaçoes S.A.**

**Pro Forma Condensed Balance Sheet**
**As of September 30, 2003**

| | | Pro Forma Adjustments | | |
|---|---|---|---|---|
| | TCP | Tender Offer(1) | Effect of Merger of Shares(2) | Pro Forma TCP |
| CURRENT ASSETS: | 3,480.6 | | | 3,480.6 |
| NONCURRENT ASSETS: | | | | |
| Recoverable taxes | 63.5 | | | 63.5 |
| Deferred income tax | 766.4 | | | 766.4 |
| Derivatives | 874.0 | | | 874.0 |
| Prepaid expenses | 15.3 | | | 15.3 |
| Other noncurrent assets | 72.0 | | | 72.0 |
| Total noncurrent assets | 1,791.2 | | | 1,791.2 |
| PERMANENT ASSETS: | | | | |
| Goodwill | 1,919.1 | 411.6 | (29.7) | 2,301.0 |
| Goodwill on merged subsidiary, net | 60.4 | | | 60.4 |
| Property, plant and equipment, net | 5,106.8 | | | 5,106.8 |
| Deferred assets, net | 212.4 | | | 212.4 |
| Other | 0.3 | | | 0.3 |
| Total permanent assets | 7,299.0 | 411.6 | (29.7) | 7,680.9 |
| Total assets | 12,570.8 | 411.6 | (29.7) | 12,952.7 |
| CURRENT LIABILITIES: | 4,191.5 | | | 4,191.5 |
| NONCURRENT LIABILITIES: | | | | |
| Loans and financing | 3,273.4 | 538.8 | | 3,812.2 |
| Reserve for contingencies | 147.3 | | | 147.3 |
| Taxes payable | 161.2 | | | 161.2 |
| Derivatives | 4.5 | | | 4.5 |
| Other liabilities | 0.5 | | | 0.5 |
| Provision for pension plan | 2.2 | | | 2.2 |
| Total noncurrent liabilities | 3,589.1 | 538.8 | | 4,127.9 |
| | 1,241.4 | (127.2) | (1,042.6) | 71.6 |
| MINORITY INTEREST | | | | |
| SHAREHOLDERS EQUITY: | | | | |
| Capital stock | 4,373.6 | | 1,012.9 | 5,386.5 |
| Capital reserve | 1,067.8 | | | 1,067.8 |
| Accumulated deficit | (1,892.9) | | | (1,892.9) |
| Total shareholders equity | 3,548.5 | | 1,012.9 | 4,561.4 |
| Funds for capitalization | 0.3 | | | 0.3 |
| | 3,548.8 | | 1,012.9 | 4,561.7 |

| | | | | |
|---|---|---|---|---|
| SHAREHOLDERS EQUITY AND FUNDS FOR CAPITALIZATION | | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 12,570.8 | 411.6 | (29.7) | 12,952.7 |
| Shareholders Equity under Brazilian Corporate Law | 3,548.5 | | 1,012.9 | 4,561.4 |
| U.S. GAAP Adjustments | (169.4) | | 1,593.7 | 1,424.3 |
| Shareholders Equity under U.S. GAAP | 3,379.1 | | 2,606.6 | 5,985.7 |

(1) The pro forma adjustments for the tender offer represent (i) the recognition of pro forma goodwill recorded under Brazilian corporate law and (ii) the recognition of the financings associated with the tender offer. The pro forma U.S. GAAP adjustments relating to the purchase accounting recorded in

**PART FIVE THE MERGER OF SHARES**

accordance with SFAS No. 141, Business Combinations, do not result in a net adjustment to shareholders equity at September 30, 2003. See Note 4 to the pro forma condensed statement of loss for the year ended December 31, 2002 for the estimated purchase price allocation that was used for purposes of calculating the U.S. GAAP pro forma adjustments.

(2) The pro forma adjustments for the merger of shares of TCO with TCP represent (i) the recognition of pro forma negative goodwill recorded under Brazilian corporate law, (ii) pro forma U.S. GAAP adjustments to reflect purchase accounting in accordance with SFAS No. 141, Business Combinations and (iii) the elimination of minority interest based on expected 100% ownership of TCO. See Note 5 to the pro forma condensed statement of loss for the year ended December 31, 2002. At September 30, 2003, the U.S. GAAP adjustment represents the recognition of the purchase price for the acquisition of the TCO shares based on the market price of the TCP shares to be issued.

# PART SIX SHAREHOLDER RIGHTS

## General

Both TCP and TCO are incorporated in the Federative Republic of Brazil. Your rights as a holder of TCO securities and your future rights as a holder of TCP securities after the merger of shares are and will be governed by Brazilian law and the bylaws *(estatutos sociais)* of TCO and TCP, respectively. You should read the bylaws of TCP and TCO, copies of which are attached as exhibits to TCP s Annual Report on Form 20-F for the year ended December 31, 2002 and TCO s Annual Report on Form 20-F for the year ended December 31, 2002. See Where You Can Find More Information.

There are no material differences between your rights as a holder of TCO securities and your future rights as a holder of TCP securities after the merger of shares.

As of December 15, 2003, TCP s capital stock consisted of 1,171,784,352,509 outstanding shares, no par value, divided between 409,383,864,536 common shares and 762,400,487,973 preferred shares.

As of December 15, 2003, TCO s capital stock consisted of 379,200,036,582 outstanding shares, no par value, divided between 126,433,338,109 common shares (including 5,791,393,886 common shares held in treasury that will be cancelled in the merger of shares) and 252,766,698,473 preferred shares.

## Information About Historical Dividend Payments

The tables below summarize the history of payments of dividends and interest on shareholders equity of TCP and TCO for 2000, 2001 and 2002. Each table sets forth amounts in *reais* per thousand common shares and preferred shares and amounts in U.S. dollars per ADSs translated into U.S. dollars at the prevailing selling rate for *reais* into U.S. dollars at the commercial rate on each of the respective dates of those payments.

***TCP***

We pay our shareholders both dividends and interest on shareholders equity. Interest on shareholders equity *(juros sobre capital próprio)* is a form of distribution that is tax deductible in Brazil. The payments we made in 2000 represented both dividends and interest on shareholders equity. We will not pay dividends or interest on shareholders equity for the year ended December 31, 2002 because of negative net income from equity in Global Telecom and the financial cost related to the Global Telecom and TCO acquisitions.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2000(1) | | 2001(2) | | 2002(2) | |
| | (R$ per thousand) | (U.S.$ per ADS) | (R$ per thousand) | (U.S.$ per ADS) | (R$ per thousand) | (U.S.$ per ADS) |
| Dividends plus interest on shareholders equity: | | | | | | |
| Common | 0.112948 | | | | | |
| Preferred | 0.245220 | 0.280655 | | | | |

(1) We paid dividends for 2000 on June 8, 2001.

(2) We did not pay dividends for 2001 and 2002 due to losses incurred from its equity investment in Global Telecom in those years.

Our bylaws state that holders of preferred shares will have full voting rights in the event that we do not pay minimum dividends to those shareholders for three consecutive fiscal years, and those shareholders will retain those voting rights until the minimum dividends are paid. Because we do not anticipate being able to pay dividends with respect to the year ended December 31, 2003, we expect that holders of preferred

shares

**PART SIX SHAREHOLDER RIGHTS**

will be able to exercise voting rights after the 2004 general shareholders meeting and until we pay the minimum dividends for 2003 or any subsequent year.

***TCO***

TCO pays its shareholders both dividends and interest on shareholders equity. In 2000 and 2001, payments made by TCO represented both dividends and interest on shareholders equity. In 2002, TCO paid only interest on shareholders equity.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2000 | | 2001 | | 2002 | |
| | (R$ per thousand) | (U.S.$ per ADS) | (R$ per thousand) | (U.S.$ per ADS) | (R$ per thousand) | (U.S.$ per ADS) |
| Dividends plus interest on shareholders equity: | | | | | | |
| Common | 0.0960485 | | 0.204234 | | 0.212425 | |
| Preferred | 0.0960485 | 0.1209 | 0.204234 | 0.1547 | 0.212425 | 0.2199 |

TCO paid interest on shareholders equity for the year ended December 31, 2002 in the amount of R$79,473.85.

**Description of TCP Capital Stock**

Set forth below are the material terms of the capital stock of TCP and brief summaries of certain provisions of TCP s bylaws and the Brazilian corporation law.

***Objectives and Purposes***

We are a publicly traded company registered with the Brazilian securities commission under No. 01771-0. Article 2 of our bylaws provides that our corporate purpose is to:

exercise the control of operating companies which provide cellular mobile telecommunications services, personal mobile services and other services in conformity with the concessions, authorizations and permissions that have been granted to us;

promote, through our subsidiaries or controlled companies, the expansion and implementation of the telecommunications services within our concessions, authorizations and permissions;

promote, carry out and direct the financing of capital from internal or external sources to be used by us or our controlled companies;

promote, carry out and encourage study and research activities aimed at the development of the telecommunications sector;

perform, through our subsidiaries and affiliated companies, specialized technical services related to the telecommunications sector;

promote, encourage, carry out and coordinate, through our subsidiaries or controlled companies, the development and training of personnel necessary to perform activities in the telecommunications sector;

carry out and promote the import of goods and services for the operations of our subsidiaries and controlled companies;

execute other activities connected or related to our objective;

participate in the equity capital of other companies; and

trade equipment and materials necessary or useful for providing telecommunications services.

**PART SIX SHAREHOLDER RIGHTS**

***Directors***

The following is a description of some of the provisions of our bylaws concerning our board of directors:

- The board of directors has the power to approve investments and acquisition of assets, assume any obligation and execute contracts not included in the budget for an amount exceeding R$300 million, the public issuance of promissory notes, and the acquisition of our shares for cancellation or deposit with a custodian; and
- The board of directors has the power to allocate between the directors and the executive officers the total remuneration for directors and executive officers determined at a shareholders meeting.

Pursuant to Brazilian corporate law, each member of the board of directors must hold at least one share of our capital stock to be elected as a director. Members of the board of directors generally stand for reelection at the same shareholders meeting. There are no provisions in our by-laws with respect to:

- age limits for retirement of directors; or
- anti-takeover mechanisms or other procedures designed to delay, defer or prevent changes in our control.

Although there are no provisions in our bylaws, Brazilian corporate law prohibits directors from:

- performing any act of generosity using corporate assets to the detriment of the corporation;
- by virtue of his position, receiving any type of direct, or indirect, personal advantage from third parties, without authorization in the bylaws or from a general meeting; and
- taking part in any corporate transaction in which he has an interest that conflicts with an interest of the corporation, nor in the decisions made by the other directors on the matter.

***Allocations of Profits***

At each annual shareholders meeting, the board of directors is required to recommend how net profits for the preceding fiscal year are to be allocated. Under the Brazilian corporation law, this allocation may be made among (a) dividends and (b) profits reserves.

For the purposes of the Brazilian corporation law, net profits are defined as net income after income tax and social contribution for the relevant fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to warrants, income bonds and employees and management s participation in a company s profits.

*Dividends*

*Mandatory Dividends.* Under the Brazilian corporation law and TCP s bylaws, TCP is required to distribute to all shareholders as a non-cumulative mandatory dividend an amount equal to 25% of adjusted net income. For this purpose, adjusted net income is an amount equal to net profits adjusted to reflect allocations to and from:

- the legal reserve;
- the contingency reserve; and
- the unrealized profits reserve.

*Allocation of the Mandatory Dividends.* In the allocation of any mandatory dividend, preferred shareholders have a preference, equal to a non-cumulative annual dividend, equal to the higher of (i) 6% of the amount obtained by dividing the amount of subscribed capital by the number of TCP s shares or (ii) 3% of the amount obtained by dividing shareholders equity by the number of TCP s outstanding shares.

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**PART SIX SHAREHOLDER RIGHTS**

In case the amount of mandatory dividends is greater than preferred dividends, after the payment of preferred dividends, the excess will be allocated first as dividend payments to holders of common shares in an amount equal to the preferred dividend received by the preferred shareholders, and the remainder will be distributed equally among holders of preferred and common shares.

In case the amount of mandatory dividends is less than preferred dividends, the mandatory dividends will be fully allocated as preferred dividends and TCP will not be obligated to distribute any mandatory dividends to common shareholders. In this case, TCP must pay preferred dividends out of accumulated profits and other profits reserves, if available.

*Dividends relating to net profits remaining after allocations to mandatory dividends and profits reserves*. Under the Brazilian corporation law, any net profits remaining after allocations to mandatory dividends and profits reserves (as described below) must be distributed to preferred and common shareholders, observing the same preference described above in connection with mandatory dividends.

*Profits Reserves*

The Brazilian corporation law requires the allocation of 5% of the net profits to a statutory reserve (legal reserve), not to exceed 20% of the company s paid-in capital, which may be used to absorb accumulated losses or increase capital. Other allocations may be made on a discretionary basis by the shareholders to the following reserves:

a contingency reserve, for an anticipated loss that is deemed probable in future years (provided that any amounts so allocated in a previous year must be reversed in the fiscal year in which such loss does not occur or charged off in the event the loss occurs);

an unrealized profits reserve, in an amount equal to the excess between mandatory dividends and the sum of the share of net equity earnings of affiliated companies and profits, gains and earnings in sales and services to be received after the end of the next succeeding fiscal year;

bylaws reserve, in the amount set forth in the bylaws (currently, TCP bylaws do not provide for such type of reserve); and

a retained profits reserve, for plant expansion and other capital investment projects, in an amount based on a capital expenditure budget previously approved by the shareholders (provided that if the budget is for a term greater than one year, it must be reviewed annually by the shareholders until the investment is completed).

*Restrictions on the Distributions of Dividends and Allocations to Profits Reserves*

*Restrictions on Distributions of Dividends.* Unlike TCP s preferred dividends (which must necessarily be distributed as described above), TCP is permitted to suspend the payment of a mandatory dividend in respect of common shares if:

its board of directors report to the annual shareholders meeting that the distribution would be incompatible with the financial circumstances of that company; and

the shareholders (after reviewing the opinion of the auditors council) ratify this conclusion at the shareholders meeting.

In this case:

the management must forward to the CVM, within five days of the shareholders meeting, an explanation for the suspension of the payment of the mandatory dividends; and

**PART SIX SHAREHOLDER RIGHTS**

the amounts not distributed would be recorded as a special reserve and, if not absorbed by losses in subsequent fiscal years, be distributed as dividends as soon as the financial condition of the company permitted.

*Restrictions on the Allocations to Profits Reserves.* Under the Brazilian corporation law, allocations to the bylaws reserve and retained profits reserve may not hinder the payment of mandatory dividends. In addition, any excess of the sum of the profits reserves (other than contingency reserves and unrealized profits reserves) over total capital must be distributed as dividends.

The amounts available for distribution are determined on the basis of financial statements prepared in accordance with Brazilian accounting principles.

*Payment of Dividends*

TCP is required by the Brazilian corporation law and its bylaws to hold an annual shareholders meeting by April 30 of each year, at which an annual dividend may be declared by a decision of TCP s shareholders on the recommendation of its board of directors. The payment of annual dividends in any given year is based on the financial statements prepared for the preceding fiscal year ending December 31. Under Brazilian corporation law, dividends must be paid on the date determined at a shareholders meeting or, in the absence of such determination, within 60 days as of the annual meeting date (and in any event within the same fiscal year in which such dividend was declared). A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which time unclaimed dividends revert to the company. Dividends are credited to the holder of record of TCP shares.

***Voting Rights***

*Common Shareholders*

Each TCP common share entitles the holder to one vote at shareholders meetings. TCP s preferred shares do not entitle their holders to vote except in the limited circumstances described below. Under the Brazilian corporation law, a shareholders meeting is required in order to:

- amend the bylaws (including Article 136 Meetings, as defined below);
- elect or discharge corporate officers and auditors at any time;
- review the yearly accounts drawn up by the corporation s officers and to decide on the financial statements presented by them;
- authorize the issuance of debentures;
- suspend the rights of a shareholder;
- approve the appraisal of assets contributed as capital by shareholders;
- authorize the issuance of founders shares;
- effect the corporation s transformation, consolidation, incorporation and divestment, its dissolution and liquidation, to elect and discharge its liquidators, and to examine the liquidators accounts; and
- authorize the officers to file for bankruptcy or request reorganization.

In the case of urgency, the filing for bankruptcy or the request for reorganization may be made by the officers, as agreed with the majority shareholder, if any, which officers must subsequently call a general meeting in order to vote on the matter. Such a meeting would be called by publication of a notice in the official gazette of the State of São Paulo and two other Brazilian gazettes determined by the shareholders at least 30 days prior to the meeting, but would not generally require any other form of notice.

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*Preferred Shareholders*

Under the Brazilian corporation law, TCP s preferred shares will acquire full voting rights in the event the company fails for three consecutive fiscal years to pay the mandatory minimum dividend, and those voting rights will continue until such payment is made. In addition, in case minority preferred shareholders hold more than 10% of TCP s total capital (or if they reach such percentage when added to the minority common shareholders, in case neither such preferred nor such common shareholders hold 10% on their own), such shareholders may appoint one board member and one alternate. In addition, minority preferred shareholders may appoint one audit council member (and one alternate). In case minority common shareholders hold more than 10% of TCP s voting capital, such common shareholders may appoint one audit council member (and one alternate).

Because TCP did not pay the mandatory minimum dividends for the years ended December 31, 2001 and 2002 and does not anticipate being able to pay dividends for the year ended December 31, 2003, TCP expects that holders of preferred shares will be able to exercise voting rights after the 2004 general shareholders meeting and until TCP pays the minimum dividends for 2003 or any subsequent year. However, once TCP pays the minimum dividends for 2003 or any subsequent year, those voting rights will cease.

Under the bylaws of TCP, preferred shareholders are entitled (a) to vote at any meeting to approve any long term agreement between TCP and its controlled entities, on the one side, and TCP s controlling shareholders and their affiliates (or entities related to TCP) on the other, except in case the agreement contains standard provisions and (b) to vote at any meeting to approve any changes to the bylaws that would revoke such voting rights (and TCP s bylaws provisions that require that an equitable treatment be confirmed by a third-party appraiser in any corporate reorganization transaction involving TCP and a controlled entity and a 30-day call notice be delivered with respect to any Article 136 Meeting (as defined below)). In any circumstances in which holders of TCP s preferred shares are entitled to vote, each preferred share will entitle its holder to one vote.

***Meetings of Shareholders***

Under the Brazilian corporation law, notice of a general or extraordinary shareholders meeting must be published in the state s official gazette and two other gazettes determined by the shareholders at least 15 days before the scheduled date of the meeting (other than in the case of Article 136 Meetings, which require a 30-day advance notice).

According to the Brazilian corporate law, a general meeting of shareholders is necessary in order to change the rights of the holders of stock, except that a shareholder may not be deprived of the following rights, whether through a change in the bylaws or a shareholders meeting.

The right to participate in corporate profits;

The right to participate in the assets of the corporation in the case of liquidation;

The right to supervise the management of the corporate business as provided for in the Brazilian corporate law;

The right of first refusal in the subscription of shares, founders shares convertible into shares, debentures convertible into shares and subscription bonuses; and

The right to withdraw from the corporation as provided in the Brazilian corporate law.

Article 136 Meetings are required to:

change the preferences, advantages and conditions for the redemption or amortization of one or more classes of preferred shares or to create a more favored class;

reduce the minimum dividend;

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approve the merger, amalgamation or spin-off of TCP;

participate in a group of companies;

change the company s corporate purpose;

suspend the liquidation of the company or in case of dissolution of the company; and

issue founders shares.

On the first call, a meeting may be held only with a minimum quorum of one-fourth of the holders of voting shares. Extraordinary meetings whose objective is the amendment of the bylaws may be held on the first call only with minimum of two-thirds of the voting capital present. In addition, some decisions require the approval of a qualified quorum of at least one-half of the holders of voting shares.

If the quorum is not met on the first call, a second notice must be published at least eight days before the second meeting date (other than in the case of an Article 136 Meeting, which second notice must be published at least ten days prior to the second meeting). On a second call, a meeting may be held regardless of the number of voting shares represented.

The holders attending a general meeting must produce proof of their shareholder status, in accordance with the following rules:

upon request, an owner of a registered share must exhibit a document proving his or her identity; and

as a rule, an owner of a book entry share or of a share in custody must exhibit or deposit at the corporation, in addition to a document proving his identity, the corresponding proof produced by the financial institution.

A shareholder may be represented at a general meeting by a proxy appointed less than one year before, which must be a shareholder, a corporation officer, a lawyer or a financial institution. An investment fund must be represented by its investment fund officer.

***Preemptive Rights***

Each TCP shareholder has a general preemptive right to subscribe for shares in any capital increase in proportion to its holdings (other than in public issuance of shares or exchange offers for the acquisition of control of other companies). In the specific case of preferred shareholders, they will not have preemptive rights in connection with issuances of common shares by TCP in order to reduce the minimum number of non-voting shares to 50% of the total number of issued shares. When applicable, shareholders are given a minimum period of 30 days following the publication of a notice of a capital increase to exercise that right.

In the event of a capital increase that would maintain or increase the proportion of capital represented by TCP s preferred shares, holders of preferred shares would have preemptive rights to subscribe only for newly issued preferred shares. In the event of a capital increase that would reduce the proportion of capital represented by TCP s preferred shares, holders of preferred shares would have preemptive rights to subscribe for preferred shares in proportion to their holdings and to TCP s common shares only to the extent necessary to prevent dilution of their interests, except as described in the preceding paragraph.

According to the Brazilian corporate law, shareholders must pay in full for the shares underwritten or acquired pursuant to the exercise of preemptive rights. Shareholders are not liable for future capital calls by TCP.

## PART SIX SHAREHOLDER RIGHTS

***Redemption Rights***

Under Brazilian corporation law, a dissenting shareholder (including a preferred or a common shareholder) may seek redemption of its shares if TCP s general shareholders meeting decides to:

- create a new class of preferred shares with rights superior to those of existing classes;
- change any right the preferred shares carry, including their amortization or redemption rights (appraisal rights in this case are limited to the holders of shares of a class whose rights are negatively impacted by such change);
- reduce the mandatory dividends;
- change TCP s corporate purpose;
- approve (1) a merger of shares *(incorporação de ações)* involving TCP, (2) a merger of TCP with and into another company, (3) an amalgamation of TCP with another company, (4) the acquisition of another company at a price that exceeds certain limits set forth in Brazilian corporation law, or (5) the participation in a group of companies, in each case provided that certain liquidity and dispersion standards are not met according to the Brazilian corporation law; and
- approve a spin-off of TCP, if in connection with such transaction there is a reduction of minimum dividends, the company becomes part of a group of companies, or there is a change in the company s corporate purposes (in this last case, except in case the entity receiving the company s assets has a substantially identical corporate purpose).

The right to redemption lapses 30 days after publication of the minutes of the relevant extraordinary general shareholders meeting or, if the resolution requires the approval of the majority of TCP s preferred shares affected by the resolution in a special meeting within 30 days from the publication of the minutes of that special meeting. TCP would be entitled to reconsider any action giving rise to redemption rights within ten days after the expiration of those rights if the redemption of shares of dissenting shareholders would jeopardize its financial stability.

TCP s shares are redeemable at their book value, determined on the basis of the last annual balance sheet approved by the shareholders. If the shareholders meeting giving rise to redemption rights occurs more than 60 days after the date of the last annual balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet that is as of a date within 60 days of that shareholders meeting.

***Rights to Share in the Event of Liquidation***

A general meeting of shareholders may decide that, before completing any liquidation of TCP and after all creditors have been paid, TCP s assets will be distributed to the shareholders as such assets are ascertained.

***Form and Transfer***

TCP s shares are maintained in book-entry form with a custodian and transfer agent, Banco ABN AMRO Real, and the transfer of shares is effected by an entry made by the transfer agent on its books, debiting the share account of the seller and crediting the share account of the purchaser against presentation of a written order of the seller or judicial authorization or order in an appropriate document that remains in the possession of the transfer agent.

Transfers of shares by a foreign investor are made in the same way and executed by such investor s local agent on the investor s behalf, except that if the original investment was registered with the *Banco Central do Brasil*, or the Central Bank, under Brazilian regulations governing foreign investment in capital markets, the foreign investor should also seek amendment, if necessary, of the appropriate electronic registration through its local agent to reflect the new ownership.

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The São Paulo Stock Exchange operates a central clearing system in which participating institutions have accounts. All shares placed into the system will be deposited in custody with the relevant stock exchange through a Brazilian institution authorized to operate by the Central Bank and having a clearing account with the relevant stock exchange. The fact that the shares are subject to custody with the relevant stock exchange will be reflected in the register of shareholders. Each participating shareholder will, in turn, be registered in the register of the beneficial shareholders to be maintained by the relevant stock exchange and will be treated in the same way as a registered shareholder.

***Exchange Controls and Central Bank Registration***

There are no restrictions on ownership or voting of preferred shares or common shares by individuals or legal entities domiciled outside of Brazil (other than, in the case of common shares, if they constitute a control stake of TCP).

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation that generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. These restrictions on the remittance of foreign capital abroad may hinder or prevent the holders of TCP s shares, including the preferred shares underlying TCP s ADSs, from converting dividends, distributions or the proceeds from any sale of these shares into U.S. dollars and remitting the U.S. dollars abroad. A non-Brazilian holder of shares may experience delays in effecting Central Bank registration, which may delay remittances abroad. This delay may adversely affect the amount in U.S. dollars received by the non-Brazilian holder.

There are three different mechanisms for effecting Central Bank registration, one that applies to holders of ADSs and two that apply to direct holders of TCP shares.

*ADSs.* The ADSs benefit from the certificate of foreign capital registration that permits The Bank of New York, as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain the appropriate registration, either under Resolution 2,689 of the National Monetary Council and CVM Instruction 325 or under Law No. 4,131/62, as described below.

*Resolution 2,689.* Investors residing outside Brazil, including institutional investors, are authorized to buy and sell equity instruments, including TCP shares, traded publicly in Brazil under Resolution 2,689 of the National Monetary Council and Instruction CVM 325. With certain limited exceptions, Resolution 2,689 investors are permitted to carry out any type of transaction in the Brazilian financial capital markets involving a security traded on a stock, future or organized over-the-counter market. Investments and remittances are made through the commercial rate exchange market. In order to become a Resolution 2,689 investor, an investor residing outside Brazil must appoint a representative in Brazil with powers to take actions relating to the investment, appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and the CVM and through its representative, register itself with the CVM and the investment with the Central Bank. If the holder is not registered under Resolution 2,689, it may be subject to a less favorable tax treatment. See Part Five: The Merger of Shares Material Tax Considerations Brazilian Tax Considerations.

*Law No. 4,131/62.* Direct investors residing outside Brazil may also request registration with the Central Bank under Law No. 4,131/62, which is used by certain investors who do not wish to trade their shares publicly. Registration under Law No. 4,131/62 of preferred shares that have been previously withdrawn from TCP s ADS program is subject to the approval of the Central Bank.

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Under current Brazilian legislation, the federal government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil s balance of payments. For approximately six months in 1989 and early 1990, the federal government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil s foreign currency reserves. These amounts were subsequently released in accordance with federal government directives. The federal government may impose similar restrictions on foreign repatriations in the future.

The legislation and regulations described in this section Exchange Controls and Central Bank Registration are the same as those that apply to TCO securities.

**Description of American Depositary Shares**

***Description of American Depositary Receipts in Respect of Preferred Shares***

The following is a summary of the material provisions of the deposit agreement among TCP, the depositary, and the registered holders and beneficial owners from time to time of ADSs, pursuant to which the ADSs representing preferred shares are to be issued. This summary is subject to and qualified in its entirety by reference to the deposit agreement, including the form of ADRs attached thereto. The deposit agreement is an exhibit to this registration statement of which this prospectus is a part. Copies of the deposit agreement are available for inspection at the Corporate Trust Office of the depositary, currently located at 101 Barclay Street, New York, NY 10286, and at the office of the custodian, Banco Itaú S.A., currently located at Av. Engenheiro Armando de Arruda Pereira 707 9° andar Torre Eldoro Villela Jabaquara CEP 04344-902, São Paulo, Brazil, Attention: Superintendência de Serviços para o Mercado de Capitais. The depositary s principal executive office is located at One Wall Street, New York, NY 10286.

***American Depositary Receipts***

ADRs evidencing ADSs are issuable under the deposit agreement. Each ADR is in registered form and evidences a specified number of ADSs, each ADSs representing 2,500 preferred shares, deposited with the custodian and registered in the name of the depositary or its nominee. We refer to those preferred shares, together with any additional preferred shares at any time deposited or deemed deposited under the deposit agreement and any and all other securities, cash and other property received by the depositary or the custodian in respect of those preferred shares and at such time held under the deposit agreement as the deposited securities . Only persons in whose names ADRs are registered on the books of the depositary are treated by the depositary as the owners of the ADRs.

***Deposit, Transfer and Withdrawal***

The bylaws of TCP provide that ownership of capital generally is evidenced only by a record of ownership maintained by TCP or an accredited intermediary, such as a bank, acting as a registrar for the shares. Currently, this function is performed by TCP as registrar. Accordingly, all references to the deposit, surrender and delivery of the preferred shares refer only to book-entry transfers of the preferred shares in Brazil. All references to the deposit, surrender and delivery of the ADSs or the ADRs refer not only to the physical transfer of any certificates evidencing those ADSs but also to any book-entry transfers.

The preferred shares represented by ADSs were deposited pursuant to the deposit agreement by book-entry transfer to an account of the custodian and registered in the name of the custodian. The depositary is the holder of record on the books of the custodian of all those preferred shares.

The depositary has agreed, subject to the terms and conditions of the deposit agreement, that upon delivery (including by book-entry credit) to the custodian of the preferred shares (or evidence of rights to receive preferred shares) pursuant to appropriate instruments of transfer in a form satisfactory to the custodian and upon payment of the fees, charges and taxes provided in the deposit agreement, the depositary will

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execute and deliver at its Corporate Trust Office to, or upon the written order of, the person or persons named in the notice of the custodian delivered to the depositary or requested by the person depositing those preferred shares with the depositary, an ADR or ADRs registered in the name or names of such person or persons and evidencing any authorized number of ADSs requested by such person or persons.

The depositary will refuse to accept preferred shares for deposit whenever it is notified in writing that the deposit would result in any violation of applicable laws.

Upon surrender at the Corporate Trust Office of the depositary of an ADR for the purpose of withdrawal of the deposited securities represented by the ADSs evidenced by that ADR and upon payment of the fees of the depositary, governmental charges and taxes provided in the deposit agreement, and subject to the terms and conditions of the deposit agreement, the bylaws of TCP, the deposited securities and applicable law, the owner of that ADR will be entitled to book-entry credit with the registrar together with physical delivery, to the owner or upon the owner s order, as permitted by applicable law, of the amount of deposited securities at the time represented by the ADSs evidenced by that ADR. Any forwarding of share certificates, other securities, property, cash and other documents of title to the owner will be at the risk and expense of the owner.

Subject to the terms and conditions of the deposit agreement and any limitations that may be established by the depositary and unless requested by TCP to cease doing so, the depositary may execute and deliver ADRs before receipt of preferred shares (which we refer to as a pre-release ), may deliver those preferred shares upon receipt and cancellation of ADRs that have been pre-released, whether or not the cancellation is before the termination of that pre-release or the depositary knows that the ADR has been pre-released, and may receive ADRs in lieu of preferred shares in satisfaction of a pre-release.

Each pre-release must be:

- preceded or accompanied by a written representation and agreement from the person to whom the ADRs are to be delivered that the pre-release or its customer (1) owns the preferred shares or ADRs to be remitted, (2) assigns all beneficial right, title and interest in those preferred shares or ADRs to the depositary for the benefit of the owners and (3) agrees to hold those preferred shares or ADRs for the account of the depositary until their delivery upon the depositary s request;

- at all times fully collateralized with cash or U.S. government securities;

- terminable by the depositary on not more than five business days notice; and

- subject to such further indemnities and credit regulations as the depositary deems appropriate.

The depositary will set limits on pre-release transactions to be entered into hereunder with any particular person on a case by case basis as the depositary deems appropriate. The collateral referred to in the second bullet point above will be held by the depositary for the benefit of the owner as security for the performance of the person to whom ADRs are to be delivered of its obligations to the depositary in connection with a pre-release transaction, including that person s obligation to deliver preferred shares or ADRs upon termination of a pre-release transaction.

The depositary will also limit the number of ADRs involved in pre-release transactions so that preferred shares not deposited but represented by ADSs outstanding at any time as a result of pre-releases will not exceed 30% of the ADSs outstanding (without giving effect to ADSs evidenced by ADRs outstanding as a result of the pre-release), but the depositary reserves the right to disregard that limit from time to time as it deems appropriate and may, with the prior written consent of TCP, change that limit for purposes of general application. The depositary may retain for its own account any compensation received by it in connection with the foregoing. Neither TCP nor the custodian will incur any liability to owners of ADRs as a result of these transactions.

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***Dividends, Other Distributions and Rights***

The depositary is required to convert into U.S. dollars, as promptly as practicable and, in any event, within one business day of receipt, all cash dividends or other distributions, net proceeds from the sale of securities, property or rights denominated in any currency other than U.S. dollars that it receives in respect of the deposited securities if permitted under applicable laws and the depositary determines that the conversion into U.S. dollars and transfer to the United States can be effected on a reasonable basis. If at the time of conversion, the resulting U.S. dollars can, pursuant to applicable law, be transferred out of Brazil for distribution, the depositary will as promptly as practicable distribute the amount received to the owner entitled thereto in proportion to the number of ADSs evidenced by that owner s ADRs without regard to any distinctions among owners on account of exchange restrictions or otherwise. The amount distributed will be reduced by any amounts to be withheld by TCP, the depositary or the custodian, including amounts on account of any applicable taxes and certain other expenses.

If conversion, transfer or distribution can be effected only with the approval or license of any government or agency thereof, the depositary will file as promptly as practicable an application for approval or license. However, the depositary will be entitled to rely upon Brazilian counsel in such matters, which counsel will be instructed to act as promptly as possible. If, pursuant to applicable law, any foreign currency received by the depositary or the custodian cannot be converted to U.S. dollars, or if any approval or license of any government or agency thereof that is required for the conversion is denied or, in the opinion of the depositary, cannot be promptly obtained at a reasonable cost, the depositary will, (1) as to the portion of the foreign currency that is convertible into U.S. dollars, make the conversion and, if permitted by applicable law, transfer the U.S. dollars to the United States and distribute them to the owners entitled thereto or, to the extent that the transfer is not permitted, hold such U.S. dollars for the benefit of the owners entitled thereto, uninvested and without liability for interest thereon and (2) as to the nonconvertible balance, if any, if requested in writing by an owner, distribute or cause the custodian to distribute the foreign currency (or an appropriate document evidencing the right to receive the foreign currency) received by the depositary or the custodian to that owner, and the depositary will hold or will cause the custodian to hold any amounts of nonconvertible foreign currency not distributed uninvested and without liability for the interest thereon for the respective accounts of the owners entitled to receive those amounts.

If TCP declares a dividend in, or free distribution of, additional preferred shares with respect to the preferred shares represented by the ADSs, the depositary may, or will if TCP so requests, distribute as promptly as practicable to the owners of outstanding ADRs entitled thereto, in proportion to the number of ADSs evidenced by their ADRs, additional ADRs evidencing an aggregate number of ADSs that represents the number of preferred shares received as that dividend or free distribution, subject to the terms and conditions of the deposit agreement including the withholding of any tax or other governmental charge and the payment of fees of the depositary.

The depositary may withhold any such distribution of ADRs if it has not received satisfactory assurances from TCP that the distribution does not require registration under the Securities Act or is exempt from registration under the provisions of the Securities Act. In lieu of delivering ADRs for fractional ADSs in the event of any dividend or free distribution, the depositary will sell the amount of preferred shares represented by the aggregate of those fractions and distribute the net proceeds in accordance with the deposit agreement. If additional ADRs are not so distributed, each ADSs will thereafter also represent the additional preferred shares distributed upon the deposited securities represented thereby.

If TCP offers, or causes to be offered, to the holders of preferred shares any rights to subscribe for additional preferred shares or any rights of any other nature, the depositary, after consultation with TCP, will have discretion as to the procedure to be followed in making such rights available to owners or in disposing of those rights for the benefit of the owners and making the net proceeds available to the owners. If, by the terms of that rights offering or for any other reason, it would be unlawful for the depositary to either make the rights available to any owners or dispose of the rights and make the net proceeds available to those owners, then the

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depositary will allow the rights to lapse. If at the time of the offering of any rights, the depositary determines in its discretion that it is lawful and feasible to make the rights available to all or certain owners, the depositary may, and at the request of TCP will, distribute to any owners to whom it determines the distribution to be lawful and feasible, in proportion to the number of ADSs held by those owners, warrants or other instruments therefor in such form as it deems appropriate.

If the depositary determines that it is not lawful or feasible to make such rights available to all or certain owners, it may, and at the request of TCP, will use its best efforts that are reasonable under the circumstances to sell the rights, warrants or other instruments in proportion to the number of ADSs held by the owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of those sales for the account of those owners otherwise entitled to such rights, warrants or other instruments or an averaged or other practical basis without regard to any distinctions among the owners because of exchange restrictions or the date of delivery of any ADR or ADRs or otherwise. The depositary will not be responsible for any failure to determine that it may be lawful or feasible to make those rights available to owners in general or any owner or owners in particular.

In circumstances in which rights would not otherwise be distributed, if an owner requests the distribution of warrants or other instruments in order to exercise the rights allocable to the ADSs of that owner, the depositary will promptly make such rights available to that owner upon written notice from TCP to the depositary that (1) TCP has elected in its sole discretion to permit the rights to be exercised and (2) the owner has executed such documents as TCP has determined in its sole discretion are reasonably required under applicable law. Upon instruction pursuant to those warrants or other instruments to the depositary from that owner to exercise such rights, upon payment by that owner to the depositary for the account of the owner of an amount equal to the purchase price of the preferred shares to be received in exercise of the rights, and upon payment of the fees of the depositary as set forth in those warrants or other instruments, the depositary will, on behalf of that owner, exercise the rights and purchase the preferred shares, and TCP will cause the preferred shares so purchased to be delivered to the depositary on behalf of that owner. As agent for that owner, the depositary will cause the preferred shares so purchased to be deposited, and will execute and deliver ADRs to that owner pursuant to the deposit agreement. Such a disposal of rights may reduce the owners proportionate equity interest in TCP.

The depositary will not offer rights to owners having an address of record in the United States unless a registration statement under the Securities Act is in effect with respect to those rights and the securities to which the rights relate or unless the offering and sale thereof to those owners are exempt from registration under the Securities Act. However, TCP will have no obligation to file a registration statement under the Securities Act to make available to owners any right to subscribe for or to purchase any of the securities.

Whenever the depositary receives any distribution other than cash, preferred shares or rights in respect of the deposited securities, the depositary will, as promptly as practicable, cause the securities or property received by it to be distributed to the owners entitled thereto, after deduction or upon payment of any fees and expenses of the depositary or any taxes or other governmental charges, in proportion to their holdings, respectively, in any manner that the depositary may deem equitable and practicable for accomplishing such distribution. However, if in the opinion of the depositary that distribution cannot be made proportionately among the owners entitled thereto, or if for any other reason (including, but not limited to, any requirement that TCP or the depositary withhold an amount on account of taxes or other governmental charges or that the securities must be registered under the Securities Act, in order to be distributed to owners) the depositary deems the distribution not to be feasible, the depositary may, after consultation with TCP, adopt such method as it may deem equitable and practicable for the purpose of effecting the distribution, including, but not limited to, the public or private sale of the securities or property received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the depositary) will be distributed by the depositary to the owners entitled thereto as in the case of a distribution received in cash.

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In connection with any distribution to owners, TCP will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by TCP and owing to that authority or agency by TCP; and the depositary and the custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the depositary or custodian. If the depositary determines that any distribution of property other than cash (including preferred shares and rights to subscribe therefor) is subject to any tax or governmental charge that the depositary is obligated to withhold, the depositary may, by public or private sale, dispose of all or a portion of such property in the amounts and in manner as the depositary deems necessary and practicable to pay those taxes or governmental charges, and the depositary will distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes or governmental charges to the owners entitled thereto in proportion to the number of ADSs held by them, respectively.

Upon any change in nominal or par value, or split-up, consolidation or any other reclassification of deposited securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting TCP or to which it is a party, any preferred shares or other securities that will be received by the depositary or the custodian in exchange for, in conversion of, or in respect of deposited securities will be treated as new deposited securities under the deposit agreement, and ADSs will thenceforth represent, in addition to the existing deposited securities, the right to receive the new deposited securities so received in exchange or conversion, unless additional ADRs are delivered pursuant to the following sentence. In any such case the depositary may, and will if TCP so requests, execute and deliver additional ADRs as in the case of a distribution in preferred shares, or call for the surrender of outstanding ADRs to be exchanged for new ADRs specifically describing the new deposited securities.

***Record Dates***

Whenever any cash dividend or other cash distribution becomes payable, or whenever any distribution other than cash is made, or whenever rights are issued with respect to the deposited securities, or whenever for any reason the depositary causes a change in the number of preferred shares that are represented by each ADSs or whenever the depositary receives notice of any meeting of holders of preferred shares or other deposited securities, or whenever the depositary shall find it necessary or convenient, the depositary will fix a record date, which date shall, to the extent practicable, be either the same date as the record date fixed by TCP or, if different from the record date fixed by TCP, fixed after consultation with TCP, (1) for the determination of the owners who will be entitled to receive that dividend, distribution of rights or the net proceeds of the sale thereof or entitled to give instructions for the exercise of voting rights at any such meeting, or (2) on or after which such ADSs will represent the changed number of preferred shares, all subject to the provisions of the deposit agreement.

***Voting of the Deposited Securities***

Preferred shares do not entitle their holders to vote on any matter presented to a vote of shareholders of TCP except as set forth under Description of TCP Capital Stock Voting Rights Preferred Shareholders, which subsection is hereby incorporated by reference herein. Under those circumstances and if, in the future, the terms of the preferred shares are revised or amended to provide for voting rights, or if the preferred shares obtain voting rights pursuant to the Brazilian corporation law or any change in any other laws, rules, or regulations applicable to those shares or through any change in interpretation of those laws, the following will apply.

As soon as practicable after receipt of notice of any meeting or solicitation of consents or proxies of holders of preferred shares or other deposited securities, if requested in writing by TCP, the depositary will mail to all owners a notice, the form of which notice will be in the sole discretion of the depositary, containing:

the information included in the notice of meeting received by the depositary from TCP (or a summary in English of the notice of the meeting);

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a statement that the owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Brazilian law, the bylaws and the provisions of the deposited securities, to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the preferred shares or other deposited securities represented by their respective ADSs; and

a statement as to the manner in which such instructions may be given, including an express indication that instructions may be given or deemed given in accordance with the last sentence of the next paragraph if no instruction is received, to the depositary to give a discretionary proxy to a person designated by TCP.

Upon the written request of an owner on the record date received on or before the date established by the depositary for that purpose, the depositary will endeavor, insofar as practicable, to vote or cause to be voted the amount of preferred shares or other deposited securities represented by the ADSs evidenced by such ADRs in accordance with the instructions set forth in such request. The depositary may not itself exercise any voting discretion over any preferred shares. If the depositary does not receive instructions from an owner on or before the date established by the depositary for that purpose, the depositary will deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by TCP to vote the underlying preferred shares, provided that no such discretionary proxy will be given with respect to any matter as to which TCP informs the depositary that (1) TCP does not wish such proxy given, (2) substantial opposition exists or (3) the rights of holders of preferred shares will be materially and adversely affected. Under Brazilian law, the depositary may vote the preferred shares or other deposited securities represented by ADSs and evidenced by ADRs in accordance with the instructions of the owners even if those instructions differ among those owners.

Owners are not entitled to attend meetings of shareholders. An owner wishing to do so must cancel its ADRs and obtain delivery of the underlying shares, registered in the name of that owner, before the record date for attendance at the meeting.

***Reports and Other Communications***

The depositary will make available for inspection by owners at its Corporate Trust Office any reports and communications, including any proxy soliciting materials, received from TCP, which are both (1) received by the depositary as the holder of the deposited securities and (2) made generally available to holders of those deposited securities by TCP. The depositary will also send to owners copies of those reports when furnished by TCP pursuant to the deposit agreement. Any reports and communications furnished to the depositary by TCP will be furnished in English to the extent that those materials are required to be translated into English pursuant to any regulations of the U.S. Securities and Exchange Commission, or the SEC.

***Amendment and Termination of the Deposit Agreement***

The form of the ADRs and any provision of the deposit agreement may at any time and from time to time be amended by agreement between TCP and the depositary in any respect that they may deem necessary or desirable. Any amendment that imposes or increases any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or that otherwise prejudices any substantial existing rights of owners, will not take effect as to the outstanding ADRs until the expiration of 30 days after notice of that amendment has been given to the owners of outstanding ADRs. Every owner and beneficial owner at the time that amendment becomes effective will be deemed, by continuing to hold that ADR, to consent and agree to the amendment and to be bound by the deposit agreement as amended thereby. In no event will any amendment impair the right of any owner to surrender its ADR and receive the preferred shares and other property represented thereby, except to comply with mandatory provisions of applicable law.

The depositary will at any time at the direction of TCP terminate the deposit agreement by mailing a notice of termination to the owners then outstanding at least 30 days before the date fixed in the notice for

termination. The depositary may likewise terminate the deposit agreement by mailing a notice of termination to TCP and the owners, if at any time after 60 days have expired after the depositary has delivered written notice of its election to resign to TCP, a successor depositary has not been appointed and accepted its appointment in accordance with the terms of the deposit agreement. If any ADRs remain outstanding after the date of termination, the depositary thereafter will discontinue the registration of transfer of ADRs, will suspend the distribution of dividends to the holders thereof and will not give any further notices or perform any further acts under the deposit agreement, except for (1) the collection of dividends and other distributions pertaining to the deposited securities, (2) the sale of rights and other property and (3) the delivery of preferred shares, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADRs (after deducting, in each case, the fees of the depositary for the surrender of an ADR and other expenses set forth in the deposit agreement and any applicable taxes or governmental charges).

At any time after the expiration of one year from the date of termination, the depositary may sell the deposited securities then held thereunder and hold uninvested the net proceeds of the sale, together with any other cash, unsegregated and without liability for interest, for the pro rata benefit of the owners that have not theretofore surrendered their ADRs. Those owners will then become general creditors of the depositary with respect to those net proceeds. After making such a sale, the depositary will be discharged from all obligations under the deposit agreement, except to account for net proceeds and other cash (after deducting, in each case, the fee of the depositary and other expenses set forth in the deposit agreement for the surrender of an ADR and any applicable taxes or other governmental charges) and certain indemnification obligations. Upon termination of the deposit agreement, TCP will also be discharged from all obligations thereunder, except for certain obligations to the depositary.

***Charges of Depositary***

The depositary will charge (to the extent permitted by applicable law) any party depositing or withdrawing preferred shares or any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by TCP or an exchange of stock regarding the ADRs or deposited securities or a distribution of ADRs pursuant to the deposit agreement), whichever is applicable:

- taxes and other governmental charges;
- any registration fees that may from time to time be in effect for the registration of transfers of preferred shares generally on the register of TCP or the registrar and applicable to transfers of preferred shares to the name of the depositary or its nominee or the custodian or its nominee on the making of deposits or withdrawals under the deposit agreement;
- cable, telex and facsimile transmission expenses expressly provided in the deposit agreement to be at the expense of owners or persons depositing preferred shares;
- expenses incurred by the depositary in the conversion of foreign currency pursuant to the deposit agreement;
- a fee not in excess of $5.00 per 100 ADSs (or portion thereof) for the execution and delivery of ADRs pursuant to the deposit agreement and the surrender of ADRs pursuant to the deposit agreement;
- a fee for the distribution of proceeds of sales of securities or rights pursuant to the deposit agreement.

The fee described in the last bullet point may be deducted from such proceeds and will be in an amount equal to the lesser of (1) the fee for issuance of ADSs referred to above that would have been charged as a result of the deposit of those securities (for purposes of this sentence treating all such securities as if they were preferred shares) or preferred shares received in exercise of rights distributed to them pursuant to the deposit

**PART SIX SHAREHOLDER RIGHTS**

agreement, but which securities or rights are instead sold by the depositary and the net proceeds distributed and (2) the amount of those proceeds.

The depositary, pursuant to the deposit agreement, may own and deal in any class of securities of TCP and its affiliates and in ADRs.

***Liability of Owners or Beneficial Owners for Taxes or Other Charges***

If any tax or other governmental charge becomes payable by the custodian, the depositary or its nominee with respect to any ADR or any deposited securities represented by the ADSs evidenced by that ADR, that tax or other governmental charge will be payable by the owner or beneficial owner of ADR. The depositary may refuse to effect registration of transfer of the ADR or any split-up or combination thereof or any withdrawal of deposited securities underlying such ADR until that payment is made and may withhold any dividends or other distributions or may sell for the account of that owner or beneficial owner any part or all of the deposited securities underlying that ADR and may apply such dividends or distributions or the proceeds of any such sale in payment of any such tax or other governmental charge (and any taxes or expenses arising out of such sale) and the owner or beneficial owner of such ADR will remain liable for any deficiency.

***Limitation on Execution, Delivery, Transfer and Surrender of ADRs***

The ADRs are transferable on the books of the depositary, provided that the depositary may close the transfer books after consultation with TCP to the extent practicable at any time or from time to time when deemed expedient by it in connection with the performance of its duties or at the request of TCP.

As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR, the delivery of any distribution thereon or the withdrawal of deposited securities, the depositary, TCP, the custodian or the registrar may require payment from the depositor of preferred shares or the presenter of the ADR of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax, charge or fee with respect to preferred shares being deposited or withdrawn) and payment of any other applicable fees provided for in the deposit agreement. The depositary may refuse to deliver ADRs, register the transfer of any ADR or make any distribution of, or related to, the preferred shares until it has received such proof of citizenship, residence, exchange control approval, compliance with all applicable laws or regulations or other information as it may reasonably deem necessary or proper. The delivery, transfer, registration of transfer, split-up, combination and surrender of ADRs generally may be suspended or refused during any period when the transfer books of the depositary, TCP or the registrar are closed or if any such action is deemed necessary or advisable by the depositary or TCP, at any time or from time to time.

The depositary will keep books, at its Corporate Trust Office, for the registration and transfer of ADRs, which at all reasonable times will be open for inspection by the owners, provided that inspection will not be for the purpose of communicating with owners in the interest of a business or object other than the business of TCP or a matter related to the deposit agreement or the ADRs.

The depositary may upon notice to TCP appoint one or more co-transfer agents reasonably acceptable to TCP for the purpose of effecting transfers, combinations and split-ups of ADRs at designated transfer offices on behalf of the depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by owners or persons entitled to ADRs and will be entitled to protection and indemnity to the same extent as the depositary.

***Limitation of Liability***

Neither the depositary nor TCP nor any of their respective directors, employees, agents or affiliates will be liable to any owners or beneficial owners of ADRs if by reason of any provision of any present or future law or regulation of the United States, Brazil or any other country, or of any other governmental or regulatory

**PART SIX SHAREHOLDER RIGHTS**

authority or stock exchange, or by reason of any provision, present or future, of the bylaws, or by reason of any act of God or war or other circumstance beyond its control, the depositary or TCP or any of their respective directors, employees, agents, or affiliates is prevented, delayed or forbidden from, or is subject to any civil or criminal penalty on account of, doing or performing any act or thing which by terms of the deposit agreement it is provided will be done or performed; nor will the depositary or TCP incur any liability to any owner or beneficial owner of any ADR by reason of any nonperformance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the deposit agreement it is provided will or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for under the deposit agreement. Where, by the terms of a distribution pursuant to the deposit agreement, or an offering or distribution pursuant to the deposit agreement, or for any other reason, the depositary is prevented or prohibited from making such distribution or offering available to owners, and the depositary is prevented or prohibited from making such distribution or offering on behalf of such owners and making the net proceeds available to such owners, then the depositary, after consultation with TCP, will not make that distribution or offering, and will allow the rights, if applicable, to lapse.

TCP and the depositary assume no obligation, nor will they be subject to any liability, under the deposit agreement to owners or beneficial owners of ADRs, except that they agree to perform their respective obligations specifically set forth under the deposit agreement without negligence or bad faith.

***Governing Law***

The deposit agreement is governed by the laws of the State of New York.

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**PART SEVEN ADDITIONAL INFORMATION FOR SHAREHOLDERS**

**PART SEVEN ADDITIONAL INFORMATION FOR SHAREHOLDERS**

**Where You Can Find More Information**

TCP and TCO file annual reports on Form 20-F and furnish reports on Form 6-K with the SEC. You may read and copy any of these reports at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at http://www.sec.gov that contains reports and other information regarding issuers that file electronically with the SEC. You may also obtain information about TCP and TCO at their website, www.vivo.com.br.

TCP and TCO, as foreign private issuers, are exempt from the rules under the Exchange Act that prescribe the furnishing and content of proxy statements, and their officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

TCP and TCO are subject to the informational requirements of the Brazilian securities commission and the Brazilian stock exchanges and file reports and other information relating to their business, financial condition and other matters with the CVM and the Brazilian stock exchanges. You may read these reports, statements and other information at the public reference facilities maintained in São Paulo. Some TCP and TCO filings with the CVM are also available at the website maintained by the CVM at http://www.cvm.gov.br.

We have filed a registration statement on Form F-4 to register under the Securities Act the ADSs of TCP to be received in the merger of shares by holders of TCO preferred shares residing in the United States and holders of TCO ADSs. This document is part of the registration statement on Form F-4 and constitutes a prospectus of TCP. As allowed by the SEC rules, this document does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

This prospectus incorporates by reference the documents listed in Part Five: The Merger of Shares Terms of the Merger of Shares General. You can obtain documents incorporated by reference in this prospectus, as well as the valuation reports described in Part Five: The Merger of Shares Valuation Reports, through TCP, TCO or the SEC. These documents are available from TCP or TCO without charge. You may obtain these documents by requesting them in writing or by telephone at the appropriate address below:

| Telesp Celular Participações S.A.<br>Av. Roque Petroni Júnior, 1.464 Morumbi<br>04707-000 São Paulo, SP<br>Brazil<br>Telephone: 55-11-5105-1207 | Tele Centro Oeste Celular Participações S.A.<br>SCS Quadra 2 Bloco C, 226<br>Edifício Telebrasília Celular 7 andar<br>70319-900 Brasília, D.F.<br>Brazil<br>Telephone: 55-61-3962-7001 |
|---|---|

If you are a holder of TCO ADSs, you may also contact:

The Bank of New York

101 Barclay Street
New York, NY 10286
Telephone: 1-888-BNY-ADRS

**Enforceability of Civil Liabilities Under U.S. Securities Laws**

We have been advised by our Brazilian counsel, Machado, Meyer, Sendacz e Opice Advogados, that a judgment of a U.S. court for civil liabilities predicated upon the federal securities laws of the United States,

**PART SEVEN ADDITIONAL INFORMATION FOR SHAREHOLDERS**

subject to certain requirements described below, may be enforced in Brazil. A judgment against TCP, TCO, their respective directors and certain of their respective officers and advisors or any such person would be enforceable in Brazil without reconsideration, of the merits, upon confirmation of that judgment by the Brazilian federal supreme court. That confirmation generally will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation;
- is not subject to appeal;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty or public policy or good morals.

However, you cannot be certain that this confirmation will be obtained or that it will be obtained in a timely manner. In addition, you cannot be certain that a Brazilian court would enforce a monetary judgment for violations of U.S. securities laws.

We have been further advised by Machado, Meyer, Sendacz e Opice Advogados that original actions predicated on the federal securities laws of the United States may be brought in Brazilian courts and that Brazilian courts may enforce civil liabilities in such actions against each of TCP and TCO, its directors and certain of its officers and advisors.

A plaintiff, whether Brazilian or non-Brazilian, who resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This bond must have a value sufficient to satisfy the payment of court fees and defendant s attorney s fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian federal supreme court.

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**PART EIGHT LEGAL AND REGULATORY MATTERS**

**PART EIGHT LEGAL AND REGULATORY MATTERS**

**General**

We are not aware of any of the following:

- any governmental license or regulatory permit that appears to be material to the businesses of the operating companies that might be adversely affected by the merger of shares;
- except as described below, any approval or other action by any government or governmental administrative or regulatory authority or agency, domestic or foreign, that would be required for the completion of the merger of shares; or
- any consent, waiver or other approval that would be required as a result of or in connection with the merger of shares, including but not limited to, any consents or other approvals under any licenses, concessions, permits and agreements to which TCP or TCO are a party that have not been obtained.

Although the approval of the merger of shares by the CVM is not a condition to the merger of shares, on December 11, 2003, the CVM sent us a letter requiring a postponement of the extraordinary general meetings to approve the merger of shares to permit the CVM additional time to analyze the legality of the proposals for the merger of shares being submitted to the shareholders of our company and TCO, and we and TCO have rescheduled the meetings from December 22, 2003 to January 7, 2004. Although we affirm that the proposed merger of shares is legal and provides equitable treatment to TCP and TCO, we cannot predict the outcome of the CVM s analysis of the transaction. See Part Three: Risk Factors Risks Relating to the Brazilian Telecommunications Industry and the Business Certain holders of TCO s preferred shares have presented complaints to the CVM, the Brazilian securities regulator, related to the terms of the merger of shares, and the CVM s review is ongoing.

The approval of the NYSE of the listing of the ADSs of TCP to be delivered in connection with the merger of shares, for which we will apply, must be obtained for such shares to be traded by the holders thereof. However, this approval is not a condition to the completion of the merger of shares.

Should any such approval or other action be required, we currently contemplate that such approval will be sought or such action will be taken, as the case may be.

We are unable to predict whether it may be necessary to delay the completion of the merger of shares pending the outcome of any approval or other action. We cannot assure you that any approval or other action, if needed, would be obtained or would be obtained without substantial conditions. In addition, we cannot assure you that if the approvals were not obtained or other actions were not taken, adverse consequences might not result to the businesses of the operating companies.

**Legal Matters**

We will receive an opinion from Machado, Meyer, Sendacz e Opice Advogados with respect to the validity of the preferred shares of TCP to be issued in connection with the merger of shares.

**Experts**

The following financial statements have been audited by Deloitte Touche Tohmatsu Auditores Independentes, independent accountants, as stated in their respective reports, which are included in this prospectus, and have been included in this prospectus in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing:

- the consolidated financial statements of TCP and its consolidated subsidiaries as of December 31, 2001 and 2002 and for each of the three years in the period ended December 31, 2002, included in this prospectus;
- the combined financial statements of Globaltelcom Telecomunicações S.A., Daini do Brasil S.A and GTPS S.A. Participações em Investimentos de Telecomunicações as of December 31, 2001 and for the

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**PART EIGHT LEGAL AND REGULATORY MATTERS**

period from February 6 to December 31, 2001 and January 1 to December 27, 2002, included in this prospectus;

the financial statements of Daini do Brasil S.A. as of and for the year ended December 31, 2001 and for the period from January 1 to December 27, 2002, included in this prospectus;

the financial statements of Global Telecom S.A. as of and for the year ended December 31, 2001 and for the period from January 1 to December 27, 2002, included in this prospectus; and

the financial statements of Global Telecom S.A. as of and for the year ended December 31, 2001, included in this prospectus.

The consolidated financial statements of TCO as of December 31, 2001 and 2002 and for each of the three years in the period ended December 31, 2002 included in this prospectus, have been audited by Ernst and Young Auditores Independentes S.C., independent accountants, as set forth in their report thereon included therein. Such consolidated financial statements are included in this prospectus in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of DDI do Brasil Ltda. (whose name was subsequently changed to Daini do Brasil S.A.) as of and for the years ended December 31, 1999 and 2000 and the financial statements of Global Telecom S.A. as of December 31, 2000 and for the years ended December 31, 1999 and 2000 included in this prospectus have been audited by KPMG Auditores Independentes, independent accountants, as stated in their reports, which are included therein, and have been included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information of TCO for the period ended September 30, 2003 which is included in this prospectus, Deloitte Touche Tohmatsu Auditores Independentes have conducted a review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council. However, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte Touche Tohmatsu Auditores Independentes are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

**We have not authorized any person to give any information or to make any representations in connection with the merger of shares other than the information contained in this prospectus and, if any person gives other information or makes a representation in connection with the merger of shares, that information or representation must not be relied on as having been authorized by us.**

**This prospectus does not constitute an offer to any person in any jurisdiction in which an offer is unlawful. The offer is not being made to holders of shares in any jurisdiction in which the making or acceptance of the offer would not be in compliance with the laws of that jurisdiction. However, we may, in our sole discretion, take any action we may deem necessary to make the offer in any such jurisdiction and extend the offer to holders of shares in any jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the offer to be made by a licensed broker or dealer, the offer will be deemed to be made on our behalf by the dealer manager or one or more registered brokers or dealers licensed under the laws of the relevant jurisdiction.**

**The delivery of this prospectus will not, under any circumstance, create an implication that our affairs have not changed since the date as of which information is furnished or since the date of this prospectus.**

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**PART NINE FINANCIAL STATEMENTS**

**PART NINE FINANCIAL STATEMENTS**

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*Definitions:*

BR CL Accounting principles in accordance with Brazilian Corporate Law

U.S. GAAP Accounting principles generally accepted in the United States of America

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**CONSOLIDATED BALANCE SHEETS**
**As of December 31, 2002 and September 30, 2003**
**(In thousands of Brazilian reais)**

| | Note | December 31, 2002 | September 30, 2003 |
|---|---|---|---|
| | | | (Unaudited) |
| **ASSETS** | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | | 17,803 | 1,107,651 |
| Trade accounts receivable, net | 9 | 540,093 | 1,042,466 |
| Receivable from subsidiaries and affiliates | | 16,256 | 23,139 |
| Inventories | | 147,670 | 164,325 |
| Recoverable taxes | | 225,445 | 357,581 |
| Deferred income tax | | 173,323 | 248,248 |
| Derivatives | 14b | 15,870 | 377,297 |
| Prepaid expenses | | 26,379 | 131,203 |
| Other current assets | | 6,287 | 28,723 |
| Total current assets | | 1,169,126 | 3,480,633 |
| NONCURRENT ASSETS: | | | |
| Trade accounts receivable, net | 9 | 11,867 | |
| Recoverable taxes | | 48,266 | 63,449 |
| Deferred income tax | | 866,567 | 766,428 |
| Derivatives | 14b | 1,738,242 | 874,036 |
| Prepaid expenses | | 5,730 | 15,341 |
| Other noncurrent assets | | 4,427 | 71,948 |
| Total noncurrent assets | | 2,675,099 | 1,791,202 |
| PERMANENT ASSETS: | | | |
| Goodwill, net | | 722,693 | 1,919,044 |
| Goodwill on merged subsidiary, net | | 66,710 | 60,390 |
| Property, plant and equipment, net | | 4,778,114 | 5,106,794 |
| Deferred assets, net | | 242,574 | 212,436 |
| Other | | 69 | 294 |
| Total permanent assets | | 5,810,160 | 7,298,958 |
| Total assets | | 9,654,385 | 12,570,793 |

The accompanying notes are an integral part of these consolidated financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**CONSOLIDATED BALANCE SHEETS**
**As of December 31, 2002 and September 30, 2003**
**(In thousands of Brazilian reais)**

| | Note | December 31, 2002 | September 30, 2003 |
|---|---|---|---|
| | | | (Unaudited) |
| **LIABILITIES, SHAREHOLDERS EQUITY AND FUNDS FOR CAPITALIZATION** | | | |
| CURRENT LIABILITIES: | | | |
| Payroll and related accruals | | 37,436 | 42,619 |
| Trade accounts payable | | 470,785 | 850,897 |
| Taxes payable | | 141,720 | 246,222 |
| Loans and financing | 10 | 2,068,070 | 2,494,112 |
| Dividends and interest on shareholders equity | | 9,570 | 25,101 |
| Reserve for contingencies | 11 | 36,590 | 49,354 |
| Derivatives | 14b | 83,183 | 295,269 |
| Payables to subsidiaries and affiliates | | 103,557 | 20,996 |
| Deferred pre paid services revenue | | | 124,476 |
| Other liabilities | 12 | 71,909 | 42,385 |
| Total current liabilities | | 3,022,820 | 4,191,431 |
| NONCURRENT LIABILITIES: | | | |
| Loans and financing | 10 | 2,392,731 | 3,273,353 |
| Reserve for contingencies | 11 | 100,275 | 147,337 |
| Taxes payable | | 118,720 | 161,163 |
| Derivatives | 14b | | 4,524 |
| Other liabilities | 12 | 7,979 | 546 |
| Provision for pension plan | | 1,750 | 2,210 |
| Total noncurrent liabilities | | 2,621,455 | 3,589,133 |
| MINORITY INTEREST | | | 1,241,415 |
| SHAREHOLDERS EQUITY: | | | |
| Capital stock | | 4,373,661 | 4,373,661 |
| Capital reserve | | 1,067,796 | 1,067,796 |
| Accumulated deficit | | (1,431,500) | (1,892,922) |
| Total shareholders equity | | 4,009,957 | 3,548,535 |
| Funds for capitalization | | 153 | 279 |
| SHAREHOLDERS EQUITY AND FUNDS FOR CAPITALIZATION | | 4,010,110 | 3,548,814 |
| Total liabilities and shareholders equity | | 9,654,385 | 12,570,793 |

The accompanying notes are an integral part of these consolidated financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**CONSOLIDATED STATEMENTS OF LOSS**
**For the Nine-month Periods Ended September 30, 2002 and 2003**
**(In thousands of Brazilian reais except per share amounts)**

| | | Nine-month Period Ended September 30, | |
|---|---|---|---|
| | Note | 2002 | 2003 |
| | | (Unaudited) | (Unaudited) |
| NET OPERATING REVENUE | 3 | 2,481,228 | 4,169,036 |
| COST OF SERVICES AND GOODS | 4 | (1,188,068) | (2,070,921) |
| GROSS PROFIT | | 1,293,160 | 2,098,115 |
| OPERATING EXPENSES: | | | |
| Selling expenses | 5 | (454,311) | (938,932) |
| General and administrative expenses | 6 | (254,914) | (392,871) |
| Other net operating income (expenses) | 7 | (52,267) | 2,205 |
| OPERATING INCOME BEFORE EQUITY IN LOSSES OF UNCONSOLIDATED AFFILIATE AND NET FINANCIAL EXPENSES | | 531,668 | 768,517 |
| EQUITY IN LOSSES OF UNCONSOLIDATED AFFILIATE | | (540,602) | |
| NET FINANCIAL EXPENSES | 8 | (448,968) | (843,017) |
| OPERATING LOSS | | (457,902) | (74,500) |
| Net nonoperating income (expenses) | | 10,593 | (4,908) |
| LOSS BEFORE INCOME TAXES AND MINORITY INTEREST | | (447,309) | (79,408) |
| Income taxes | | (113,428) | (228,426) |
| Minority interest | | | (154,943) |
| NET LOSS | | (560,737) | (462,777) |
| Shares outstanding at September 30 (thousands) | | 1,171,784,352 | 1,171,784,352 |
| Loss per thousand shares | | (0.4785) | (0.3360) |

The accompanying notes are an integral part of these consolidated financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**
**For the Nine-month Period Ended September 30, 2003**
**(In thousands of Brazilian reais)**

| | Capital Stock | Capital Reserve | Accumulated Deficit | Total |
|---|---|---|---|---|
| BALANCES AT DECEMBER 31, 2002 | 4,373,661 | 1,067,796 | (1,431,500) | 4,009,957 |
| Expired dividends declared in 1999 (unaudited) | | | 1,355 | 1,355 |
| Net loss (unaudited) | | | (462,777) | (462,777) |
| BALANCES AT SEPTEMBER 30, 2003 (unaudited) | 4,373,661 | 1,067,796 | (1,892,922) | 3,548,535 |

The accompanying notes are an integral part of these consolidated financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**
**For the Nine-month Periods Ended September 30, 2002 and 2003**
**(In thousands of Brazilian reais)**

| | Nine-month Period Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| SOURCES OF FUNDS: | | |
| From operations: | | |
| Net loss | (560,737) | (462,777) |
| Items not affecting working capital | 777,783 | 1,101,050 |
| Equity in losses of unconsolidated affiliate | 540,602 | |
| Depreciation and amortization | 480,758 | 884,923 |
| Monetary and exchange variations on noncurrent items, net | (261,692) | 101,035 |
| Net book value of property, plant and equipment and investments sold | 11,654 | 10,947 |
| Provision for (reversal of) contingencies | 6,362 | (57,306) |
| Reserve for pension plan | 99 | 460 |
| Deferred taxes | | 6,048 |
| Minority Interest | | 154,943 |
| Total from operations | 217,046 | 638,273 |
| From shareholder s equity: | | |
| Capital increase | 2,403,356 | |
| From third parties: | | |
| Loans and financing | | 938,767 |
| Other sources: | | |
| Non current taxes payable | | 40,268 |
| Transfer of noncurrent to current assets | 128,544 | 752,964 |
| Expired dividends | 4,715 | 1,355 |
| Effect on working capital arising from consolidation of TCO | | 744,648 |
| Total sources | 2,753,661 | 3,116,275 |
| USES OF FUNDS | | |
| Property, plant and equipment | 193,330 | 256,334 |
| Transfer of noncurrent to current liabilities | 559,017 | 153,111 |
| Acquisition of TCO | | 1,538,593 |
| Advanced for future capital increases | 2,630,270 | |
| Increase in deferred assets | 46,642 | 65 |
| Other investments | | (720) |
| Non current ICMS recoverable | | 1,931 |
| Deferred expenses and other assets | | 24,065 |
| Total uses | 3,429,259 | 1,973,379 |
| (Decrease) increase in working capital | (675,598) | 1,142,896 |

| | | |
|---|---|---|
| Represented by: | | |
| Current assets | 52,986 | 2,311,507 |
| Beginning of period | 947,145 | 1,169,126 |
| End of period | 1,000,131 | 3,480,633 |
| Current liabilities | 728,584 | 1,168,611 |
| Beginning of period | 1,319,769 | 3,022,820 |
| End of period | 2,048,353 | 4,191,431 |
| (Decrease) increase in working capital | (675,598) | 1,142,896 |

The accompanying notes are an integral part of these consolidated financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Nine-month Periods Ended September 30, 2002 and 2003**
**(In thousands of Brazilian reais)**

| | Nine-month Period Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| OPERATING ACTIVITIES: | | |
| Net cash provided by operating activities | 824,242 | 871,052 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (193,330) | (256,334) |
| Additions to deferred assets | (46,642) | (65) |
| Advances for future capital increases | (2,630,270) | |
| Acquisition of TCO, net of cash acquired of R$ 212,224 | | (1,077,171) |
| Cash received on marketable securities | | 760,426 |
| Other | | 669 |
| Net cash used in investing activities | (2,870,242) | (572,475) |
| FINANCING ACTIVITIES | | |
| Loans repaid | (3,307,994) | (2,470,659) |
| New loans obtained | 2,885,942 | 3,346,836 |
| Dividends and interest on capital | (10,390) | (84,906) |
| Capital increase | 2,403,356 | |
| Net cash provided by financing activities | 1,970,914 | 791,271 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (75,086) | 1,089,848 |
| CASH AND CASH EQUIVALENTS: | | |
| At the beginning of the period | 81,506 | 17,803 |
| At the end of the period | 6,420 | 1,107,651 |

The accompanying notes are an integral part of these consolidated financial statements.

**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**(Amounts expressed in thousands of Brazilian reais, unless otherwise indicated)**

**1. Operations and Presentation of Financial Statements**

The consolidated financial statements include the accounts of Telesp Celular Participações S.A. and its subsidiaries ( TCP or the Company ). Intercompany transactions and balances have been eliminated. The consolidated financial statements include:

As of September 30, 2003, balances and transactions of the subsidiaries Telesp Celular S.A. ( TC ) and Global Telecom S.A. ( GT ) (which became a subsidiary on December 27, 2002), of Tele Centro Oeste Celular Participações S. A. and its subsidiaries ( TCO ), which became a subsidiary on April 25, 2003, and of the indirect subsidiaries Telesp Celular International Ltd. and Telesp Celular Overseas. TCO s results of operations have been included as from April 25, 2003.

As of September 30, 2002, balances and transactions of the subsidiary TC and indirect subsidiaries Telesp Celular International Ltd. and Telesp Celular Overseas. GT s results for this period are reflected in the statement of loss under the equity method.

In the Company s opinion, all adjustments necessary for a fair presentation of the unaudited results of operations for the nine month periods ended September 30, 2003 and 2002, are included. All such adjustments are accruals of a normal and recurring nature. The results of operations for the period ended September 30, 2003 are not necessarily indicative of the results of operations to be expected for the full year. The accompanying consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2002, as appearing in Annex AA to this prospectus.

The presentation of the consolidated financial statements is consistent with the presentation of the published financial statements of the Company in Brazil, from which the financial information was extracted, except for certain reclassifications and changes in terminology within the consolidated balance sheets and the consolidated statements of loss which have been made to conform the previously published financial statements to the presentation included herein. The financial statements as of September 30, 2002 have been reclassified, where applicable, for comparability.

***Merger of the Holding Companies of GT***

On December 27, 2002, the Company purchased the remaining 51% of the outstanding common stock (17% of total capital) of the holding companies Daini do Brasil S.A., Globaltelcom Telecomunicações S.A. and GTPS S.A. Participações em Investimentos de Telecomunicações which together held 100% of the capital stock of Global Telecom S.A.

As of March 31, 2003, the Company, seeking to minimize administrative and financial costs, merged these holding companies into Global Telecom S.A. With this operation, the Company became the direct owner of Global Telecom S.A.

***Acquisition of Tele Centro Oeste Participações S.A. ( TCO )***

On April 25, 2003, under the terms of the Preliminary Contract for Purchase and Sale of Shares and of the Contract for Purchase and Sale of Shares, the Company acquired 61.10% of the voting capital and 20.37% of the total capital of TCO. The purchase price amounted to approximately R$ 1,505.6 million, equivalent to R$ 19.48719845 per thousand common shares, of which approximately R$ 1,256.4 million was paid to sellers

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

as of the date of these financials statements, and the remaining balance will be paid in installments under the terms and conditions of the final contract. Additionally, the Company paid R$ 23.5 million to acquire a future obligation by TCO to issue capital stock to its previous owner and incurred costs directly related to the acquisition in the amount of R$ 9.5 million. This obligation was originally recorded by TCO as a capital reserve of R$ 25.4 million.

The Company recorded goodwill amounting to R$ 1,247,961 based on the expectation of future profitability (R$ 1,123,419, to be amortized over ten years), appreciation of the TCO operating license (R$ 89,459 to be amortized over the remaining license period) and asset appreciation of property, plant and equipment (R$ 35,083, to be amortized over the remaining useful lives of these properties). The Company began to amortize the goodwill in May 2003.

TCO is the controlling shareholder of operators Telegoiás Celular S.A., Telemat Celular S.A., Telems Celular S.A., Teleron Celular S.A. and Teleacre Celular S.A. and owns 100% of Norte Brasil Telecom S.A. These companies provide, through authorizations or concessions, wireless communication services in the States of Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondônia, Acre, Amazonas, Roraima, Amapá, Pará and Maranhão, including related services.

In accordance with Brazilian corporate law, TCP was required to make a tender offer for the acquisition of the voting minority shareholders of TCO. The price per share to be offered was equal to 80% of the price paid to the controlling shareholders, representing R$ 16.58 per thousands of common share. (Note 16)

After the conclusion of the acquisition and public tender offer, TCP intends to exchange its shares for the outstanding TCO common preferred shares. The exchange ratio offered will be 1.27 shares of TCP for each share of TCO; in the U.S. market, under the American Depositary Receipts (ADRs) program, the exchange ratio will be 1.524 ADRs of TCP for each ADR of TCO.

The acquisition of TCO is subject to approval of Brazilian antitrust authorities.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarize the book values of the assets acquired and liabilities assumed at the date of acquisition:

| | April 25, 2003 |
|---|---|
| | (Unaudited) |
| CURRENT ASSETS: | |
| Cash and cash equivalents | 212,224 |
| Trade accounts receivable, net | 227,294 |
| Marketable securities | 760,426 |
| Other current assets | 158,429 |
| NONCURRENT ASSETS | 100,877 |
| PERMANENT ASSETS: | |
| Goodwill | 7,910 |
| Property, plant and equipment, net | 878,338 |
| Deferred assets, net | 30,006 |
| CURRENT LIABILITIES: | |
| Trade accounts payable | (111,221) |
| Loans and financing | (273,030) |
| Other liabilities | (229,480) |
| NONCURRENT LIABILITIES: | |
| Loans and financing | (266,100) |
| Reserve for contingencies | (106,876) |
| Other liabilities | (10,156) |
| MINORITY INTEREST | (24,917) |
| NET ASSETS | 1,353,724 |
| RESERVE FOR FUTURE CAPITAL ISSUANCE | (72,191) |
| NET ASSETS ACQUIRED | 1,281,533 |
| PARTICIPATION OF NET ASSETS ACQUIRED | 265,149 |
| ACQUISITION OF RESERVE FOR FUTURE CAPITAL ISSUANCE | 25,483 |
| GOODWILL | 1,247,961 |
| TOTAL CONSIDERATION PAID | 1,538,593 |

## 2. Summary of Principal Accounting Practices

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

The principal accounting practices adopted by the Company and its subsidiaries in the preparation of the quarterly financial statements as of September 30, 2003 are the same as those described in the consolidated financial statements and for the year ended December 31, 2002, except for a change in accounting principle

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

related to prepaid services. Prior to January 1, 2003, revenues from prepaid services were recognized on a cash basis with the related costs estimated and accrued based on past gross margins. Effective January 1, 2003, the Company began to defer prepaid service revenue and amortize the deferred revenue based on subscriber airtime usage. The cumulative net effect of this change, amounting to approximately R$ 54 million, net of tax effects, was recorded as an increase in the Company s net loss on January 1, 2003. The cumulative effect of this change in accounting principle has been recorded in the related line items of the Company s consolidated statement of loss for the nine-month period ended September 30, 2003.

Additionally, starting January 1, 2003, the Company reduced the useful life of handsets loaned from 36 months to 18 months, in order to better match the terms of the related lease contracts. The effect of this change in accounting estimate resulted on increase in an depreciation expense of R$ 29,750 for the nine-month period ended September 30, 2003.

**3. Net Operating Revenue**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | **2002** | **2003** |
| | **(Unaudited)** | **(Unaudited)** |
| Monthly subscription charges | 718,967 | 1,017,454 |
| Use of network | 856,039 | 1,398,224 |
| Roaming charges | 36,634 | 33,926 |
| Additional call charges | 43,228 | 46,651 |
| Interconnection | 986,522 | 1,765,632 |
| Other services | 29,586 | 163,421 |
| Total gross revenue from services | 2,670,976 | 4,425,308 |
| Value-added tax on sales and services ICMS | (406,199) | (668,316) |
| Employees profit participation program PIS/Social contribution on billing COFINS | (97,354) | (126,741) |
| Service tax ISS | (57) | (470) |
| Discounts granted | (3,764) | (101,249) |
| Net operating revenue from services | 2,163,602 | 3,528,532 |
| Sale of handsets and accessories | 479,504 | 988,951 |
| Value-added tax on sales and services ICMS | (39,364) | (106,848) |
| Employees profit participation program PIS/Social contribution on billing COFINS | (13,523) | (28,354) |
| Discounts granted | (93,164) | (176,642) |
| Returns of goods | (15,827) | (36,603) |
| Net operating revenue from sales of handsets and accessories | 317,626 | 640,504 |
| Total net operating revenue | 2,481,228 | 4,169,036 |

There are no customers which contributed more than 10% of gross operating revenues in September 2002 and 2003, except for Telecomunicações de São Paulo S.A. TELESP, a related party. Telecomunicações de

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

São Paulo S.A. TELESP is the fixed service provider for the Company s area and contributed approximately 26.26% and 19.98% of the total gross revenue for the period ended September 30, 2002 and 2003, respectively, mainly in relation to network usage charges.

**4. Cost of Services and Goods**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | **2002** | **2003** |
| | **(Unaudited)** | **(Unaudited)** |
| Personnel | (19,874) | (32,978) |
| Outside services | (83,226) | (128,585) |
| Leased lines | (55,187) | (78,885) |
| Rent, insurance, condominium fees | (59,231) | (66,504) |
| Interconnection | (172,775) | (246,742) |
| Taxes and contributions | (4,176) | (55,497) |
| Depreciation and amortization | (409,766) | (641,310) |
| Cost of products sold | (380,202) | (811,617) |
| Other | (3,631) | (8,803) |
| Total | (1,188,068) | (2,070,921) |

**5. Selling Expenses**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | **2002** | **2003** |
| | **(Unaudited)** | **(Unaudited)** |
| Personnel | (59,227) | (98,712) |
| Supplies | (5,941) | (10,584) |
| Outside services(i) | (201,222) | (489,079) |
| Rent, insurance, condominium fees | (11,460) | (21,879) |
| Taxes and contributions | (68,248) | (79,393) |
| Depreciation and amortization | (24,039) | (81,469) |
| Allowance for doubtful accounts | (57,435) | (72,150) |
| Other | (26,739) | (85,666) |
| Total | (454,311) | (938,932) |

(i) Outside services include advertising costs of R$ 50,402 and, R$ 139,296 in 2002 and 2003, respectively.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. General and Administrative Expenses**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Personnel | (39,870) | (76,149) |
| Supplies | (1,840) | (4,097) |
| Outside services | (154,886) | (199,848) |
| Rent, insurance, condominium fees | (14,305) | (27,270) |
| Taxes and contributions | (3,300) | (3,704) |
| Depreciation and amortization | (40,634) | (75,047) |
| Other | (79) | (6,756) |
| Total | (254,914) | (392,871) |

**7. Other Net Operating Income (Expenses)**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Late fees and penalties | 12,491 | 24,468 |
| Recovered expenses | 717 | 2,494 |
| Reserve for contingencies, net of reversal | (49,331) | 48,410 |
| Goodwill amortization | (6,319) | (63,350) |
| Amortization of preoperating expenses | | (23,747) |
| Taxes other than on income | (17,961) | (35,334) |
| Trade discount | | 46,307 |
| Other | 8,136 | 2,957 |
| Total | (52,267) | 2,205 |

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Net Financial Expenses**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Income: | | |
| Financial income | 48,511 | 199,473 |
| Exchange variation | 503,640 | 909,560 |
| Gains on derivatives | 2,529,877 | |
| Total | 3,082,028 | 1,109,033 |
| Expense: | | |
| Financial expenses | (194,477) | (638,497) |
| Monetary/exchange variations | (3,336,519) | (449,424) |
| Loss on derivatives | | (864,129) |
| Total | (3,530,996) | (1,952,050) |
| Net financial expenses | (448,968) | (843,017) |

**9. Trade Accounts Receivable, Net**

The composition of accounts receivables is as follows:

| | December 31, 2002 | September 30, 2003 |
|---|---|---|
| | | (Unaudited) |
| Unbilled amounts from services rendered | 111,206 | 238,468 |
| Billed amounts | 212,575 | 341,215 |
| Interconnection | 143,899 | 352,390 |
| Products sold | 204,415 | 254,627 |
| Allowance for doubtful accounts | (120,135) | (144,234) |
| Total | 551,960 | 1,042,466 |
| Current | 540,093 | 1,042,466 |
| Noncurrent | 11,867 | |

Noncurrent receivables refer to receivables from sales of Peg&Fale (take and talk) sets. These receivables are realized through additional airtime purchases by Peg&Fale service customers and are shown net of the allowance for doubtful accounts, estimated based on past additional airtime purchases.

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in the allowance for doubtful accounts are as follows:

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Balance at January 1, | 103,642 | 120,135 |
| Provision for doubtful accounts charged to selling expenses | 57,435 | 72,150 |
| Impact of initial consolidation of TCO | | 29,597 |
| Write-offs | (41,950) | (77,648) |
| Ending balance | 119,127 | 144,234 |

## 10. Loans and Financing

### *a) Composition of Debt*

| Description | Currency | Annual Interest % | December 31, 2002 | September 30, 2003 |
|---|---|---|---|---|
| | | | | (Unaudited) |
| Financial institutions: | | | | |
| Letter of credit | US$ | 13 to 17 | | 84,471 |
| Compror | US$ | 5 to 16.83 | 57,560 | 19,041 |
| BNDES | R$ | TJLP + 3.5 to 4 | | 181,678 |
| Finem BNDES | UMBNDES | TJLP + 4 + 3.6 | 698,697 | 568,747 |
| Finimp | US$ | 3.35 to 3.45 + Libor | | 22,662 |
| Finimp | US$ | 2 to 7 + Libor | | 44,111 |
| Resolution No. 63 | US$ | 5.0 to 16.83 | | 1,049,635 |
| Resolution No. 63 | ¥ | 1.05 | | 88,387 |
| Resolution No. 2,770 | US$ | US$ + 7.41 in average | | 2,623 |
| Brazilian Short-term financings | R$ | 110 to 118 of CDI | 427,000 | |
| Brazilian Short-term financings | US$ | 23.7 to 31.5 | 371,547 | |
| Debentures | R$ | 104.6% of CDI | | 506,750 |
| BNDES | UMBNDES | Funding rate + 3.5 | | 17,132 |
| Export Development Corporation EDC | US$ | 3.90 to 5.0 + Libor | | 151,631 |
| Floating rate notes | US$ | 6.75 | | 438,510 |
| Suppliers: | | | | |
| NEC do Brasil | US$ | 7.30 | 28,721 | 19,803 |

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| Description | Currency | Annual Interest % | December 31, 2002 | September 30, 2003 |
|---|---|---|---|---|
| | | | | (Unaudited) |
| Affiliated companies: | | | | |
| Commercial Paper | US$ | 9.5 | 1,130,656 | 350,808 |
| Resolution No. 4,131 | | 7.0 + Euribor | | 152,127 |
| Resolution No. 4,131 | US$ | 13.25 | | 263,106 |
| Floating rate notes | | 7.0 + Euribor | 1,704,845 | 1,420,105 |
| Financing related to acquisition of TCO | R$ | 108 to 117 of CDI | | 294,278 |
| Other | R$ | FGV Column 20 | | 1,941 |
| Accrued interest | | | 41,775 | 89,919 |
| Total | | | 4,460,801 | 5,767,465 |
| Current | | | 2,068,070 | 2,494,112 |
| Noncurrent | | | 2,392,731 | 3,273,353 |

TJLP Brazilian long-term interest rate.

UMBNDES BNDES monetary unit based on the average cost of the BNDES s currency basket. The currency basket is a bundle of BNDES debt obligation in foreign currency.

CDI Interbank interest rate.

FGV Column inflation index calculated by *Fundação Getúlio Vargas*.

***b) Repayment Schedule***

The long-term portion of loans and financing matures as follows:

| Year | September 30, 2003 |
|---|---|
| | (Unaudited) |
| 2004 | 1,943,052 |
| 2005 | 314,195 |
| 2006 | 153,448 |
| 2007 | 352,317 |
| 2008 | 510,341 |
| Total | 3,273,353 |

*c) Additional Information*

As of September 30, 2003, GT was not in compliance with the financial result, debt service coverage and ratio of stockholders equity over assets covenants related to a loan from the National Bank for Economic and Social Development (BNDES), the balance of which was R$ 278,894 (R$ 336,447 in 2002). No adjustment has been made in these financial statements since waivers on noncompliance with these covenants have been obtained covering a period of one year from December 31, 2002.

**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

TC s loans and financing in local currency includes R$ 296,878 at September 30, 2003 (R$ 371,045 in 2002), which represent liabilities to BNDES and are secured by customer receivables.

TCO s loans and financing in local currency includes R$ 199,788 at September 30, 2003 of liabilities to BNDES. In the event of default, the BNDES loans are secured by TCO s receivables and TCO is required to pledge CDBs (Bank Deposit Certificates) in the amount of the installments due.

TCO has loans with the BNDES and with the Export Development Corporation (EDC), the balances of which at September 30, 2003 were R$ 199,788 and R$ 154,276, respectively. As of the date of these financial statements, TCO was in compliance with all loan covenants related to these loans.

The Company entered into derivatives contracts to protect against the currency risk on foreign currencies denominated loans, as described in Note 14.

**11. Reserve for Contingencies**

The Company and its subsidiaries are parties to certain lawsuits involving labor, tax and civil matters. Management has recognized reserves for cases in which the likelihood of an unfavorable outcome is considered probable by its legal counsel.

Components of the reserves are as follows:

| | December 31, 2002 | September 30, 2003 |
|---|---|---|
| | | (Unaudited) |
| ICMS on activation fees and other services (b.1) | 86,120 | 36,346 |
| PIS/COFINS (b.2) | 20,280 | 32,162 |
| Additional per call and roaming (c.1) | 15,077 | 3,770 |
| Taxes on fringe benefits (b.3) | 4,261 | 4,675 |
| Loans from TELEBRÁS (c.2) | | 92,194 |
| Other | 11,127 | 27,544 |
| Total | 136,865 | 196,691 |
| Current | 36,590 | 49,354 |
| Noncurrent | 100,275 | 147,337 |

The changes in the reserve for contingencies are as follows:

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Balance at January 1, | 109,508 | 136,865 |
| Additional provision, net of reversal | 49,331 | (48,410) |
| Monetary variation | | 2,782 |
| Payments, net of reclassifications | (8,697) | (1,422) |

| | | |
|---|---|---|
| Impact of initial consolidation of GT and TCO | | 106,876 |
| Total | 150,142 | 196,691 |

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***a. Potential Litigation***

Telebrás and Telesp, the legal predecessors of the Company and Telesp Celular S.A., respectively, are defendants in a number of legal proceedings and subject to certain other claims and contingencies. Liability for any claims arising out of acts committed by Telesp prior to the effective date of the spin-off of Telesp s cellular assets and liabilities to Telesp Celular S.A. remains the responsibility of Telesp, except for those liabilities for which specific accounting provisions have been assigned to Telesp Celular S.A. Any claims against Telesp which are not satisfied by Telesp could result in claims against Telesp Celular S.A. to the extent that Telesp Celular S.A. has received assets which might have been used to settle those claims had they not been spun off from Telesp. Under the terms of the breakup of Telebrás, the liability for any claims arising out of acts committed by Telebrás prior to the effective date of the breakup remains the responsibility of Telebrás, except for labor and tax claims (in which case Telebrás and the New Holding Companies are jointly and severally liable) and any liability for which specific accounting provisions have been assigned to the Company. Creditors of Telebrás may challenge this allocation of liability. Management believes that the chances of any such claims materializing and having a material adverse financial effect on the Company are remote and, therefore, no provision has been recorded.

***b. Tax Claims***

*b.1 ICMS on Activation Fees and Other Services*

On June 19, 1998, the Revenue Secretaries of the individual Brazilian states approved an agreement interpreting existing Brazilian tax law and broadening the application of the ICMS, a State value-added tax, to cover not only telecommunication services but also other services, including cellular activation fees, which had not been previously subject to such tax. Pursuant to this new interpretation of tax law, the ICMS tax may be applied retroactively for such services rendered during the last five years.

Management believes that the attempt by the State Revenue Secretaries to extend the scope of ICMS tax to services which are supplementary to basic telecommunication services is unlawful because: (a) the State Secretaries acted beyond the scope of their authority, (b) their interpretation would subject certain services to taxation which are not considered telecommunication services, and (c) new taxes may not be applied retroactively. In addition, the Company believes that Telecomunicações de São Paulo S.A. TELESP, the legal predecessor of TC, and the companies that are predecessors of the operators controlled by TCO would be liable for any obligation in connection with any claim arising out of the retroactive application of the ICMS tax on activation fees for periods prior to 1998.

In connection with a lawsuit filed by Teleamazon Celular, another wireless operating company, the Higher Justice Court (Superior Tribunal de Justiça) issued a final decision, ruling that the ICMS tax could not be assessed on activation fees. Based on this decision, the activation fees of Teleamazon Celular are not classified as a telecommunication service and therefore, are not be subject to the ICMS as required by the state public finance authorities. Based on this decision and the opinion of Company s legal counsel, the Company reversed reserves related to ICMS on activation fees amounting to R$ 68,516 that were recorded on December 31, 2002.

In the period from August 1999 to December 2001, GT was granted a tax benefit which reduced ICMS payable in the State of Santa Catarina, according to article 7 of the ICMS tax regulations/ Santa Catarina. However, article 30 of the regulations provides for the reversal of credits in excess of benefits used. The reserve recorded as of September 30, 2003 was R$ 8,295 (R$ 4,800 as of December 31, 2002).

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**PART NINE FINANCIAL STATEMENTS**

**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

TC, based on the opinion of its legal counsel, recorded a provision in the amount of R$ 28,051 (R$ 12,804 in 2002) related to ICMS on handsets sold for which an unfavorable outcome is probable.

*b.2 PIS/COFINS (Taxes on Revenue)*

TC and TCO are parties to two lawsuits: the first challenges the increase in the COFINS rate and the second the change in the calculation basis of PIS and COFINS. Amounts for the COFINS rate increase have been totally accrued while the effect of the expansion of the PIS and COFINS calculation basis has not been accrued, based on legal counsel s opinion as to the chances of success in that litigation.

The amount reserved as of September 30, 2003 was R$ 32,162 (R$ 20,280 as of December 31, 2002).

*b.3. Taxes on Fringe Benefits*

The company, based on the opinion of its legal counsel, has recorded a provision in the amount of R$ 4,675 (R$ 4,261 in 2002) related to income taxes on fringe benefits for which an unfavorable outcome is probable.

*b.4. Tax Credits*

Under certain conditions, Brazilian law permits companies to benefit from tax credits related to the amortization of goodwill. Despite this fact, an action was filed on December 16, 1999 against ANATEL and the holding companies created as a result of the Breakup of Telebrás, including TCP, that have undergone a corporate restructuring to recognize tax credits to offset premiums paid by their controlling shareholders at the time of their acquisition. Based on the opinion of external legal counsel, an unfavourable outcome related to this action is possible. On September 30, 2003 the total benefit utilized from tax credits related to the amortization of goodwill was R$ 298,924 (R$ 219,904 on December 31, 2002).

***c. Other Matters***

*c.1. Additional per Call and Roaming*

The Company is involved in judicial processes resulting from the charge for additional per call (AD) and roaming (DSL-I) related to certain alternative service plans. The amount of the provision at September 30, 2003 was R$ 3,770 (R$ 15,077 on December 31,2002). Telesp Celular has already suspended the billing of AD and DSL-I in the intra-area region.

*c.2. Loans from TELEBRÁS*

This item corresponds to original loans from Telecomunicações Brasileiras S.A. TELEBRÁS, that, according to Attachment II to the Spin-off Report dated February 28, 1998, approved by the Shareholders Meeting held in May 1998, and in the opinion of the TCO s management, should be allocated to the respective controlling companies of Telegoiás and Telebrasília Celular S.A. Based on management s understanding that there was an error in the allocation of the loans upon the spin-off, TCO suspended payment on the loans and is restating the loans based on the general market price index (IGP-M) plus 6% in annual interest.

In June 1999, TCO filed a lawsuit claiming that all assets corresponding to these loans and financing liabilities are owned by TCO, as well as the accessory items of these assets, and also claiming for indemnities for the installments paid. In November 1999, management decided to transfer to the holding company the

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liability arising from the loan originally payable to Telecomunicações Brasileiras S.A. TELEBRÁS, since the liability was absorbed in the spin-off process. On August 1, 2001, a court decision was made dismissing the TCO s claims in the declaratory action; however, on October 8, 2001, TCO filed an appeal, which has not yet been judged.

In the opinion of the Company s legal counsel, the chances of an unfavorable outcome regarding these contingencies is probable as to the merit of the claim and possible as to the restatement index. The Company has recorded an accrual amounting to R$ 92,194 representing the original loan amount, restated for IGP-M plus 6% in annual interest. The difference between the original contractual rates and the restatement index used to estimated the accrual amounted to R$ 35,205 as of September 30, 2003 has not been recorded.

*c.3. Ownership of the Caller ID*

TCP together with other Brazilian mobile telecommunications operators, were summoned to defend in a legal action filed by Lune Projetos Especiais Telecomunicação Comércio Ind. Ltda., or Lune, pursuant to which Lune claims to be the owner of patents relating to Equipamento Controlador de Chamadas Entrantes e do Terminal Telefônico, or Caller ID, and also that the mobile telecommunications operators are using the patent without proper authorization. Therefore, Lune demands that the operators cease to provide Caller ID services and that it should be indemnified for the unauthorized use of the Caller ID system, upon payment of fees received by the operators in consideration for the use of the system by their customers.

Based on the opinion of the Company s management and external legal counsel, an unfavorable outcome related to this lawsuit is possible. The indemnification allegedly due by the mobile operators currently can not be accurately calculated, due to the fact that the cost of the caller ID service provided by the companies has never before been calculated separately.

*c.4. Validity of the Minutes in the Prepaid Plans*

Telesp Celular and Global Telecom are the defendants in a lawsuit brought by the federal public prosecutor s office and associations for consumers protection which challenged the imposition of a deadline for the use of purchased prepaid minutes. The plaintiffs allege that any purchased prepaid minutes should not have a time limitation for usage. This lawsuit is still in its initial stages. Based on the opinion of the Company s management and external counsel, an unfavorable outcome related to this lawsuit is possible. The Company is currently unable to estimate a range of possible loss related to this claim.

*c.5. Adjustment of Tariffs*

Telesp Celular increased its promotional tariffs to new tariffs, which are within the limits established by ANATEL. The prosecutor alleges that, according to Brazilian law, tariffs cannot be increased within a twelve-month period. The adjustment affected by Telesp Celular was effected in a nine-month period, allegedly in contravention to Brazilian law. The Company s management believes that such tariff adjustments were lawful, but based on external counsel s opinion, an unfavorable outcome related to this lawsuit is possible. The indemnification allegedly due cannot be accurately estimated due to the fact that the Company has been unable to determine the final number of plaintiffs at this time.

*c.6. Tariffs Charged by the Baby Plan*

TC and GT are defendants in lawsuits brought by an association for consumers protection called ANADEC which challenges the way airtime is calculated in the Baby prepaid plan. Management believes

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that the criteria are in strict compliance with the ANATEL rules. In March 2001, a São Paulo lower court ruled in the TC lawsuit that the criteria adopted violated the Brazilian consumer protection code and that, TC would have to reimburse its customers the amounts established by the court. TC considers this decision to be contrary to ANATEL s regulations. TC has appealed this decision. The lawsuit involving GT is in its initial stages. The amount of damages should TC and GT fail in their defense cannot be accurately estimated due to the fact that the final number of plaintiffs at this time is uncertain. Based on the opinion of external legal counsel , an unfavorable outcome related to this lawsuit is possible.

**12. Other Liabilities**

| | December 31, 2002 | September 30, 2003 |
|---|---|---|
| | | (Unaudited) |
| Premium on sale of call option(a) | 19,910 | 11,946 |
| Network costs and customer discounts(b) | 53,290 | 7,463 |
| Accrual for customer loyalty program(c) | 6,241 | 8,273 |
| Liabilities with customers | | 9,829 |
| Other | 447 | 5,420 |
| Total | 79,888 | 42,931 |
| Current | 71,909 | 42,385 |
| Non current | 7,979 | 546 |

(a) In 2000, TC sold options to purchase US$300,000,000 at a price of R$ 2.25 to US$1.00 that mature on September 24, 2004. The premium received is being amortized to income over the life of contracts, on the accrual basis.

(b) As of December 31, 2002 this amount related mainly to the cost of services to be provided in connection with prepaid services revenues which was previously recognized on a cash basis (Note 2). As of September 30, 2003 the amount relates solely to customer discounts.

(c) GT and TCO have a customer loyalty program whereby the customer makes calls and earns points redeemable for prizes (handsets, call minutes, points in TAM airline loyalty program, and others). The points expire in 24 months. Accumulated points are accrued when granted, considering redemption prospects based on the consumption profile of participant customers. The accrual is reduced when points are redeemed by customers.

**13. Transactions with Related Parties**

The principal transactions with unconsolidated related parties are as follows:

(a) Use of network and long-distance (roaming) cellular communication These transactions involve companies owned by the same Group: Telecomunicações de São Paulo S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A. and Celular CRT S.A. This group became a related party on December 27, 2002 as a result of the joint venture describe in Note 1 of the consolidated financial statements for the year ended December 31, 2002, as appearing in Annex AA to this prospectus. The table below includes balances and transaction with these companies for all periods presented. These transactions were established based on contracts between Telebrás and the operating concessionaires before privatization under the terms established by ANATEL. These transactions also

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include clearing services to Telecomunicações Móveis Nacionais TMN customers regarding roaming services in the Company s network. Beginning 2002, Telecomunicações de São Paulo S.A., in place of Embratel, provides long-distance services to operators.

(b) Corporate management advisory Represents Company payables in connection with corporate management advisory services provided by PT SGPS.

(c) Loans and financing Represents intercompany loans with companies of the Portugal Telecom group.

(d) Services provided The following services are provided by Group companies:

Corporate services centralized at Telerj Celular S.A., transferred to subsidiaries at the cost effectively incurred.

Call center services, provided by Dedic, to users of TC and GT telecommunication services.

System development and maintenance services provided by PT Inovação.

The commercial conditions of these transactions are based on the usual market practices applied to the Companies other contracts with third parties. A summary of balances and transactions with unconsolidated related parties is as follows:

| | December 31, 2002 | September 30, 2003 |
|---|---|---|
| | | (Unaudited) |
| Assets: | | |
| Trade accounts receivable | 106,377 | 140,520 |
| Receivables from subsidiaries and affiliates | 16,256 | 23,139 |
| Liabilities: | | |
| Trade accounts payable | 21,972 | 146,068 |
| Loans and financing | 2,855,232 | 2,214,249 |
| Payables to subsidiaries and affiliate | 103,557 | 20,996 |

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Statement of loss: | | |
| Revenue from telecommunication services | 870,036 | 1,071,902 |
| Cost of services provided | (177,470) | (136,414) |
| Selling expenses | (32,521) | (58,270) |
| General and administrative expenses | (40,169) | (79,009) |
| Financial income (expenses), net | (1,646,929) | 80,215 |
| Other operating income (expenses), net | 6,531 | |

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Financial Instruments and Risk Management**

***a) Risk Considerations***

TCP is the controlling shareholder of TC, GT and TCO, which is the controlling shareholder of operators Telegoiás Celular S.A., Telemat Celular S.A., Telems Celular S.A., Teleron Celular S.A. and Teleacre Celular S.A. and holds 100% of Norte Brasil Telecom S.A. These operators provide cellular mobile services in the States of São Paulo, Paraná, Santa Catarina, Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Acre, Rondônia, Amazonas, Roraima, Amapá, Pará and Maranhão, respectively, in accordance with the terms of licenses granted by the Federal Government. All these operators are also engaged in the purchase and sale of handsets through their own sales network as well as distribution channels, thus fostering their essential activities.

The major market risks to which TC, GT and TCO are exposed include:

*Credit risk:* arising from any difficulty in collecting accounts related to telecommunication services provided to customers and revenues from the sale of handsets by the distribution network.

*Interest rate risk:* resulting from debt and premiums on derivative instruments contracted at floating rates and involving the risk of interest expenses increasing as a result of an unfavorable upward trend in interest rates (primarily LIBOR, EURIBOR, TJLP and CDI).

*Currency risk:* related to debt and premiums on derivative instruments contracted in foreign currency and associated with potential losses resulting from adverse exchange rate movements.

Since they were formed, TC, GT and TCO have been actively managing and mitigating risks inherent in their operations by means of comprehensive operating procedures, policies and initiatives.

*Credit Risk*

Credit risk from providing telecommunication services is minimized by strictly monitoring the Company s customer portfolio and actively addressing delinquent receivables by means of clear policies relating to the concession of postpaid services.

Of TC s customers, 78.3% use prepaid services that require pre-loading, thus not representing a credit risk to the Company. Delinquent receivables in the nine months of 2003 represented 3.38% of gross revenue (1.78% as of September 30, 2002). Of GT s customers, 19.8% use postpaid services; delinquent receivables represented 2.04% in the first nine months of 2003 (2.71% as of September 30, 2002). Of TCO s customers, 27.0% use postpaid services; delinquent receivables represented 2.2% in May to five-month period from September 2003 (2.4% in the same period of 2002).

Credit risk from the sale of handsets is managed by following a conservative credit granting policy which encompasses the use of advanced risk management methods that include applying credit scoring techniques, analyzing the potential customer s balance sheet, and making inquiries of credit protection agencies databases. In addition, an automatic control has been implemented in the sales module for releasing products which is integrated with the distribution module of TC s ERP system for consistent transactions. Delinquent receivables represented 1.76% of handset sales for TC for the first nine months of 2003 (9.0% as of September 30, 2002). At GT, delinquent receivables represented 2.62% of handset sales for the first nine months of 2003 (0.3% as of September 30, 2002). At TCO, delinquent receivables represented only about 0.49% of handset sales from May to September 2003 (0.31% in the same period in 2002).

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*Interest Rate Risk*

The Company is exposed to interest rate risk, especially interest associated with the cost of CDI rates, due to its derivative transactions and short-term borrowings in Brazilian reais. As of September 30, 2003, these operations amounted to R$ 3,397,350.

The Company is also exposed to fluctuations in TJLP and UMBNDES on financing obtained from BNDES. As of September 30, 2003, these operations amounted to R$ 774,583.

Foreign currency-denominated loans are also exposed to interest rate risk associated with foreign loans. As of September 30, 2003, these operations amounted to US$284,709 and 460,620.

The Company has not entered into derivative operations to hedge against these risks.

*Currency Risk*

TC, GT and TCO utilize derivative financial instruments to protect against currency risk on foreign currency-denominated loans. Such instruments usually include swap, option and forward contracts.

The Company s net exposure to currency risk as of September 30, 2003 is shown in the table below:

| | US$ | ¥ | |
|---|---|---|---|
| Loans and financing | 860,158 | 3,391,564 | 466,121 |
| Derivatives instruments (notional amounts) | 974,367 | 3,369,159 | 460,486 |
| Net exposure | (114,209) | 22,405 | 5,635 |

During the first nine months of 2003, the Company contracted operations to hedge its foreign-currency commitments against exchange variations (such as the BNDES basket of currencies, leasing, long-term hedging inefficiency, and suppliers).

***b) Financial Instruments***

The Company and its subsidiaries record realized and unrealized derivative gains and losses as a component of net financial expenses.

Book and market values of loans and financing and derivative instruments are estimated at September 30, 2003 as follows:

| | Book Value | Market Value | Unrealized Gains (Losses) |
|---|---|---|---|
| Loans and financing | 5,767,465 | 5,773,009 | (5,544) |
| Derivative instruments | 951,540 | 754,721 | 196,819 |
| Total | 4,815,925 | 5,018,288 | (202,363) |

***c) Market Value of Financial Instruments***

The market values of loans and financing, swaps and forward contracts were determined based on the discounted cash flows, utilizing projected available interest rate information.

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Estimated market values of the Company s financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. Accordingly, the estimates presented above are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated market values.

**15. Shareholders Equity**

The capital stock of Telesp Celular Participações S.A. is comprised of preferred shares and common shares, all without par value. Capital as of December 31, 2002 and September 30, 2003 is R$ 4,373,661. Subscribed paid-up capital is represented by shares without par value, distributed as follows:

| | Thousands of Shares |
|---|---|
| Common shares | 409,383,864 |
| Preferred shares | 762,400,488 |
| Total | 1,171,784,352 |

**16. Subsequent Events**

On September 30, 2003, CVM (Brazilian Securities Commission) approved through CVM/ SER/ OPA/ ALI/2003/003 the Tender Offer (OPA) to Purchase Common Shares of TCO, and the public notice containing the related conditions was published on October 9, 2003. On November 18, 2003 as a result of the tender offer, TCP acquired 32,205,823 thousands shares, representing 29.6% of the common shares of TCO. The total purchase price was R$ 538,803. After this acquisition, TCP owns 90.7% of the voting capital of TCO and 29,31% of the total capital, excluding shares held in treasury.

On October 27, 2003, the Company s Board of Directors proposed the conversion of up to 105,518,995 thousand of the Company s preferred shares into common shares. On November 19, 2003, the Company offered its shareholders the option to convert up to 78,752,717,772 outstanding preferred shares for shares of common stock, aggregate for all shareholders at a one-to-one ratio.

On October 27, 2003, the Company s Board of Directors also proposed the merger of the shares of TCO with TCP which, if approved by the shareholders, will result in TCO becoming a wholly owned subsidiary of TCP. As discussed in Note 1, the exchange ratio offered will be 1.27 shares of TCP for each share of TCO; in the U.S. market, under the American Depositary Receipts (ADRs) program, the exchange ratio will be 1.524 ADRs of TCP for each ADR of TCO. After the conclusion of the Tender Offer described above, the Company s disclosed that 14,198,233 thousand common shares and 321,013,707 preferred shares will be issued to complete the merger, resulting in a capital increase of R$ 1,012,908. The formal approval is subject to the Company s shareholders meeting that will occur on January 7, 2004.

**17. Summary of the Differences Between BR CL and U.S. GAAP**

A detailed description of the Company s accounting policies that comply with BR CL which differ significantly from generally accepted accounting principles in the United States of America (U.S. GAAP) is included in Note 37 to the consolidated financial statements for the year ended December 31, 2002, which

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appears in Annex AA to this prospectus. Following is a general description of these differences:

***a. Different Criteria for Capitalizing and Amortizing Capitalized Interest***

Until December 31, 1993, capitalized interest was not added to the individual assets in property, plant and equipment; instead it was capitalized separately and amortized over a time period different from the useful lives of the related assets. Under U.S. GAAP, capitalized interest is added to the individual assets and is amortized over their useful lives. Also, until 1997 under BR CL as applied to companies in the telecommunication industry, interest attributable to construction-in-progress was computed at the rate of 12% per annum of the balance of construction-in-progress and that part which related to interest on third-party loans was credited to interest expense based on actual interest costs, with the balance relating to own capital being credited to capital reserves. In 1998, the Company elected not to record capitalized interest for BR CL purposes. In 2001, 2002 and 2003 the Company elected to record capitalized interest for BR CL purposes, related to construction-in-progress. However, TC did not capitalize any interest in 2002 and 2003 since the conditions to capitalize under BR CL were not met.

Under U.S. GAAP, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 34 Capitalization of Interest Costs , interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under U.S. GAAP, the amount of interest capitalized excludes the monetary gain associated with the borrowings and the foreign exchange gains and losses on foreign currency borrowings, and other financial expenses related to borrowings.

***b. Monetary Restatement of 1996 and 1997***

The amortization of the asset appreciation, which originated from the inflation accounting during 1996 and 1997, when Brazil was still considered as a highly inflationary economy for U.S. GAAP purposes, was recognized in the reconciliation to U.S. GAAP. The loss related to monetary restatement on disposals of such assets are classified for U.S. GAAP purposes as a component of net other non-operating income. The resulting step-up is amortized over the remaining lives of the related assets.

***c. Exchange of Shares for Minority Interests in Telesp Celular S.A. and Telebrasilia S.A.***

In January 2000, the Company exchanged 21,211,875,174 of its common shares and 61,087,072,187 of its preferred shares for the shares tendered by the minority shareholders in Telesp Celular S.A. In 2002, TCO acquired the minority interest in its subsidiary, Telebrasilia Celular S.A. ( Telebrasilia ) by exchanging shares of TCO for the shares held by the minority shareholders of Telebrasilia. The acquisition increased TCO s interest in Telebrasilia from 88.25% to 100%. The exchange ratio for these share exchanges was based on the respective market value of the shares exchanged.

Under BR CL, the share exchanges were recorded at book value. An increase in capital was recorded based on the market value of the Company s shares and a capital reserve was recorded for the difference between the market price of the acquired company s shares and the book value of the shares.

Under U.S. GAAP, the exchange of shares for minority interests is accounted for using the purchase method of accounting. The purchase price of the shares is recorded based on the market price of the issuing Company s shares at the date of the exchange offer. The purchase price is allocated to the proportional assets and liabilities of the acquired minority interest based on their relative fair values. If the fair values of the net

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assets exceed the purchase price, the difference is recorded as a reduction to the proportional long-lived assets acquired.

***d. Acquisitions***

Under BR CL, purchases of an equity interest of another company are recorded at book value. The difference between the purchased company s proportional net assets and the purchase price is recorded as goodwill. The goodwill is first attributed to any appreciation in the values of the permanent assets acquired and amortized based on the useful lives of the underlying permanent assets. Excess goodwill is generally amortized over 10 years on a straight-line basis, based on the estimated future profitable operations.

Under U.S. GAAP, the cost of an acquired entity is allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the date of acquisition. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. Under U.S. GAAP, goodwill is not subject to amortization over its estimated useful life, but rather it is subject to at least an annual assessment for impairment by applying a fair-value-based test.

The differences between BR CL and U.S. GAAP relate to (i) the acquisition of an equity interest in Daini do Brasil S.A. (Daini), Globaltecom Telecomunicações S.A. (Globaltelcom) and GTPS S.A. Participações em Investimentos de Telecomunicações ( GTPS ) (formerly Inepar S.A.Participação em Investimentos de Telecomunicações), the holding companies which controlled Global Telecom S.A. (collectively, the Holdings ) on February 6, 2001, (ii) the acquisition of the remaining interest in the Holdings on December 27, 2002, and (iii) the acquisition of TCO on April 25, 2003.

***e. Pension and Other Post-retirement Benefits***

The Company participates in a multiemployer benefit plan for its retired employees that is operated and administered by SISTEL and provides for the costs of pension and other post-retirement benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. For active employees, a single employer plan has been accounted for since 1998. The provisions of SFAS No. 87 Employers Accounting for Pensions were applied for the multiemployer plan and the single employer plans were applied with effect from January 1, 1992, because it was not feasible to apply them from the effective date specified in the standard.

For purposes of U.S. GAAP, the Company is only required to disclose its annual contributions and the funded status related to multiemployer plans. The Company elected to record its allocable share of actuarial liabilities with respect to its participation in multiemployer plans in accordance with CVM No. 371 as of December 31, 2001 by way of a direct charge to shareholders equity of approximately R$ 610, net of taxes. The multiemployer plan liability is reflected as an adjustment to U.S. GAAP shareholders equity, as such liabilities are not recorded.

Under U.S. GAAP, the liability to be recorded using actuarial calculations based on SFAS No. 87 differs from actuarial calculations under BR CL. The U.S. GAAP liability exceeded the BR CL estimated liability by R$ 2,507 and R$ 2,171 as of December 31, 2002 and September 30, 2003, respectively, and has been recorded in the U.S. GAAP reconciliation as an additional liability.

Substantially all the active employees have elected to migrate to a Company sponsored defined contribution pension plan created in 2000. Those who have migrated have been credited individually with the

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balance of accumulated benefits as of the date of migration. As a result, a settlement and curtailment of the defined benefit pension plan occurred, as defined in SFAS No. 88. In addition, the Company is liable for certain contributions for certain risks involving death or disability. For the year ended December 31, 2001, under BR CL, the company recorded this liability as a direct charge to shareholders equity amounting to R$ 382. Under U.S. GAAP such liability was recorded with a corresponding charge to operating expenses.

***f. Earnings per Share***

In September 30, of 2002 and 2003, the BR CL computation of earnings per share is based on shares outstanding at year end, and does not distinguish between common and preferred. Under U.S. GAAP, SFAS No., 128, Earnings per Share , the computation is based on the weighted average number of shares outstanding during the year. At September 30, 2002 and 2003, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit realized on the amortization of the intangible related to concession transferred in the merger. The number of shares issuable, which are based on estimates using the Company s share price at the date of the balance sheet, are considered dilutive as defined in SFAS No. 128. The weighted average number of outstanding and potentially dilutive shares were 594,158,050 and 1,198,493,535 thousand of shares for the nine-month periods ended September 2002 and 2003, respectively. However, the potentially dilutive shares, consisting solely of the estimate of shares issuable mentioned above, have been excluded from the computation for September 2002 as their effect would have been anti-dilutive.

***g. Accounts Receivable***

At times, the Company may have certain accounts receivable that have terms in excess of one year. In accordance with U.S GAAP, such receivables are discounted to their estimated present values using interest rates in effect at the date of the transaction. The discount is then amortized to financial income over the remaining term using the effective interest method. The related unamortized discount is shown as a reconciling item for U.S. GAAP purposes.

***h. Leases***

The Company has leased certain computer hardware and software under non-cancelable leases. Under BR CL, all leases are considered to be operating leases, with lease expense recorded when paid. For U.S. GAAP purposes, these leases are classified as capital leases under SFAS No. 13, Accounting for Leases. Under SFAS No. 13, the Company is required to record the asset at the present value of the minimum lease payments with a corresponding debt obligation. Depreciation is recorded over the shorter of the estimated useful life of the asset or the lease. Interest expense is recognized over the life of the lease and payments under the lease are amortized to principal and interest under the effective interest method. Under U.S. GAAP, the Company recorded depreciation expense in the amount of R$ 3,825 and R$ 4,567 for the nine month periods ended September 30, 2002 and 2003 and interest expense and exchange variation in amount of R$ 29,393 and (R$ 5,086) during the nine-month periods ended September 30, 2002 and 2003, respectively. The difference between the total expense for U.S. GAAP purposes and BR CL purposes has been reflected in the reconciliation of U.S. GAAP income. The difference between these two amounts is also reflected in the U.S. GAAP reconciliation of net equity.

***i. Deferred Taxes***

For BR CL purposes, deferred taxes have been calculated using a rate on social contribution on income of 9% in 2000 and 2001 based on a provisional measure. Under U.S. GAAP such provisional measure was not

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

considered to be enacted law. Therefore, the reconciliation to U.S. GAAP for the period ended September 30, 2002 included a reversal of such increase in the social contribution on income rate from 9% to 8%. During the year ended December 31, 2002, the change in the social contribution tax rate became enacted law and consequently, as of and for the nine months ended September 30, 2003, no difference existed between BR CL and U.S. GAAP.

***j. FISTEL Fee***

Under Brazilian Corporate Law, the Fistel (Telecommunication Inspection Fund) fee assessed on each activation of a new cellular line is deferred beginning on January 1st, 2001 for amortization over the customers estimated subscription period. For U.S. GAAP purposes, this tax would be charged directly to the consolidated statement of income.

***k. Revenue Recognition***

For U.S. GAAP, the Company recognizes service revenue as the services are provided. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Sales of handsets along with the related cost of the handsets are amortized over three years. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. The following is a reconciliation of net revenue between BR CL and U.S. GAAP:

| | **September 30, 2002** | **September 30, 2003** |
|---|---|---|
| | **(Unaudited)** | **(Unaudited)** |
| Net revenue under BR CL | 2,481,228 | 4,169,036 |
| Prepaid services(i) | 1,259 | 93,863 |
| Roaming charges(ii) | 213,948 | 316,693 |
| Value added and other sales taxes(iii) | 556,440 | 930,259 |
| Deferred revenue sales of handsets, net of amortization(iv) | (52,100) | (52,903) |
| Prepaid installment sales plan(v) | 49,940 | 33,889 |
| Sales of handsets with minute rebates(vi) | | (20,394) |
| Net revenue under U.S. GAAP | 3,250,715 | 5,470,443 |

(i) Prepaid services

Under BR CL, revenues related to prepaid services are recognized when collected and, based on past gross margins experienced in providing such services, the related costs to be incurred are accrued for concurrently with the recognition of revenue. Under U.S. GAAP, prepaid service revenue is deferred and amortized based on subscriber airtime usage. The related accrual for the cost of future service is fully reversed under U.S. GAAP and will be recognized in income as customers use airtime and the related costs are incurred. Effective January 1, 2003, under BR CL, the Company began to defer prepaid service revenue and amortize the deferred revenue based on subscriber airtime usage.

(ii) Roaming

The Company has roaming agreements with other cellular service providers. When a call is made from within one coverage area by a subscriber of another cellular service provider, that service provider pays the Company for the service at the applicable rates. Conversely,

when one of the Company s customers

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**TELESP CELULAR PARTICIPAÇÕES S.A.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

roams outside the coverage area, the Company pays the charges associated with that call to the cellular service provider in whose region the call was originated and charges the same amount to its subscriber. Under BR CL, revenues for roaming charges are recorded net of the related costs when the services are provided. Under U.S. GAAP, revenues and costs for roaming charges are recorded gross. Accordingly this difference in accounting policy has no impact on net income (loss) nor in the reconciliation of shareholders equity.

(iii) Value-added and other sales taxes

Under BR CL, these taxes are recorded in revenue net of the related tax expense. Under U.S. GAAP, these taxes are recorded gross as revenue and related cost of services and goods. Accordingly, this difference in accounting has no impact in net income (loss) nor in shareholders equity.

(iv) Deferred revenue sales of handsets

Under BR CL, revenues and costs related to handset sales, including applicable value added and other sales taxes, are recognized when sold. Under U.S. GAAP, revenue on sales of handsets along with the related cost of the handset, including applicable value added and other sales taxes, are amortized over three years. Any excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. As substantially all of the Company s handsets are sold below cost, this difference in accounting policy had no impact on net income (loss) nor in shareholders equity.

(v) Prepaid handset installment plan

The Company markets certain of its handsets in connection with a prepaid service program that allows for the payment of the handset in installments. A portion of any future purchases of minutes is allocated as an installment payment based on published pricing. Under BR CL, the Company records an amount of future handset revenue under the installment program at the date of sale based on an estimate of future minute purchases. Under U.S. GAAP, this revenue is not recognized until such future purchases are made.

(vi) Sales of handsets with minute rebates

During 2003, the Company implemented a corporate client plan that gives a free phone to users that sign a long-term contract with a fixed amount of minutes. Under BR CL, the Company recognizes the transfer of the handset as a sale based on the fair value of the handset at the beginning of the contract period. Under US GAAP, the Company does not record the transfer of the handset as a sale; the cost of the handset is recorded as an expense at the beginning of the contract.

***l. Derivative Financial Instruments***

The Company uses a variety of derivative financial instruments to mitigate its exposure to interest rate and foreign currency fluctuations related to a portion of its foreign currency denominated debt. The Company primarily uses foreign currency swaps, options and forward contracts, as well as interest rate swap agreements, to manage these risks.

Under BR CL, foreign currency forward and swap contracts are recorded at the notional amount multiplied by the terms of the contract as if it had been settled at the balance sheet date. The premium accrued at that date is recorded as expense and payable.

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Under U.S. GAAP, in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended, derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. Changes in the derivative s fair value are recognized currently in earnings unless specific hedge accounting criteria are met. For U.S. GAAP purposes, the Company s derivatives have not been designated as accounting hedges, and as such, the changes in fair value are required to be recorded through earnings.

Accordingly, an adjustment has been included in the reconciliation to U.S. GAAP for the difference between the carrying value for BR CL and the fair market value of the derivatives.

***m. License Acquisition Interest Capitalization***

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate Band B mobile telephone services and the date of the initial operations of GT was recorded as deferred assets under BR CL. Under U.S. GAAP the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interests accrued in 1998.

***n. Amortization of License Acquisition Costs***

GT recorded amortization of license acquisition costs during the start-up period as deferred assets according to BR CL. Under U.S. GAAP such amortization was reversed and the amortization period starts on the start-up date, January 1st, 1999.

For BR CL purposes, the amortization period of the concession (license) for the Band B Company, Norte Brasil Teelcom S.A. (NBT) is 30 years in 2000, which included an additional 15 years assuming renewal by Anatel. For U.S. GAAP purposes, the amortization period of 15 years includes only the initial term of concession.

In 2001, the NBT changed the amortization period to 15 years with the aim of conforming BR CL treatment with US GAAP treatment.

***o. Deferred Assets***

GT has recorded pre-operational costs as deferred assets, to be amortized on a straight-line basis over 10 years, as allowed by BR CL. Under U.S. GAAP such deferrals and respective amortization have been fully reversed.

***p. Advance to Affiliate***

In January 2002, TCO made an advance payment, adjusted based on market rates, to BID S.A. corresponding to the present value of the tax benefit recorded in connection with the restructuring of Telebrasilia. With this transaction, TCO relieved itself of issuing the corresponding shares to BID S.A. in the future. Under BR CL, this payment was recorded as a deferred asset. Under U.S. GAAP, the amount of R$ 40,226 was recorded as a distribution to shareholder. Additionally, for U.S. GAAP purposes, no interest income would be accrued related to this transaction.

***q. Classification of Debt***

As discussed in Note 10, GT was not in compliance with certain covenants relating to debt amounting to R$ 278,894. The Company has obtained a waiver on non-compliance of these covenants covering the period

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

up to December 31, 2003 and consequently, under BR CL, the debt is maintained as noncurrent. Under US GAAP, since the waiver does not cover a period of at least one year from September 30, 2003, the debt is classified as a current liability.

***r. Offering Expenses***

Under BR CL, expenses related to capital increases are recorded as net financial expenses. Under U.S. GAAP, offerings expenses are charged against the gross proceeds of the offering. The U.S. GAAP adjustment represents the reversal of net financial expenses recorded by the Company in connection with the capital increase completed during the year ended December 31, 2002. The difference did not have any impact on net equity.

Reconciliation of the Net (Loss) Income differences between BR CL and U.S. GAAP:

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| BR CL loss of the nine-month period | (560,737) | (462,777) |
| Add (deduct): | | |
| Different criteria for: | | |
| Amortization of monetary restatement of 1996 and 1997. | (22,704) | (27,769) |
| Loss on disposal of assets monetarily restated in 1996 and 1997. | (1,121) | (101) |
| Capitalized interest | 6,618 | 12,403 |
| Amortization of capitalized interest | (2,457) | (2,038) |
| Revenue recognition of prepaid service | 2,532 | 60,485 |
| Prepaid installment plan revenue | 66,265 | 8,126 |
| Sales of handsets with minute rebates | | (20,394) |
| Pension plan | 251 | 405 |
| Exchange of shares minority interest: | | |
| Depreciation effect from reduction of fixed assets due to exchange of shares of minority interest | 9,834 | 9,881 |
| Amortization of concession | | (1,719) |
| Amortization of client list | | (2,090) |
| FISTEL fees | (1,604) | 2,884 |
| Difference in criteria for leasing | (14,090) | 19,682 |
| Forward and swap contracts | (825,769) | 713,733 |
| Call option | (39,848) | (28,797) |
| Discount on long-term accounts receivable | 7,233 | |
| Amortization of license acquisition costs | | (2,937) |
| Advance to affiliate | | (1,785) |
| Amortization of deferred assets | | 25,639 |
| Acquisitions: | | |
| Reversal of goodwill amortization according to BR CL | | 56,380 |
| Depreciation impact | 6,864 | 8,713 |

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Nine-month Periods Ended September 30, | |
|---|---|---|
| | 2002 | 2003 |
| | (Unaudited) | (Unaudited) |
| Amortization of purchase price allocations to customer list | (28,252) | (37,579) |
| Amortization of intangible related to concession | (39,444) | (118,626) |
| Difference in equity in net loss of Holdings | (178,609) | |
| Additional interest expense on purchase price allocation of debt | | (6,074) |
| Deferred social contribution calculated using enacted law instead of provisional measure | (562) | |
| Offering expenses | 35,980 | |
| Deferred tax effect on the above adjustments | 268,904 | (196,824) |
| Minority interests on the above adjustments | | 2,478 |
| U.S. GAAP net income (loss) of the period | (1,310,716) | 11,299 |
| Basic EPS Computation: | | |
| Income (loss) available to common and preferred stockholders | (1,310,716) | 11,299 |
| Basic and diluted earnings per thousands shares common and preferred | (2.50) | 0.01 |
| Weighted average common and preferred shares outstanding (in thousands) | 523,698,961 | 1,171,784,352 |
| Diluted average common and preferred shares outstanding (in thousands) | 594,158,050 | 1,198,493,535 |

Reconciliation of the Shareholders Equity differences between BR CL and U.S. GAAP:

| | December 31, 2002 | September 30, 2003 |
|---|---|---|
| | | (Unaudited) |
| BR CL shareholders equity | 4,009,957 | 3,548,535 |
| Add (deduct): | | |
| Different criteria for: | | |
| Monetary restatement of 1996 and 1997. | 241,620 | 328,755 |
| Amortization of monetary restatement of 1996 and 1997. | (175,277) | (273,379) |
| Capitalized interest | 45,338 | 55,986 |
| Amortization of capitalized interest | (24,391) | (4,982) |
| Revenue recognition of prepaid service | (60,485) | |
| Unbilled receivables prepaid installment plan | (15,503) | (7,377) |
| Sales of handsets with minute rebates | | (20,394) |
| Pension plan | (2,507) | (2,171) |
| Exchange of shares minority interest: | | |
| Adjustment to fixed assets | (101,671) | (99,719) |

| | | |
|---|---|---|
| Accumulated depreciation | 44,758 | 54,335 |
| Adjustment to concession | | 15,270 |
| Amortization of concession | | (3,584) |
| Adjustment to client list | | 10,031 |
| Amortization of client list | | (8,778) |

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | December 31, 2002 | September 30, 2003 |
|---|---|---|
| | | (Unaudited) |
| FISTEL fees | (30,457) | (27,573) |
| Value of fixed assets net of depreciation capital leases | 40,800 | 43,915 |
| Capital lease obligations | (42,287) | (23,488) |
| Fair value of forward and swap contracts | (777,107) | (60,622) |
| Fair value of call option | (107,400) | (136,197) |
| Interest capitalized on license acquisition costs | 42,006 | 42,006 |
| Amortization of license acquisition costs | 21,118 | 16,499 |
| Deferred assets | (308,559) | (353,340) |
| Deferred assets, accumulated amortization | 100,489 | 140,903 |
| Advance to affiliate | | (43,330) |
| Acquisitions: | | |
| Acquisition of GT and Holdings | 141,133 | 46,759 |
| Acquisition of TCO | | 558 |
| Deferred taxes on the above adjustments | 265,732 | 65,570 |
| Minority interests | | 15,773 |
| U.S. GAAP shareholders equity | 3,307,307 | 3,319,961 |
| Supplementary balance sheet information U.S. GAAP: | | |
| Total assets | 10,202,052 | 13,313,338 |
| Current liabilities | 3,740,198 | 4,621,453 |
| Noncurrent liabilities | 3,154,547 | 4,149,792 |
| Net property, plant and equipment | 4,855,521 | 6,427,355 |

Changes in the Consolidated Shareholders Equity Position for the ninex-month period ended September 30, 2003 in conformity with U. S. GAAP:

| | (Unaudited) |
|---|---|
| Shareholders equity under U.S. GAAP as of December 31, 2002 | 3,307,307 |
| Expired dividends declared 1999. | 1,355 |
| Net income | 11,299 |
| Shareholders equity under U.S. GAAP as of September 30, 2003. | 3,319,961 |

**18. Additional Disclosures Required by U.S. GAAP**

***a. Acquisition of TCO***

As described in Note 1, on April 25, 2003 the Company acquired TCO for approximately R$1,506 million. The results of operations of TCO have been included in the income statement of the Company as from the date of acquisition. The following table presents the Company s unaudited consolidated pro forma results under BR CL of TCP for the nine-month periods ended September 30, 2002 and 2003, as if

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the acquisitions of TCO and the Holdings been completed on January 1, 2002. The consolidated pro forma information includes adjustments related to additional financing that was required to complete the acquisitions. The pro forma information is presented for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results:

| | September 30, | |
|---|---|---|
| | 2002 | 2003 |
| Net operating revenues | 3,953,132 | 4,815,686 |
| Operating income (loss) | (655,637) | 49,377 |
| Net loss | (1,007,687) | (540,355) |
| Basic and dilute earnings per thousands shares common and preferred | (0.86) | (0.46) |

***b. Summarized Financial Information for the Holdings***

The following summarizes financial information under BR CL for the Holdings relating to the period for which the Company s investment in the Holdings was accounted for using the equity method of accounting.

| | Period Ended September 30, 2002 |
|---|---|
| Net operating revenues | 66,856 |
| Operating loss | (651,311) |
| Net loss | (651,327) |

***c. Intangible Assets***

Following is a summary of the Company s intangible assets subject to amortization under U.S. GAAP:

| | September 30, 2003 | | |
|---|---|---|---|
| | Concession | Customer List | Software Use Rights |
| Gross | 2,605,594 | 257,774 | 955,917 |
| Accumulated amortization | (532,499) | (154,468) | (404,113) |
| Write-off | (89,533) | | |
| Net | 1,983,562 | 103,306 | 551,804 |
| Amortization expense | (173,620) | (25,853) | (143,133) |

| | | | |
|---|---|---|---|
| Amortization period | (a) | 2 years | 5 years |

(a) Amortized on a straight line method over the concession period until April 2013.

(b) Amortized over the terms of the contracts, ranging from one to three years.

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The estimated aggregate amortization expense for the next five years is as follows:

| | Amount |
|---|---|
| July 1 to December 31, 2003 | 116,803 |
| 2004 | 368,798 |
| 2005 | 329,024 |
| 2006 | 282,325 |
| 2007 | 219,708 |
| January 1 to June 30, 2008. | 137,184 |

***d. Capital Leases***

The future minimum payments, by year and in the aggregate, under the Company s non-cancelable lease obligations classified as capital leases are as follows:

| | |
|---|---|
| 2003 | 9,673 |
| 2004 | 13,803 |
| 2005 | 717 |
| Total minimum lease payments | 24,193 |
| Less amount representing interest | (705) |
| Liabilities recorded in the balance sheet for U.S. GAAP purposes | 23,488 |
| Less current portion | (3,841) |
| Long-term capital lease obligation | 19,647 |

The following summarizes the amounts related to the assets and accumulated depreciation for U.S. GAAP purposes of the related assets under the Company s capital lease obligations:

Property, Plant and Equipment:

| | |
|---|---|
| Software | 59,694 |
| Less: accumulated amortization | (15,779) |
| | 43,915 |

***e. Concentration of Risks***

Credit risk with respect to trade accounts receivable is diversified. The Company continually monitors the level of trade accounts receivable and limits the exposure to bad debts by cutting access to the telephone network if any invoice is 15 days past due. Exceptions comprise telephone services that must be maintained for reasons of safety or national security.

In conducting their business, TCP, GT and TCO are fully dependent upon the cellular telecommunications authorizations, granted by the Federal Government.

There is no concentration of available sources of labor, services, concessions or rights, other than those mentioned above, that could, if suddenly eliminated, severely impact the Company s operations.

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***f. Commitments***

Planned capital expenditures for 2003 are approximately R$ 592,793. Most of the 2003 capital expenditures relate to infrastructure, information technology and transmission equipment.

The Company is subject to obligations concerning quality of services, network expansion and modernization, as established in our authorizations and our original concession agreements. The Company believes that it is currently in compliance with its quality of service and expansion obligations.

***g. Segment Information***

The Company has determined that its reportable segments are those that are based on the Company s method of internal reporting. The reportable segments of the Company are Telesp Celular, Global Telecom and TCO. These reportable segments are strategic business subsidiaries that operate in different concession areas and are in different phases of development and therefore, are managed and funded separately. TCP acquired the remaining indirect and direct interests in Global Telecom on December 27, 2002 and began to consolidate Global Telecom as of that date. Additionally, as discussed in Note 1, TCP acquired TCO on April 25, 2003. Consequently, the Company has not presented segment information related to the separate operations of Telesp Celular, Global Telecom and TCO for the nine month period ended September 30, 2002.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales are recorded at cost.

Following is information on the Company s reportable segments as of and for the nine-month period ended September 30, 2003 (unaudited):

| | Telesp Celular | Global Telecom | Tele Centro Oeste | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Net operating revenue | 2,871,930 | 465,547 | 838,414 | | (6,855) | 4,169,036 |
| Operating income (loss) before equity in losses of unconsolidated affiliate and net financial expenses | 646,526 | (66,230) | 254,854 | (22,927) | (43,706) | 768,517 |
| Total assets | 5,639,478 | 2,124,089 | 2,517,322 | 7,451,904 | (5,162,000) | 12,570,793 |

***h. New Accounting Pronouncements***

*SFAS No. 143 Accounting for Asset Retirement Obligations*

In June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations . SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost are capitalized as part of the carrying amount of the long-lived asset. Under SFAS No. 143 the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS No. 143 will provide more information about asset retirement obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15 ,2002 with earlier application encouraged. The adoption of SFAS No. 143 on January 1, 2003 did not result in any impact to the Company s financial position, cash flows and results of

operations.

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*SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 of SFAS 145*

In April 2002, the FASB issued Statements of Accounting Standards No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 ( SFAS 145 ). SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt made to satisfy Sinking-Fund requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after 15 May 2002. The adoption of SFAS No. 145 on January 1, 2003 did not result in any impact to the Company s financial position, cash flows and results of operations.

*SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities*

In June 2002, the FASB issued Statement of Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ( EITF 94-3 ). SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity s commitment to an exit plan. SFAS No. 146 also concluded that an entity s commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 is applicable for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. Since the Company did not have any exit or disposal activities during the nine months ended September 30, 2003, the adoption of SFAS No. 146 during 2003 did not have an impact on the Company s financial statements.

*SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ( SFAS No. 150 ), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . SFAS No. 150 requires certain financial instruments that have historically been classified as equity to be classified as liabilities (or as an asset in certain circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. Since the requirements of SFAS No. 150 apply prospectively to financial instruments

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

entered into or modified after May 31, 2003, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

*EITF 00-21 Revenue Arrangements with Multiple Deliverables*

At the September and October 2002 meetings of the Emerging Issues Task Force (EITF), the Task Force reached a tentative conclusion on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which outlines an approach to be used to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. Specifically, in an arrangements with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

The arrangement consideration allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

The adoption of EITF 00-21 on July 1, 2003 did not result in a change in the Company s revenue recognition policies.

*FIN No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN No. 45 ). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods after December 15, 2002.. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The adoption of FIN No. 45 on January 1, 2003 did not result in any impact to the Company s financial position, cash flows and results of operations.

*FIN No. 46 Consolidation of Variable Interest Entities an interpretation of ARB No. 51*

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51, or FIN No. 46. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 explains how to identify variable interests entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. It requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

effectively disperse risks among parties involved. It also requires certain disclosures by the primary beneficiary of a variable interest entity and by an enterprise that holds significant variable interests in a variable interest entity where the enterprise is not the primary beneficiary. FIN No. 46 is effective immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date, and effective for the first interim or annual period ending after December 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN No. 46 requires an entity to disclose certain information regarding a variable interest entity, if when the Interpretation becomes effective, it is reasonably possible that an enterprise will consolidate or have to disclose information about that variable interest entity, regardless of the date on which the variable entity interest was created. As of the date of these financial statements, the Company has not created nor invested in variable interest entity and consequently, management believes that the implementation of this statement will not result in any impact to the Company s financial position, cash flows and results of operations.

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**INDEPENDENT AUDITORS REPORT**

To Daini do Brasil S.A.:

1. We have audited the accompanying consolidated balance sheet of Daini do Brasil S.A. (a Brazilian Corporation formerly named DDI do Brasil Ltda.) and subsidiary as of December 31, 2001, and the related statements of loss, changes in financial position and changes in shareholders equity (deficit) for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002.These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daini do Brasil S.A. and subsidiary as of December 31, 2001, and the results of its operations and changes in its financial positions for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002, in conformity with accounting practices adopted in Brazil.

4. As explained in Note 3(b) to the consolidated financial statements, effective January 1, 2001, the Company s subsidiary changed its method of accounting for subscriber acquisition costs.

5. Accounting practices adopted in Brazil vary in certain respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net loss attributable to shareholders for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002, and the determination of shareholders equity as of December 31, 2001 to the extent summarized in Note 28 to the consolidated financial statements.

6. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of cash flow for the year ended December 31, 2001 and for the period from January 1 to December 27, 2002 are presented for purposes of additional analysis and are not a required part of the basic financial statements under the accounting practices adopted in Brazil. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ DELOITTE TOUCHE TOHMATSU

June 18, 2003
São Paulo, Brazil

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**CONSOLIDATED BALANCE SHEET**

**As of December 31, 2001**
**(In thousands of Brazilian reais)**

| | Note | 2001 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 12 | 52,925 |
| Trade accounts receivable, net | 13 | 62,306 |
| Inventories | 14 | 56,877 |
| Deferred and recoverable taxes | 11 | 7,869 |
| Other assets | 15 | 10,260 |
| Total current assets | | 190,237 |
| NONCURRENT ASSETS: | | |
| Deferred and recoverable taxes | 11 | 255,611 |
| Other noncurrent assets | 15 | 234 |
| Total noncurrent assets | | 255,845 |
| PERMANENT ASSETS: | | |
| Property, plant and equipment, net | 16 | 1,462,693 |
| Deferred assets, net | 17 | 239,733 |
| Goodwill | 18 | 161,532 |
| Total permanent assets | | 1,863,958 |
| Total | | 2,310,040 |

The accompanying notes are an integral part of these consolidated financial statement.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**CONSOLIDATED BALANCE SHEET**

**As of December 31, 2001**
**(In thousands of Brazilian reais)**

| | Note | 2001 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Payroll and related accruals | 19 | 9,412 |
| Trade accounts payable | 20 | 247,158 |
| Taxes payable | 21 | 16,481 |
| Loans and financing | 22 | 212,465 |
| Other liabilities | | 8,272 |
| Total current liabilities | | 493,788 |
| NONCURRENT LIABILITIES: | | |
| Loans and financing | 22 | 2,094,763 |
| Taxes payable | 21 | 37,679 |
| Reserve for contingencies and other | 23 | 7,654 |
| Total noncurrent liabilities | | 2,140,096 |
| MINORITY INTEREST | | (168,195) |
| SHAREHOLDERS DEFICIT: | 26 | |
| Capital stock | | 447,430 |
| Advances for future capital increase | | 210,543 |
| Special reserve of goodwill | | 142,237 |
| Accumulated deficit | | (955,859) |
| Total shareholders deficit | | (155,649) |
| Total liabilities and shareholders deficit | | 2,310,040 |

The accompanying notes are an integral part of these consolidated financial statement.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**CONSOLIDATED STATEMENT OF LOSS**

**For the Year Ended December 31, 2001 and For the Period from January 1 to December 27, 2002**
**(In thousands of Brazilian reais except per thousand shares)**

| | Note | 2001 | 2002 |
|---|---|---|---|
| NET OPERATING REVENUE | 5 | 390,797 | 512,168 |
| COST OF SERVICES AND GOODS | 6 | (407,907) | (423,774) |
| GROSS MARGIN | | (17,110) | 88,394 |
| OPERATING EXPENSES: | | | |
| Selling expenses | 7 | (139,653) | (124,402) |
| General and administrative expenses | 8 | (47,067) | (45,571) |
| Other net operating expenses | 9 | (52,421) | (26,084) |
| OPERATING LOSS BEFORE EQUITY IN LOSSES OF UNCONSOLIDATED SUBSIDIARY AND NET FINANCIAL EXPENSES | | (256,251) | (107,663) |
| EQUITY IN LOSSES OF UNCONSOLIDATED SUBSIDIARY | | (30,525) | |
| NET FINANCIAL EXPENSES | 10 | (536,464) | (663,147) |
| OPERATING LOSS | | (823,240) | (770,810) |
| Net nonoperating expenses | | (372) | (417) |
| LOSS BEFORE MINORITY INTEREST | | (823,612) | (771,227) |
| Minority interest | | 197,873 | 188,557 |
| NET LOSS | | (625,739) | (582,670) |
| Shares outstanding at December 31, 2001 and December 27, 2002 (in thousands) | | 44,742,947 | 44,742,947 |
| Loss per thousand shares | | (13.99) | (13.02) |

The accompanying notes are an integral part of these consolidated financial statement.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (DEFICIT)**

**For the Year Ended December 31, 2001 and for the Period from January 1 to December 27, 2002**
**(In thousands of Brazilian reais)**

| | Capital Stock | Advance for Future Capital Increase | Special Reserve of Goodwill | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| BALANCE AT DECEMBER 31, 2000 | 447,430 | | | (261,021) | 186,409 |
| Prior year adjustment (Note 3(b)) | | | | (69,099) | (69,099) |
| Advance for future capital increase | | 210,543 | | | 210,543 |
| Special reserve of goodwill | | | 142,237 | | 142,237 |
| Net loss | | | | (625,739) | (625,739) |
| BALANCE AT DECEMBER 31, 2001 | 447,430 | 210,543 | 142,237 | (955,859) | (155,649) |
| Net loss | | | | (582,670) | (582,670) |
| BALANCE AT DECEMBER 27, 2002 | 447,430 | 210,543 | 142,237 | (1,538,529) | (738,319) |

The accompanying notes are an integral part of these consolidated financial statement.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

**For the Year Ended December 31, 2001 and for the Period from January 1 to December 27, 2002**
**(In thousands of Brazilian reais)**

| | 2001 | 2002 |
|---|---|---|
| SOURCES OF FUNDS: | | |
| From operation (see below) | | 332,575 |
| From shareholders : | | |
| Advances for future capital increase | 210,543 | 2,630,270 |
| From third parties : | | |
| Long-term debt | 2,048,893 | 215,584 |
| Noncurrent tax payable, other than income taxes | 33,629 | 68,273 |
| Intercompany payables | | 531,440 |
| Total sources | 2,293,065 | 3,778,142 |
| USES OF FUNDS: | | |
| In operations (see below) | 336,865 | |
| Property, plant and equipment | 421,034 | 152,321 |
| Increase in deferred charges | | 7,525 |
| Prepayment of noncurrent liabilities | 1,199,794 | 2,927,634 |
| Investments | 203,106 | |
| Consolidation of negative working capital of GT as of February 7, 2001 | 423,090 | |
| Noncurrent assets | 16,833 | 453,654 |
| Total uses | 2,600,722 | 3,541,134 |
| INCREASE IN NEGATIVE WORKING CAPITAL | (307,657) | (237,008) |
| REPRESENTED BY: | | |
| Ending negative working capital: | | |
| Current assets | 190,237 | 160,240 |
| Current liabilities | 493,788 | 226,783 |
| | (303,551) | (66,543) |
| Less beginning working capital | 4,106 | (303,551) |
| INCREASE IN NEGATIVE WORKING CAPITAL | (307,657) | (237,008) |
| FUNDS PROVIDED BY (USED IN) OPERATIONS | | |
| Net loss | (625,739) | (582,670) |
| Items not affecting working capital: | | |
| Minority interests | (176,873) | (188,557) |
| Depreciation and amortization | 145,122 | 202,935 |
| Exchange and monetary variations on noncurrent items, net | 291,020 | 893,997 |
| Net book value of property, plant and equipment sold | 1,637 | 3,842 |
| Reserve for contingencies and other | 7,297 | 3,840 |
| Provision for losses on property, plant and equipment | 20,671 | (812) |

| | | |
|---|---|---|
| Total provided by (used in) operations | (336,865) | 332,575 |

The accompanying notes are an integral part of these consolidated financial statement.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**CONSOLIDATED STATEMENT OF CASH FLOW**

**For the Year Ended December 31, 2001 and for the Period from January 1 to December 27, 2002**
**(In thousands of Brazilian reais)**

| | 2001 | 2002 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | (625,739) | (582,670) |
| Adjustments to reconcile net loss to cash provided by operating activities: | | |
| Depreciation and amortization | 145,122 | 202,935 |
| Exchange and monetary variation on noncurrent items, net | 291,020 | 893,997 |
| Provision for doubtful accounts | 14,535 | 8,832 |
| Provision for loss on property, plant and equipment | 20,671 | (812) |
| Net book value of property, plant and equipment sold | 1,637 | 3,842 |
| Provision for contingencies | 7,297 | 3,840 |
| Minority interest | (176,873) | (188,557) |
| Changes in operating assets: | | |
| (Increase) in accounts receivable | (796) | (35,598) |
| (Increase)/Decrease in inventories | (44,600) | 17,227 |
| Decrease in recoverable taxes | 1,012 | (7,749) |
| (Increase)/Decrease in other current assets | (762) | (40) |
| (Increase) in other noncurrent assets | (16,833) | (4,344) |
| Changes in operating liabilities: | | |
| Increase/(Decrease) in payroll and related accruals | 5,900 | (1,974) |
| Increase/(Decrease) in suppliers | 187,098 | (141,567) |
| Increase in taxes payable | 3,263 | 899 |
| Increase (Decrease) in other account payable | (11,317) | 3,428 |
| Increase in noncurrent liabilities | 33,629 | 68,273 |
| Net cash used in operating activities | (165,736) | 239,962 |
| INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (421,034) | (152,321) |
| Deferred assets | | (7,525) |
| Payment of license of concession | (289,648) | |
| Purchase of Global Telecom, net of cash and cash equivalents acquired of R$ 24,990. | (207,186) | |
| Net cash used in investing activities | (917,868) | (159,846) |
| FINANCING ACTIVITIES: | | |
| Net increase in current loans | 76,170 | (258,367) |
| Payment of noncurrent liabilities | (1,199,794) | (616,454) |
| New loans obtained noncurrent | 2,048,893 | 215,584 |
| Advances for future capital increase | 210,543 | |
| Intercompany payables | | 531,440 |
| Net cash provided by (used in) financing activities | 1,135,812 | (127,797) |
| | 52,208 | (47,681) |

| | | |
|---|---|---|
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| CASH AND CASH EQUIVALENTS IN THE BEGINNING OF THE YEAR | 717 | 52,925 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 52,925 | 5,244 |
| SUPPLEMENTARY CASH FLOW INFORMATION: | | |
| Interest paid | 146,548 | 132,215 |
| Payment of GT loan by TCP | | 2,630,270 |
| Recognition of tax benefit related to corporate restructuring | 142,237 | |

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**As of and for the year ended December 31, 2001 and**
**for the Period From January 1 to December 27, 2002**
**(In thousands of Brazilian reais, unless otherwise indicated)**

**1. Background and Operations**

Daini do Brasil S.A. ( Daini or the Company ) is a closely held Company established on February 14, 1997 under the name of DDI do Brasil Ltda., becoming Daini do Brasil S.A. on January 2nd, 2001. Daini is the majority holding Company of Global Telecom S.A. ( GT or the Subsidiary ) and has no other significant investments or operations other than those related to its investment in the common and preferred stock of GT. Until February 6, 2001, the Company held 47.80% of the total capital and 48.34% of the voting stock of GT. On February 6, 2001, the Company acquired additional direct and indirect interests of 27.75% and 18.61% of GT s capital stock and voting stock, respectively, under the terms of Contract of Purchase and Sale of Shares agreement entered into on January 13, 2001 (the Purchase Agreement ). The indirect interests were acquired through Takotel Telecom Ltda. ( Takotel ), an intermediate holding company that previously held an equity interest in GT. As a result of the February 6, 2001 acquisition, the Company obtained control of GT and began to consolidate GT from that date. These acquisitions were financed by advances for future capital increases made by Telesp Celular Participações S.A. ( TCP ), amounting to R$ 210,543. In connection with the Purchase Agreement, on February 6, 2001 TCP acquired 49% of the voting shares and 100% of the non-voting shares of the Company and committed to acquire the remaining 51% of common voting shares. On December 27, 2002, after obtaining approval from ANATEL, TCP purchased the remaining 51% of the outstanding common stock of the Holdings (representing an economic interest of 17%). Considering TCP s direct and indirect interests, TCP now owns 100% of the capital of the Holdings and GT and, as of the date of the acquisition, began to consolidate the Holdings.

On February 6, 2001, GT s shareholders, composed by the following holding companies ( The Holdings ): Daini do Brasil ( Company ), Global Telcom Telecomunicações S.A. ( Globaltelcom ) and Inepar S.A. Participações em Investimentos de Telecomunicações ( Inepar ), acquired all Motorola NMG Brasil Ltda s share capital, changing the company s name to Takotel Telecom Ltda. ( Takotel ), which held 24.31% of common shares and 42.24% of preferred shares of GT s capital stock (36.26% of GT s total capital).

Due to current acquisitions, TCP and The Holdings contributed goodwill in the amount of R$ 585,548 and R$ 175,502, respectively, to GT according to the shareholder s participation in the acquired companies. The goodwill contributed by Daini amounted to R$ 118,491.

Through several legal acts, on December 2001, TCP and The Holdings created new holdings companies with the contribution of investment and paid goodwill generated from the acquisition of GT shares. The newly created holding companies and Takotel, before Takotel was merged into GT, recorded a provision for controlling shareholder s integrity, which reflects the net value between the total goodwill to be amortized and its correspondent tax credit.

After the formation of the newly created holding companies and the merger of Takotel into GT, the difference between the goodwill and the provision for controlling shareholder s integrity, was recorded as Special Reserve of Goodwill in GT s books, which represents the related tax benefits associated with the goodwill and which will be capitalized when and if such tax benefits are realized.

At December 31, 2001, the Company held 66.95% of the voting capital and 75.55% of the total capital of GT.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***GT Background***

GT was initially constituted on December 22, 1997 as a limited liability company. On January 29, 1999, the shareholders converted GT into a closely held corporation called Global Telecom S.A. GT provides mobile telephone services under a license granted by the National Agency for Telecommunications ( ANATEL ) in accordance with Brazilian laws and sells telecommunication equipment.

On April 8, 1998, under Act 098 of ANATEL, GT was granted a license to operate B Band mobile telephone services for concession area 5, covering two states of Brazil (Paraná and Santa Catarina), for a 15-year period, renewable for an additional 15 year term, subject to review and approval by ANATEL.

The license acquisition price was R$ 773,918, with a down payment of R$ 309,567, corresponding to 40% of the total price. The remaining 60% was paid in three equal annual installments, starting on April 8, 1999, restated by the variation of IGP-DI from Fundação Getúlio Vargas, plus interest at the rate of 1% per month, starting from April 7, 1997, the date the proposal for license was delivered to ANATEL.

**2. Liquidity**

The Company has incurred operating losses and negative cash flows from operations since inception and has a working capital and shareholders deficit at December 31, 2001. Consequently, the Company has been dependent on their shareholders (or their affiliates) to provide funds to support operations and meet debt service requirements.

On September 18, 2002, TCP made an advance for future capital increase to GT amounting to R$ 2,630,270.

***Migration from SMC to SMP***

On December 10, 2002, ANATEL and GT signed a document authorizing Personal Mobile Service (SMP), effective from the date of publication in the official gazette on December 12, 2002.

Under the above-mentioned document, Mobile Cellular Service (SMC), provided under license, was replaced by Personal Mobile Service (SMP), provided under authorization, both granted by the Federal Government.

The authorization granted to the Company is valid for the remaining period of the license previously granted and currently replaced, to April 8, 2013, and may be renewed once for fifteen years, on a chargeable basis.

The principal changes arising from the migration from SMC to SMP are:

Consolidation of the joint venture between Telefónica Móviles and PT Móveis in Brazil;

The SMP user will have the right to choose the long distance service provider through the provider selection code (CSP) for calls within the access areas;

More demanding quality goals;

Free negotiation of interconnection tariffs beginning June 2004.

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Joint Venture***

On December 27, 2002, the assets in the Brazilian mobile telephony market held by the shareholders PT Móveis Serviços de Telecomunicações, SGPS ( PT ) and Telefónica Móviles S.A. ( TEM ), represented by the direct and indirect equity interests in Telesp Celular Participações S.A., Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., and CRT Celular Participações S.A., were transferred to Brasilcel N.V., to form a joint venture based in the Netherlands (50% owned by PT and 50% owned by TEM).

As a result, as of December 31, 2002, Telesp Celular Participações S.A. is a publicly held company owned by Brasilcel N.V. (57.26% of total capital) and Portelcom Participações S.A. (7.86% of total capital) which is wholly owned by Brasilcel N.V. Total voting capital directly and indirectly owned by Brasilcel N.V. as of December 31, 2002 was 93.7%.

The Senior Management of the companies involved understand that the mentioned process will result in significant gains for all the corporations, mainly due to the synergies achieved with the operations increase volume and unification of operative processes, which may case systemic adjustments.

**3. Presentation of the Consolidated Financial Statements**

These consolidated financial statements are being presented to comply with the requirements of Rule 3-05 of Regulation S-X of the Securities and Exchange Commission ( SEC ) in connection with a registration statement to be filed by TCP with the SEC. As described in Note 1, TCP acquired the remaining common stock of the Company on December 27, 2002, and began to consolidate the Company as from that date. Consequently, these financial statements have been presented for periods prior to date of this acquisition.

These Financial Statements were prepared in accordance with accounting practices adopted in Brazil ( BR CL ) and the applicable rules for telecommunications service companies, established by ANATEL.

***a) Consolidated Financial Statements***

As Daini holds a majority of the outstanding voting stock of GT, the financial statements of Daini include the accounts of GT on a consolidated basis from February 6, 2001, the date upon which Daini owned more than 50% of the voting capital stock of GT. The consolidation was made in according with CVM Instruction No. 247/96 and the principal procedures are:

Elimination of intercompany balances, as well as of revenue and expenses of intercompany transactions;

Elimination of the investor s shareholding, reserves and accumulated results in the investees;

Segregation of the portions of shareholders equity and the minority shareholders interest.

Previous to the majority acquisition, GT results from January 1, 2001 to February 6, 2001 were accounted for under the equity method of accounting and were included in the Statement of loss as equity in losses of unconsolidated subsidiary.

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***b) Change in Accounting Practices***

Effective January 1, 2001, the Company changed its method of accounting for subscriber acquisition costs. The effect of this change has been recorded as an adjustment to the Company s beginning accumulated deficit balance (Note 26c). The accounting change is described below:

*Subscriber acquisition cost* Prior to January 1, 2001, the Company deferred losses on sales of handsets below cost. The losses were amortized during the estimated period over which the subscriber was expected to remain as a customer. Although this accounting is acceptable under BR CL, the Company decided to conform this practice to US GAAP, as allowed by BR CL. Since January 1, 2001 these loses recorded as merchandising expenses when incurred. The accumulated deferred asset was written-off as a prior year adjustment.

**4. Summary of the Principal Accounting Practices**

*(a) Cash and Cash Equivalents* Are considered to be all available balances in cash and banks and all highly liquid temporary cash investments, stated at cost plus interest accrued to the balance sheet date, with original maturity dates of three months or less.

*(b) Trade Accounts Receivable* Accounts receivables from customers are calculated at the tariff rate on the date the services were rendered. Trade accounts receivable also include services provided to customers up to the balance sheet date, but not yet invoiced, as well as the accounts receivable from sale of handsets and accessories.

*(c) Allowance for Doubtful Accounts* Provision is made for accounts receivable for which recoverability is considered to be remote.

*(d) Inventories* Consist of handsets and accessories stated at the average acquisition cost. A provision is recognized to adjust the cost of handsets and accessories to net realizable value for inventory considered obsolete.

*(e) FISTEL fees* Fees related to activations of new customers are being deferred and amortized over the estimated customer relationship period. This amortization period commences upon the date of activation.

*(f) Foreign currency transactions* Are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Gains and losses related to exchange variations on foreign currency denominated assets and liabilities are recognized in the statements of loss as they occur. Exchange variation related to derivative contracts are calculated and recorded monthly regardless of the settlement period.

*(g) Property, Plant and Equipment* Is stated at the cost of acquisition or construction, less accumulated depreciation calculated under the straight-line method based on the estimated useful lives of these assets. The license acquisition cost of GT is include in property, plant and equipment, which is being amortized using the straight-line method over the initial license period (15 years) beginning in the month of its acquisition. The interest on loans for financing construction in progress is capitalized as part of the cost of the asset.

Costs incurred for repairs and maintenance that represent improvements, increases in capacity or in the useful lives of the assets are capitalized. All other routine costs are charged to results of operations.

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(h) Deferred assets* Represents preoperating expenses incurred by GT that have been deferred. Preoperating expenses are being amortized using the straight-line method over a period of ten years, starting from the beginning of operations.

*(i) Goodwill* which represents the excess of purchase price over the proportional share of carrying value of net assets acquired, is not being amortized as it was based on the future profitability of the associated company. Thus, when the associated company starts to generate profit the goodwill amortization will start. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. For the periods presented in these financial statements, the Company has not recognized an impairment on the recorded goodwill based on its assessment of recoverability.

*(j) Vacation Payable Accrual* Cumulative vacation payable due to employees is accrued as incurred.

*(k) Income and Social Contribution Taxes* Are calculated and recorded based on the tax rates in effect on the balance sheet date, on an accrual basis. The deferred taxes attributable to temporary differences, taxes losses and social contribution tax loss carryforwards are recorded when their realization is considered to be more likely than not.

However, to date, the Company has not recorded deferred tax assets related to its net operating losses tax carryforwards, since their realization is not considered to be more likely than not.

*(l) Loans and Financing* Loans and financing are updated for monetary and/or exchange variations and include accrued interest to the balance sheet date.

*(m) Reserve for Contingencies* Are based on legal advice and management s opinion as to the likely outcome of the outstanding matters at the balance sheet date.

*(n) Revenue Recognition* Revenues from cellular telephone services consist of monthly subscription charges, usage charges, network usage charges and charges for maintenance and other customer services. Revenues for all services are recognized when the services are provided. Revenues for pre-paid services are deferred and recognized when the service is rendered, based on airtime usage. Billings are on monthly basis. Unbilled revenues from the billing date to the month end are estimated and recognized as revenues during the month in which the service is provided. Revenues from the sales of handsets and accessories are recorded when delivered.

*(o) Net Financial Expense* Represents interest earned (incurred) during the period and exchange and monetary variation resulting from financial investments and loans and financing. Exchange gains and losses on forward contracts and swaps are included in net financial expenses.

*(p) Research and Development* Research and development costs are charged to expense as incurred.

*(q) Derivative Financial Instruments* GT enters into currency swap contracts in order to manage its exposure to the devaluation of the Real to other foreign currencies, specifically as it relates to its obligations. The derivatives are recorded at their settlement amounts at the balance sheet date.

*(r) Segment Information* The Company s operates solely in one segment for local and regional cellular telecommunications. All revenues are generated in states of Paraná and Santa Catarina.

*(s) Use of Estimates* The preparation of financial statements in accordance with accounting practices adopted in Brazil requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the reported amounts of revenues and expenses during the period reported. Actual results could differ from those estimates.

**5. Net Operating Revenue**

| | 2001 | 2002 |
|---|---|---|
| Monthly subscription charges | 91,720 | 107,069 |
| Usage charges | 123,087 | 169,398 |
| Interconnection charges | 133,921 | 204,063 |
| Sale of merchandise | 139,852 | 139,571 |
| Other | 4,263 | 14,461 |
| Total gross operating revenue | 492,843 | 634,562 |
| Value added and other sales taxes | (92,328) | (110,270) |
| Discounts granted and other | (9,718) | (12,124) |
| Net operating revenue | 390,797 | 512,168 |

There are no customers which contributed more than 10% of gross operating revenues in 2001 and 2002, except for Brasil Telecom S.A., the fixed service provider for the area, that contributed approximately 22% of the total gross revenue in 2002 (17% in 2001), mainly in relation to interconnection charges.

**6. Cost of Services and Goods**

| | 2001 | 2002 |
|---|---|---|
| Depreciation | (45,467) | (89,034) |
| License acquisition right amortization | (54,886) | (61,064) |
| Personnel | (5,002) | (4,341) |
| Interconnection | (60,172) | (56.771) |
| Materials and services | (14,748) | (43,312) |
| Rentals and insurance | (25,131) | (8,968) |
| Fistel regulated taxes | (10,629) | (19,269) |
| Cost of merchandise sold | (189,770) | (140,853) |
| Other | (2,102) | (162) |
| Total | (407,907) | (423,774) |

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Selling Expenses**

| | 2001 | 2002 |
|---|---|---|
| Personnel | (20,428) | (17,695) |
| Marketing and publicity | (44,055) | (39,985) |
| Third-party services | (33,921) | (30,797) |
| Leases and insurance | (1,515) | (3,914) |
| Provision for doubtful accounts receivable | (29,699) | (8,832) |
| Depreciation | (6,981) | (11,151) |
| Other | (3,054) | (12,028) |
| Total | (139,653) | (124,402) |

**8. General and Administrative Expenses**

| | 2001 | 2002 |
|---|---|---|
| Personnel | (15,937) | (14,124) |
| Third-party services | (17,735) | (17,648) |
| Leases and insurance | (1,609) | (2,692) |
| Depreciation | (6,154) | (10,023) |
| Other | (5,632) | (1,084) |
| Total | (47,067) | (45,571) |

**9. Other Net Operating Expenses**

| | 2001 | 2002 |
|---|---|---|
| Provision for losses on property, plant and equipment | (20,671) | 812 |
| Amortization of deferred assets | (28,366) | (31,663) |
| Accrued liability for contingencies (net of reversals) | (7,297) | (3,840) |
| Other | 3,883 | 8,607 |
| Total | (52,421) | (26,084) |

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Net Financial Expenses**

| | 2001 | 2002 |
|---|---|---|
| Income: | | |
| Interest | 9,022 | 8,500 |
| Gains on swap contracts | 27,391 | 620,412 |
| Total financial income | 36,413 | 628,912 |
| Expense: | | |
| Interest | (116,375) | (175,971) |
| Monetary/exchange variations | (201,291) | (1,037,619) |
| Loss on swaps contracts | (221,794) | |
| Other financial expenses | (48,622) | (88,801) |
| Financial expenses | (588,082) | (673,479) |
| Net financial expenses before interest capitalization | (551,669) | (673,479) |
| Less capitalized interest | 15,205 | 10,332 |
| Net financial expenses | (536,464) | (663,147) |

**11. Recoverable and Deferred Taxes**

Brazilian income taxes comprise federal income tax and social contribution tax. At December 31, 2001 and December 27, 2002 the statutory rate for income tax was 25%, and the statutory rates for social contribution tax was 9%. The combined statutory rate was 34% as of December 31, 2001 and December 27, 2002.

At December, 31, 2001, GT had accumulated tax loss carryforwards, in the amount of R$ 1,397,029, whose related tax asset, in the amount of R$ 461,020 was not recorded in the financial statements since their realization is not considered to be more likely than not.

The accumulated tax loss carryforwards do not expire and can be offset against taxable income. The tax legislation also define that tax loss carryforwards can be used, in any year, up to the limit of 30% of income before taxes, determined in accordance with Brazilian accounting practices and considering adjustments defined by tax legislation.

Deferred income tax assets and recoverable taxes are comprised of the following:

| | 2001 |
|---|---|
| Deferred taxes from corporate restructuring (Note 1) | 237,508 |
| Value Added Tax (ICMS) | 25,537 |
| Other | 435 |
| Total | 263,480 |

| | |
|---|---|
| Current | 7,869 |
| Noncurrent | 255,611 |

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Value added tax (ICMS) represent the amount paid on the acquisition of equipment and inventories and can be offset against future ICMS payable generated from telecommunications services revenues. Recovery of ICMS taxes associated with equipment purchase is generally limited to 1/48th per month of the credit amount. The long-term portion of recoverable ICMS was R$ 18,103 at December 31, 2001.

**12. Cash and Cash Equivalents**

| | 2001 |
|---|---|
| Cash and banks | 2,319 |
| Temporary cash investments: | |
| Certificates of Deposit | 50,606 |
| Total | 52,925 |

Temporary cash investments refer principally to fixed income deposit certificates (CDBs) which are indexed to interbank deposit (CDI) rates.

**13. Trade Accounts Receivable, Net**

| | 2001 |
|---|---|
| Billed amounts to customers | 25,044 |
| Billed amounts for sales of handsets and accessories | 23,683 |
| Unbilled services to customers | 12,542 |
| Interconnection | 10,674 |
| Allowance for doubtful accounts | (9,637) |
| Total | 62,306 |

The changes in the allowance for doubtful accounts were as follows:

| | 2001 | 2002 |
|---|---|---|
| Beginning balance | (6,968) | (9,637) |
| Provision for doubtful accounts charged to selling expense | (14,535) | (8,832) |
| Write-offs | 11,866 | 8,167 |
| Ending balance | (9,637) | (10,302) |

**14. Inventories**

| | 2001 |
|---|---|
| Handsets and accessories | 65,008 |
| Other | 493 |
| | 65,501 |
| Provision for excess and obsolete inventories | (8,624) |
| Total | 56,877 |

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**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Other Assets**

| | 2001 |
|---|---|
| Deferred Fistel Taxes | 6,490 |
| Prepaid expenses | 2,819 |
| Advances to suppliers | 950 |
| Other | 235 |
| Total | 10,494 |
| Current | 10,260 |
| Noncurrent | 234 |

Prepaid expenses consist primarily of contracted services, which are being charged to expense over the terms of the service contracts.

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

***a. Composition***

| | 2001 |
|---|---|
| License acquisition costs | 915,926 |
| Transmission equipment | 408,009 |
| Computer hardware and software | 152,210 |
| Automatic switching equipment | 62,795 |
| Supports and protectors | 79,690 |
| Buildings | 10,976 |
| Handsets | 9,149 |
| Land | 2,986 |
| Other assets | 20,081 |
| Construction-in-progress | 158,208 |
| Total cost | 1,820,030 |
| Accumulated amortization of license acquisition costs | (228,948) |
| Accumulated depreciation | (128,389) |
| Property, plant and equipment, net | 1,462,693 |

During the periods from February 6, 2001 to December 31, 2001 and January 1 to December 27, 2002, interest capitalized by GT on loans and financing for construction-in-progress amounting to R$ 15,205 and R$ 10,332, respectively.

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**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***b. Depreciation Rates***

The annual depreciation rates applied to property, plant and equipment are as follows:

| | |
|---|---|
| License acquisition | 6.70 |
| Transmission equipment | 10.00 |
| Computer hardware and software | 20.00 |
| Supports and protectors | 3.50 |
| Automatic switching equipment | 10.00 |
| Buildings | 2.80 |
| Private handsets | 33.00 |
| Other assets (excluding land) | 4.00 to 20.00 |

***c. Rentals***

The Company rents premises and cellular tower through a number of operating lease agreements that expire at different dates. Total annual rental expense under these agreements was R$ 34,333 in 2002 (R$ 32,072 in 2001).

Rental commitments of operating leases with noncancellable terms are:

| | **2001** |
|---|---|
| Year ending December 31, | |
| 2002 | 32,884 |
| 2003 | 31,021 |
| 2004 | 30,289 |
| 2005 | 29,817 |
| 2006 | 28,552 |
| 2007 and after | 43,610 |
| Total minimum payments | 196,173 |

**17. Deferred Assets, Net**

| | **2001** |
|---|---|
| Preoperating expenses: | |
| License amortization | 80,496 |
| Financial expenses | 184,430 |
| General and administrative expenses | 43,633 |
| Total | 308,559 |
| Accumulated amortization | (68,826) |

| | |
|---|---|
| Deferred assets, net | 239,733 |

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**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Goodwill**

| | 2001 |
|---|---|
| Initial goodwill | 43,041 |
| Goodwill on Takotel s acquisition | 118,491 |
| Total | 161,532 |

The amount of goodwill will be amortized over a ten-year period based on GT s expected future profitability.

**19. Payroll and Related Accruals**

| | 2001 |
|---|---|
| Wages, salaries | 1,232 |
| Accrued vacation and social security charges | 3,641 |
| Accrued benefits | 4,400 |
| Other | 139 |
| Total | 9,412 |

**20. Trade Accounts Payable**

| | 2001 |
|---|---|
| Materials and services local currency | 234,361 |
| Services foreign currency | 10,931 |
| Other | 1,866 |
| Total | 247,158 |

**21. Taxes Payable**

| | 2001 |
|---|---|
| State VAT (ICMS) | 40,786 |
| Withholding income tax | 7,826 |
| Fistel fees | 2,577 |
| Other taxes on revenues | 2,971 |

| | |
|---|---|
| Total | 54,160 |
| Current | 16,481 |
| Non-current | 37,679 |

The long-term portion refers to the ICMS Programa Paraná Mais Emprego , an agreement made with the Paraná State Government, on July 21, 2000, for deferral of ICMS payments. Pursuant to this agreement, the due date of ICMS is the 49th month after the amount is determined. The balances are subjected to monetary correction based on FCA *Fator de Conversão e Atualização da Secretária da Fazenda do Paraná*, a monetary correction rate established by State of Paraná.

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**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22. Loans and Financing**

***a) Composition of Debt***

| | Annual Interest Rate | 2001 |
|---|---|---|
| Working capital: | | |
| J. P. Morgan(1) | 32.17% | 35,386 |
| Banco do Brasil(2) | 0.8% | 65,372 |
| Floating Rate Notes (3) | EURIBOR + 2.75% | 1,671,540 |
| BNDES(4) | UMBNDES and TJLP + 3.6% | 311,444 |
| Interest payable on the above loans and settlement value of swap contracts | | 223,486 |
| Total | | 2,307,228 |
| Current | | 212,465 |
| Non current | | 2,094,763 |

(1) JP Morgan This loan was contracted in November 29, 2001, and was due in a single installment in February 2002. This loan was paid in full on the due date.

(2) Banco do Brasil This loan was contracted on April 2001, equivalent to ¥ 3,707,351 thousands, with maturity in a single installment on March 2002. This loan was paid in full on due date.

(3) Floating Rate Notes These notes, issued by GT in July 2001, were acquired by Portugal Telecom International Finance B.V. (a related finance company of the parent company of TCP See Note 1), equivalent to EUR 810 million, and are due in a single installment in 2004. The interest was due annually. Proceeds from this loan were used for prepayment on July 2001 of the following loans:

Motorola Working capital This loan was contracted in December 1998, with a total credit line of US$110 million.

Eximbank Working capital financing of operational activities. This loan was contracted in September 1999, in the amount of US$220 million.

Motorola Equipment This loan was contracted on December 1998, with a total credit line of US$220 million.

These debts were repaid at their approximate carrying amount on each prepayment date. No significant gains or losses resulted from these early extinguishments of debt.

Considering the effects of derivatives financial instruments, the cost of debt is proportionate to the interbank offered rate in Brazil (CDI). At December 31, 2001 the CDI rate was 19% per annum.

On August 9, 2002 and September 16, 2002, TCP paid down the Floating Rate Notes at their approximate carrying value on behalf of GT. This amount was recorded as an advance for future capital increases made by TCP.

(4) Banco Nacional de Desenvolvimento Econômico e Social (BNDES) This loan was contracted with BNDES and the banks Bradesco S.A. and Alfa S.A. in July 2001. Principal of this loan will be paid in 60 monthly installments starting in November 2002. This loan is guaranteed by the pledge of the

**PART NINE FINANCIAL STATEMENTS**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company s revenues, which can be retained up to a limit of 140% of the highest monthly installment, and also guaranteed by Telesp Celular S.A.

This loan agreement requires compliance with certain covenants such as the maintenance of minimum indexes of capitalization, the current ratio, financial results and debt service coverage, as well as places restrictions on the creation of new loans and financing. As of December 27, 2002, GT was not in compliance with the current ratio, financial result and debt service coverage covenants contained in the loan agreement. GT has obtained waivers relating to these covenants through December 31, 2003.

***b) Repayment Schedule***

As December 27, 2002 the outstanding debt consisted of R$ 336,447 related to the loan contracted with BNDES, maturing as follows:

| | Amount |
|---|---|
| 2003 | 72,506 |
| 2004 | 71,103 |
| 2005 | 71,103 |
| 2006 | 71,103 |
| 2007 | 50,632 |
| Total | 336,447 |

***c) Swap Contracts***

During 2001, the Company entered into currency swap contracts to reduce the impact of the devaluation of the Brazilian real on its Euro and Yen denominated obligations. Under the terms of these swap arrangements, the Company is required to pay the counterparts the amounts, if any, that represents the excess of the variation of the CDI (interbank) rate or a fixed interest rate over the variations of the applicable foreign currency exchange rate, all computed on the notional amounts. If the inverse occurs, GT is entitled to receive the difference from the counterparts. At each balance sheet date the swap contracts are being carried at their estimated net settlement amount. The gains and losses attributable to these instruments are being recognized in income on a current basis.

At December 31, 2001 the Company had currency swap contracts in the notional equivalent of R$ 1,128,707 denominated in foreign currencies (equivalent to EUR 509,834 and ¥ 3,707,351 in 2001) with the purpose to reduce the effect of a potential devaluation of the Brazilian currency. The parameters for the currency swap contracts in Euro and Yens are subject to foreign currency variation plus fixed interest rates from 0.8% to 8.39%. During 2001, the result of these instruments was a unrealized loss of R$ 194,403 recorded as loan and financing. At December 27, 2002, GT had currency swaps contracts denominated in Euros in the amount of EUR 299,693, unrealized gains related to these swaps of R$ 620,411 was recorded in the statements of income as net financial expenses during 2002.

Part of the currency swap contracts in Euros, in the amount of R$ 96,443, was subrogated from a swap currency contract originally signed with a commercial bank by Telesp Celular Participações S.A.

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## 23. Reserve for Contingencies and Other

GT is party to certain legal proceedings arising in the normal course of business, including civil, administrative, tax and labor proceedings. GT considers the risk of loss of each contingency, such risk being classified as probable, possible or remote, considering the advice of its legal advisors. The contingencies for which a loss is considered probable to occur are recorded in the financial statements.

The composition of the provisions recorded as liabilities, is as follows:

| | 2001 |
|---|---|
| Labor | 1,244 |
| Tax | 6,000 |
| Civil and other | 410 |
| Total | 7,654 |

The labor contingencies were computed based on an estimate made by management of GT, supported by the advice of its legal advisors, of the probable losses with judicial processes from former employees.

The tax contingencies primarily relate to matters linked to the taxation of the portable terminals of cellular mobile telephony, in the State of Paraná, during the period from December 14, 2000 to July 02, 2001. In this period, the tax rate was reduced for 7%, according to item 14-A of the Table I of the Attachment II of RICMS/ PR (Value-added tax regulation in the state of Paraná), which was later revoked with retroactive effect.

In the State of Santa Catarina, GT had a reduction in the base computation of VAT on sales, for the period from August 1999 to December 2001. The tax rule prescribes that any amount of benefit resulting from VAT credit on purchases, should not be used to reduce future obligations. The Company is contesting such tax ruling.

The provisions for civil contingencies were computed based on an estimate of the cases filed against the GT.

GT is subject to potential contingencies, related to civil claims, classified as possible risk of loss by the legal advisors, which was not accrued by the Company, amounting to R$ 1,320 as of December 31, 2001.

## 24. Transactions with Related Parties

The principal transactions with unconsolidated related parties are as follows:

a) Use of network, long-distance and roaming cellular communication These transactions involve companies owned by the same group: Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A. and Telesp Celular S.A.. This group became a related party on December 27, 2002 as a result of the joint venture described in Note 2. The table below includes balances and transactions with these companies for all periods presented. These transactions were established following guidance issued by ANATEL.

b) Advances for capital increase represents advances made by TCP to the Holdings and GT for future capital increases.

c) Intercompany payable  in order to optimize the financial resources of the Group companies, TCP and Telesp Celular S.A made payments to suppliers of cellular handsets which were jointly

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

negotiated and charged to GT, as intercompany loans subject to charges and restatement compatible with market conditions. The commercial conditions of these services are based on the usual market practices applied to the Companies other contracts.

d) Loans and financing Represents intercompany loans with the Portugal Telecom Group.

A summary of balances and transactions with unconsolidated related parties is as follows:

| | 2001 | 2002 |
|---|---|---|
| Assets: | | |
| Account receivable by services | 1,374 | N/A |
| Liabilities: | | |
| Account payable | 2,158 | N/A |
| Intercompany payable | 2,693 | N/A |
| Income: | | |
| Services revenues | 5,511 | 5,497 |
| Cost of services | (6,116) | (6,238) |
| Financial expenses, net | (5,640) | 156,871 |

**25. Financial Instruments and Risk Management**

Estimated fair values of the Company s financial assets and liabilities have been determined using available market information and valuation methodologies identified to be appropriate by the management of the Company. However, considerable judgment was required in interpreting the market data to determine the estimated fair values. Accordingly, the estimates presented below are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair value information as of December 31, 2001 presented below is based on pertinent information available to management as of those dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts at December 31, 2001 current estimates of fair values may differ significantly from the amounts shown.

| | Book Value | Fair Value | Unrealized Gains (Losses) |
|---|---|---|---|
| Loans and financing | 2,067,697 | 1,987,094 | 80,603 |
| Derivatives instruments | 239,531 | 292,005 | (52,474) |
| Total | 2,307,228 | 2,279,099 | 28,129 |

***Loans and Financing***

The fair values of loans and financing were determined based on current market interest rates of similar instruments, with similar maturities and credit risk.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Cash, Cash Equivalents, Accounts Receivable, Other Current Assets, Accounts Payable and Accrued Expenses***

The carrying value of cash, cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximate of their fair value.

***Currency Swap Contracts***

The derivative financial instruments held by the Company consist of foreign currency swap contracts, which are described in note 22[1] (c). The Company engages in these currency swap contracts for hedging purposes.

The fair market value of these instruments has been determined based on the discounted projected cash flow as of the balance sheet date. The projected cash flow considers estimated future exchange rates, future interest rates and other factors present at balance sheet date.

**26. Shareholders Deficit**

***a) Capital***

The capital stock is comprised of preferred shares and common shares, all without par value. Capital as of December 31, 2001 amounts to R$ 447,430, which is represented by shares distributed as follows:

| | Shares Issued and Outstanding |
|---|---|
| Common shares | 14,914,315,604 |
| Preferred shares | 29,828,631,206 |
| Total | 44,742,946,810 |

An amount of R$ 210,543 was received from TCP on February and July, 2001 as advances for future capital increase. This amount was recorded as an advance for future capital increase that was authorized by an Extraordinary Shareholders meeting and will be capitalized after the approval of ANATEL.

Each common share has one voting right in the general meetings. Also, preferred shares are nonvoting and have priority in the reimbursement of capital in case of dissolution of the Company.

According to the Brazilian corporate legislation, preferred shareholders, as there is no provision in the corporate by-laws to the contrary, will have the right to an additional 10% of dividends paid to the common shareholders, when profitability are in place and if income is available for distribution.

Under Brazilian corporate law, the number of non-voting shares or shares with limited voting rights, such as the preferred shares, may not exceed two-thirds of the total number of shares.

1 Currency Swap contracts were entered into in order to reduce the currency exchange risk resulting from the Company s Euro and Yen denominated loans. Although the amounts and maturities related to the contracts are not fully matched to the Company s foreign currency denominated liabilities, the amounts hedged represent management s estimate of the Company s foreign currency liabilities expected to mature at or near the maturity dates of the derivative contracts. Foreign currency swap contracts are recorded at the settlement amount at the balance sheet date.

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***b) Special Reserve of Goodwill***

The goodwill special reserve on incorporation represents the balancing item of the goodwill registered as noncurrent asset. When the tax credit benefit related to the goodwill occurs, will be capitalized in the name of the original shareholders.

***c) Prior Year Adjustment***

The prior year adjustment was recorded as a result of the change in accounting for subscriber acquisition costs as described in Note 3(b), which was recorded as an adjustment to the Company s accumulated deficit on January 1, 2001 as follows:

| | 2001 |
|---|---|
| Write off of subscriber acquisition cost | (81,198) |
| Write off of subscriber acquisition cost accumulated amortization | 12,099 |
| Total adjustments (See Note 3b) | (69,099) |

Write off of subscriber acquisition costs and accumulated amortization. Prior to 2001, the Company deferred the costs associated with the acquisition of new subscriber. In 2001, new subscriber acquisition costs were expensed as incurred and the unamortized accumulated balance of prior years was written-off as a prior year adjustment.

**27. Subsequent Events**

***a. Capital Increase***

On December 30, 2002, R$ 2,310,878 of the advance for future capital increases made by TCP were formally capitalized in exchange for 5,934,625 additional shares of GT stock.

***b. Merger of Daini do Brasil S/A, Globaltelcom Telecomunicações S/A and GTPS S/A Participações em Investimentos de Telecomunicações into GT***

As described in Note 1, on December 27, 2002, TCP purchased the remaining 51% of the outstanding common stock of (17% of total capital) of the Holdings (Daini do Brasil S/ A, Globaltelcom Telecomunicações S/ A and GTPS S/ A Participações em Investimentos de Telecomunicações). As of March 31, 2003, TCP, aiming to minimize administrative and financial costs, completed the merger of Daini do Brasil S/ A, Globaltelcom Telecomunicações S/ A and GTPS S/ A Participações em Investimentos de Telecomunicações into GT. With this operation, TCP became the direct owner of GT.

***c. Cancellation of Derivative Contracts***

Between April 2 and May 8, 2003, GT cancelled all of its outstanding swap contracts with notional amounts of 299,693,000, resulting in the recognition of a loss for the period of R$ 164,704.

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**PART NINE FINANCIAL STATEMENTS**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**28. Summary of Differences Between Accounting Practices Adopted in Brazil ( BR CL ) and US GAAP**

The Company s accounting policies comply with accounting practices adopted in Brazil ( BR CL ), which differ significantly from accounting principles generally accepted in the United States of America ( US GAAP ). These differences are described below:

***a. Different Criteria for Capitalizing and Amortizing Capitalized Interest***

In 2001 and for the period from January 1 to December 27, 2002, the Company elected to record capitalized interest for BR CL purposes, on its construction-in-progress.

Under US GAAP, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 34 Capitalization of Interest Costs, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under US GAAP, the amount of interest capitalized excludes the monetary gain associated with the borrowings and the foreign exchange gains and losses on foreign currency borrowings, and other financial expenses related to borrowings.

The effects of these different criteria for capitalizing and amortizing capitalized interest for 2001 and 2002 operations, are presented below:

| | 2001 | 2002 |
|---|---|---|
| Capitalized interest difference: | | |
| US GAAP capitalized interest | | |
| Interest which would have been capitalized and credited to income | 5,360 | 6,456 |
| Less BR CL capitalized interest | | |
| Interest capitalized and credited to income (up to the limit of interest and foreign exchange variation incurred on loans obtained for financing capital investments) | (15,205) | (10,331) |
| US GAAP difference | (9,845) | (3,875) |
| Amortization of capitalized interest difference: | | |
| Amortization under BR CL | 506 | 1,940 |
| Less Amortization under US GAAP | (986) | (1,849) |
| US GAAP difference | (480) | 91 |

***b. Classification of Financial Expenses***

Under BR CL financial expenses are classified as operating expenses. For US GAAP purposes financial expenses are usually disclosed in the statement of income or operations as other expenses not related to operations.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***c. Permanent Assets***

Losses on disposals of permanent assets were R$ 1,637 in 2001 and R$ 3,842 in 2002. Such losses were included in non-operating expenses for BR CL. Under US GAAP such losses would have reduced operating income.

***d. Valuation of Long-lived Assets***

For U.S. GAAP, effective January 1, 1996 the Company adopted SFAS No. 121 Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of. In accordance with this standard, the Company periodically evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is separately identifiable and is less than their carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 superseded SFAS No. 121, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS No. 144 also amends Accounting Research Bulletin No. 51, Consolidated Financial Statements , to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 also broadens the presentation of discontinued operations to include more disposal transactions. The Company adopted SFAS No. 144, effective January 1, 2002.

The Company has performed a review of its long-lived assets and concluded that the recognition of an impairment charge was not required. The Company s evaluation of its ability to recover the carrying value of its long-lived assets was based upon projections of future operations that assumed a higher level of revenues and gross margin percentages that the Company has historically achieved. There can be no assurance that the Company will be successful in achieving these improvements in its revenues and gross margin percentages. Should the Company be unable to achieve such improvements, future impairment provisions may be recorded related to its investments in property, plant and equipment and the licenses acquired to operate its cellular networks.

***e. Currency Swap Contracts***

Statement of Financial Accounting Standards (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value.

SFAS 133 requires that the changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. During June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 (SFAS 138) which amends SFAS 133 for certain derivative instruments and certain hedging activities. SFAS 133, as amended is effective for fiscal years beginning after June 15, 2000 and should not be retroactively applied to financial statements of prior periods.

**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company adopted SFAS 133, as amended on January 1, 2001. Since the Company did not have significant derivatives outstanding as of December 31, 2000, the implementation of SFAS 133 did not have a material impact on the Company s results of operations and financial position.

As mentioned in Note 22(c) the Company contracted swap contracts for long term agreements at various exchange rates, in a total amount of R$ 1,128,707. There were EUR 509,834 and ¥ 3,707,351 at December 31, 2001 (notional amount outstanding at the balance sheet date). Under BR CL, foreign currency swap contracts are recorded at the notional amount multiplied by the terms of the contract as if it had been settled at the balance sheet date. The premium accrued at that date is recorded as an expense and payable.

For US GAAP purposes, these swap contracts do not qualify for hedge accounting. US GAAP requires that financial instruments of this nature be recorded at fair value through earnings. Accordingly, an adjustment has been included in the reconciliation to US GAAP.

During the year ended December 31, 2001 and for the period from January 1 to December 27, 2002, GT incurred losses on swap contracts of R$ 194,403 and gains of R$ 620,411, respectively. As of December 31, 2001, unrealized losses, which represent the fair value of the currency swap contracts amounted to R$ 292,005.

The table below shows the fair value of the Company s derivatives as of December 31, 2001:

| | Expiration Date | Notional Amount | Fair Value/ Unrealized Losses |
|---|---|---|---|
| Foreign exchange swap CDI/EURO | July 2004 | EUR 299,692 | 124,897 |
| Foreign exchange swap CDI/EURO | November 2004 | EUR 210,142 | 94,667 |
| Foreign exchange swap CDI/YEN | March 2002 | ¥ 3,707,351 | 72,441 |

***f. Commissions Fees***

Until December 31, 2000, arrangement fees paid, in order to obtain new financing, were recorded as expenses under Brazilian GAAP. Under US GAAP these fees have been recorded as prepaid expenses and have been amortized over the period of the related financing.

***g. License Acquisition Interest Capitalization***

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate B Band mobile telephone services, and the date of the initial operations of the Company was recorded as deferred assets according to Brazilian GAAP. Under US GAAP the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interests accrued in 1998.

***h. Amortization of License Acquisition Costs***

The Company recorded amortization of license acquisition costs during the start-up period as deferred assets according to Brazilian GAAP. Under US GAAP such amortization was reversed and the amortization period starts on the start-up date, January 1st, 1999.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***i. Special Reserve of Goodwill***

The related tax benefits transferred to the Company as a result of the corporate restructurings, above and recorded as an equity contribution under BR CL as a Special Reserve of Goodwill, are reversed for U.S. GAAP purposes, as the basis in such tax benefits of the transferring entities reflects a valuation allowance in accordance with U.S. GAAP.

***j. Deferred Income Taxes***

GT, as mentioned in Note 11, has net loss carryforwards amounting R$ 1,397,029 at December 31, 2001. The net tax loss carryforwards (tax benefit), amounted to R$ 461,020 at December 31, 2001.

These tax carryforwards do not have a time limitation or expiration date and are subject to a limit of 30% of income before taxes, per each fiscal year, determined in accordance with Brazilian accounting practices and considering adjustments defined by Brazilian tax legislation.

In addition during 2001, the Company and GT recorded a total deferred tax asset amounting to R$ 237,508 referring to the future benefit arising from the amortization of an intangible asset originating from the corporate restructuring as previously described in Note 1 to the accompanying financial statements. The related tax benefits transferred to the Company as a result of the corporate restructurings, recorded as a contribution of equity under BR CL, are reversed for U.S. GAAP purposes as the basis in such tax benefits of the transferring entities reflects a valuation allowance in accordance with U.S. GAAP.

***k. Deferred Assets***

The Company has recorded pre-operational costs and subscribers acquisition costs as deferred assets, to be amortized on a straight-line basis over 10 and 5 years, respectively, as allowed by BR CL. Under US GAAP such deferrals and respective amortization have been fully reversed.

***l. FISTEL Fee***

Under Brazilian GAAP, the Fistel (Telecommunication Inspection Fund) fee assessed on each activation of a new cellular line is deferred beginning on January 1st, 2001 for amortization over the customers estimated subscription period (20 months). For US GAAP purposes, this tax is charged directly to the consolidated statement of income.

***m. Classification of License Acquisition Cost***

Under BR CL license acquisition costs are reported as a component of property, plant and equipment, net on the balance sheet. For US GAAP purposes, the license fee would be reported as an intangible asset and not included in property, plant and equipment.

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**PART NINE FINANCIAL STATEMENTS**

**DAINI DO BRASIL S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***n. Revenue Recognition***

For US GAAP, the Company recognizes service revenue as the service are provided. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Sales of handsets along with the related cost of the handset are amortized over three years. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. The following is a reconciliation of net revenue between BR CL and US GAAP.

| | 2001 | 2002 |
|---|---|---|
| Net revenue under BR CL | 390,797 | 512,168 |
| Value added and other sales taxes | 72,411 | 93,667 |
| Deferred revenue sales of handsets, net of amortization | (88,416) | (40,124) |
| Net revenue under US GAAP | 374,792 | 565,711 |

*(i) Value-added and Other Sales Taxes*

Under BR CL, these taxes are recorded as a reduction to revenues. Under US GAAP, these taxes are recorded gross as revenue and related costs of services and goods. Accordingly, this difference in accounting policy has no impact in net income (loss) nor in shareholders equity. The impact of this difference under US GAAP was to increase both net revenues and cost of services and goods by R$ 72,411 and R$ 93,667 for 2001 and 2002, respectively.

*(ii) Deferred Revenue Sales of Handsets*

Under BR CL, revenues and costs related to handset sales, including applicable value added and other sales taxes, are recognized when sold. Under US GAAP, revenue on sales of handsets along with the related cost of the handset, including applicable value added and other sales taxes are amortized over three years. Any excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. As substantially all of the Company s handsets are sold below cost, this difference in accounting policy had no impact on net income (loss) nor in shareholders equity. The amount of unamortized deferred revenue and the related amounts of unamortized deferred costs was R$ 183,528 at December 31, 2001.

***o. Acquisition of Interest in GT***

During the period from October 29, 1999 to February 6 2001, the Company completed a series of step acquisitions of interests in GT. At February 6, 2001, the Company held 47,80% of the outstanding voting shares and 48,34% of the total share capital of GT.

Under BR CL, purchases of the majority of the voting shares of another company are recorded at the book value. The difference between the purchased company s net assets and the purchase price is recorded as goodwill and amortized over the concession term of the purchased company. Goodwill is recorded up to the amount of the purchase price. As permitted under BR CL, Holdings elected to defer amortization of goodwill until GT generates positive cash flow. Under BR CL, TCP will amortize goodwill on a straight-line basis over a ten-year period based on projections of future profitability.

Under U.S. GAAP, the cost of an acquired entity is allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the date of acquisition. The

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill, which is not amortized and is tested for impairment at least annually.

On February 6, 2001 and July 27, 2001 the Company indirectly acquired an additional 27.75% of GT s total shares for R$ 212,939. For U.S. GAAP purposes, the Company allocated this difference as follows:

| | |
|---|---|
| Amounts representing 36.27% of the historical net assets of GT under US GAAP | 26,414 |
| Property, plant and equipment | (42,249)(a) |
| Intangible assets customer list | 37,840(b) |
| Debt | 7,209(c) |
| Intangible related to concession | 183,725(d) |
| Purchase Price | 212,939 |

(a) Difference being amortized over approximately 11 years, representing the average remaining useful lives of the relating assets.

(b) Difference being amortized over two years, representing the average customer life.

(c) The long-term debt was reduced by R$ 7,209 related to the fair value of the underlying GT debt instruments. The majority of these related GT debt instruments were subsequently repaid during 2001. The adjustment to long-term debt was being amortized by the effective interest method over the remaining maturities of the underlying GT debt obligations. The related interest amortization during 2001 was approximately R$ 1,700 and is included in net finance expenses for U.S. GAAP purposes. The remaining R$ 5,509 was charged to income with the repayment of the related obligations by GT and is considered an extraordinary item on the early extinguishment of debt for U.S. GAAP purposes.

(d) The intangible related to the concession is being amortized on a straight-line basis over a 12 year period, representing the remaining term of the license.

The Company s accounting policies comply with BR CL. As such, the Company s investment in GT differs by the accumulated differences between BR CL and U.S. GAAP.

The differences at GT are primarily related to the following:

Start-up and customer acquisition expenses incurred by GT which are being deferred over a period of 5 years for BR CL which are expensed as incurred for U.S. GAAP purposes;

Differences in methods of capitalizing and amortizing interest expense related to the acquisition of property plant and equipment; and

Differences between the carrying value of derivative instruments for BR CL and their fair values, for which such difference are recorded for U.S. GAAP purposes in the statement of income.

These differences at GT impact the recorded amounts of the assets and liabilities by the Company for its previous acquisitions of interests in GT as well as recorded net income or loss (including the results of GT) for U.S. GAAP purposes.

Also, under BR CL, the goodwill recognized by the Company will be amortized over 10 years based on the estimated future profitability, to commence when profitable operations are achieved which is anticipated to occur in 2005. For U.S. GAAP purposes, the intangible related to

concession is being amortized over a period representing the remaining term of GT s operating license from the date of each related acquisition.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The unaudited pro forma U.S. GAAP results of operations for the year ended December 31, 2001 as if the Company had acquired a controlling interest in GT on January 1, 2001, are as follows:

| | |
|---|---|
| Net operating revenue | 425,930 |
| Net loss | (962,775) |

The pro forma net loss above includes adjustments related to the amortization of the concession intangible and the acquired customer base. The pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of January 1, 2001 nor does it purport to be indicative of the results that will be obtained in the future.

Furthermore, as a result of the significant operating losses incurred by GT during 2001 and its negative equity balance under U.S. GAAP the minority interests on such deficit amounting to R$ 25,537 at December 31, 2001 was assumed by Daini and recognized as an addition to shareholder s deficit. The effect in 2001 current operations amounting to R$ 212,108 was recognized as an addition to net losses for U.S. GAAP purposes.

**Reconciliation of the Net Loss between BR CL and US GAAP:**

| | 2001 | The Period from January 1 to December 27, 2002 |
|---|---|---|
| BR CL net loss for the year | (625,739) | (582,670) |
| Add (deduct): | | |
| Different criteria for: | | |
| Capitalized interest | (9,845) | (3,875) |
| Amortization of capitalized interest | (480) | 91 |
| Amortization of license acquisition costs | (5,648) | (6,159) |
| Amortization of deferred assets | 29,024 | 31,663 |
| FISTEL fees | (6,490) | (1,807) |
| Swap contracts | (52,474) | (115,999) |
| Amortization of commissions fees | (2,782) | |
| Amortization of fair value of property, plant and equipment | 4,231 | 4,614 |
| Amortization on purchase price allocations to customers list | (17,735) | (19,214) |
| Amortization of intangible related to concession | (20,974) | (22,580) |
| Finance charges and extraordinary loss on early extinguishment of debt | (7,209) | |
| Reversal of recoverable taxes | 480 | |
| Minority interest loss transferred to the Company | (212,108) | |
| US GAAP net loss for the year | (927,749) | (715,936) |

**PART NINE FINANCIAL STATEMENTS**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Reconciliation of the Shareholders Deficit between BR CL and US GAAP:**

| | At December 31, 2001 |
|---|---|
| BR CL shareholders Deficit | (155,649) |
| Add (deduct): | |
| Different criteria for | |
| Capitalized interest | (290) |
| Amortization of capitalized interest | (1,214) |
| Interest capitalized on license acquisition costs | 42,006 |
| Amortization of license acquisition costs | 27,790 |
| Deferred assets | (308,559) |
| Deferred assets, accumulated amortization | 66,187 |
| FISTEL fees | (6,490) |
| Swap contracts | (52,474) |
| Special reserve of goodwill | (237,508) |
| Amortization of fair value of property, plant and equipment | 4,235 |
| Amortization on purchase price allocation to customer list | (17,833) |
| Amortization of intangible related to concession | (23,384) |
| Finance charges and extraordinary loss on early extinguishment of debt | (7,209) |
| Reversal of recoverable taxes | (165) |
| Minority interest loss transferred to the Company | (25,537) |
| US GAAP shareholders Deficit | (696,094) |

**Statement of Changes in Shareholders Equity (Deficit) in Accordance with US GAAP:**

| | 2001 |
|---|---|
| Shareholders equity under US GAAP as of beginning of the year | 21,112 |
| Advance for future capital increase | 210,543 |
| Net loss for the year | (927,749) |
| Deficit under US GAAP as of ending of the year | (696,094) |

## 29. Additional Disclosures Required by US GAAP

### *a. Concentration of Risks*

Credit risk with respect to trade accounts receivable is diminished due to the diversified nature of the Company s customers. The Company continually monitors the level of trade accounts receivable and limits the exposure to bad debts by cutting access to the telephone network if any invoice is 15 days past due. Exceptions comprise telephone services that must be maintained for reasons of safety or national security.

In conducting its business, the Company is fully dependent upon the cellular telecommunications concession, granted by the Federal Government.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The collective labor agreements currently in force expire in August 2003 with a salary renegotiation scheduled for September 2003.

***b. Commitments (Unaudited)***

Planned capital expenditures for 2003 are approximately R$116,142. Most of the 2003 capital expenditures relate to infrastructure, information technology and transmission equipment.

The Company is subject to obligations concerning quality of services, network expansion and modernization. The Company believes that it is currently in compliance with its quality of service and expansion obligations.

***c. Post-retirement Benefits***

The Company has no pension plan, post-retirement health care insurance or other benefits plan. Therefore, SFAS No. 87 Employers Accounting for Pensions and SFAS No. 106 Employers Accounting for Post-retirement Benefits other than Pensions has no effect on Company s financial statements.

***d. New Accounting Pronouncements***

*SFAS No. 141 Business Combinations*

During June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations . SFAS 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16 (Opinion 16), Business Combinations and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises . All business combinations in the scope of SFAS 141 are to be accounted for using one method the purchase method. In addition, SFAS 141 requires that intangible assets be recognized as assets apart from goodwill if they meet two criteria-the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, SFAS 141 also provides a list of intangible assets that meet either of those criteria. In addition to the disclosure requirements prescribed in Opinion 16, SFAS 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. SFAS 141 also requires that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. SFAS 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The adoption of SFAS 141 on January 1, 2002 did not result in any impact to the Company s financial position, cash flows and results of operations.

*SFAS No. 142 Goodwill and Other Intangible Assets*

During June 2001, FASB issue SFAS No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion 17, Intangible Assets. SFAS No. 142 also amends SFAS No. 121, Accounting for the Impairment of Long Lived Assets and for long-lived Assets to Be Disposed Of , to exclude from its scope goodwill and intangible assets that are not amortized. SFAS No. 142 addresses how intangible assets that are

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provision of SFAS No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued. An exception to SFAS No. 142 application date is for goodwill and intangible assets acquired after June 30, 2001, which will be immediately subject of the nonamortization and amortization provisions of this statement. The adoption of SFAS No. 142 on January 1, 2002 did not have an impact on the Company s financial position, cash flows and results of operations.

*SFAS No. 143 Accounting for Asset Retirement Obligations*

During June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations . SFAS No. 143 basically requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost are capitalized as part of the carrying amount of the long-lived asset. Under SFAS No. 143 the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS No. 143 will provide more information about asset retirement obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15 ,2002 with earlier application encouraged. Based on an initial assessment of the provisions and requirements of SFAS 143, management believes that the implementation of this statement will not result in any impact to the Company s financial position, cash flows and results of operations.

*SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 of SFAS 145*

In April 2002, the FASB issued Statements of Accounting Standards No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 ( SFAS 145 ). SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt made to satisfy Sinking-Fund requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after 15 May 2002. The Company is currently evaluating the impact that the adoption of SFAS No. 145 will have on its results of operations and financial position. However, the Company does not believe that the adoption of SFAS No. 145 will have a material impact on the Company s financial position, cash flows and results of operations.

**PART NINE FINANCIAL STATEMENTS**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities*

In June 2002, the FASB issued Statement of Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ( EITF 94-3 ). SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognised when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognised at the date of an entity s commitment to an exit plan. SFAS No. 146 also concluded that an entity s commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 is applicable for exit or disposal activities initiated after December 31, 2002, and as such, the Company cannot reasonably estimated the impact of the adoption of these new rules until and unless they affect relevant activities in future periods.

*SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ( SFAS No. 150 ), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . SFAS No. 150 requires certain financial instruments that have historically been classified as equity to be classified as liabilities (or as an asset in certain circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. Since the requirements of SFAS No. 150 apply prospectively to financial instruments entered into or modified after May 31, 2003, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

*FIN No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN No. 45 ). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods after December 15, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Based on an initial assessment of the provisions and requirements of FIN No. 45, management believes that the implementation of this statement will not result in any impact to the Company s financial position, cash flows and results of operations.

*EITF 00-21 Revenue Arrangements with Multiple Deliverables*

At the September and October 2002 meetings of the Emerging Issues Task Force (EITF), the Task Force reached a tentative conclusion on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which outlines an approach to be used to determine when a revenue arrangement for multiple deliverables

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. Specifically, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

The arrangement consideration allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

The guidance in EITF 00-21 is effective prospectively for revenue arrangements entered into in fiscal years beginning after June 15, 2003. Alternatively, entities may elect to report the change in accounting as a cumulative-effect adjustment in accordance with Accounting Principles Board Opinion 20, Accounting Changes. We are currently evaluating the impact of EITF 00-21 in our financial statements, specifically including our treatment of revenue from handset sales under US GAAP. The Company cannot reasonably estimate the impact of the adoption of these new rules until and unless they affect relevant activities in future periods.

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**PART NINE FINANCIAL STATEMENTS**

**INDEPENDENT AUDITORS REPORT**

To Global Telecom S.A:

1. We have audited the accompanying balance sheet of Global Telecom S.A. (a Brazilian Corporation) as of December 31, 2001, and the related statements of loss, changes in financial position and changes in shareholders deficit for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Global Telecom S.A. as of December 31, 2001, and the results of its operations and changes in its financial position for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002, in conformity with accounting practices adopted in Brazil.

4. As explained in Note 3(a) to the financial statements, effective January 1, 2001, the Company changed its method of accounting for subscriber acquisition costs.

5. Accounting practices adopted in Brazil vary in certain respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net loss attributable to shareholders for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002 and the determination of shareholders deficit as of December 31, 2001 to the extent summarized in Note 27 to the financial statements.

6. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of cash flow for the year ended December 31, 2001 and for the period from January 1, 2002 to December 27, 2002 are presented for purposes of additional analysis and are not a required part of the basic financial statements under accounting practices adopted in Brazil. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ DELOITTE TOUCHE TOHMATSU

June 18, 2003, except for Note 26, as to which
the date is September 18, 2003
São Paulo, Brazil

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**BALANCE SHEET**
**As of December 31, 2001**
**(In thousands of Brazilian reais)**

| | Note | 2001 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 12 | 52,904 |
| Trade accounts receivable, net | 13 | 62,306 |
| Inventories | 14 | 56,877 |
| Deferred and recoverable taxes | 11 | 7,704 |
| Other assets | 15 | 10,259 |
| Total current assets | | 190,050 |
| NONCURRENT ASSETS: | | |
| Deferred and recoverable taxes | 11 | 113,374 |
| Other noncurrent assets | 15 | 234 |
| Total noncurrent assets | | 113,608 |
| PERMANENT ASSETS: | | |
| Property, plant and equipment, net | 16 | 1,462,693 |
| Deferred assets, net | 17 | 239,733 |
| Total permanent assets | | 1,702,426 |
| Total | | 2,006,084 |

The accompanying notes are an integral part of these financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**BALANCE SHEET**
**As of December 31, 2001**
**(In thousand of Brazilian reais)**

| | Note | 2001 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Payroll and related accruals | 18 | 9,412 |
| Trade accounts payable | 19 | 247,158 |
| Taxes payable | 20 | 16,481 |
| Loans and financing | 21 | 212,465 |
| Other liabilities | | 8,272 |
| Total current liabilities | | 493,788 |
| NONCURRENT LIABILITIES: | | |
| Taxes payable | 20 | 37,679 |
| Loans and financing | 21 | 2,094,763 |
| Reserve for contingence and other | 22 | 7,654 |
| Total noncurrent liabilities | | 2,140,096 |
| SHAREHOLDERS DEFICIT: | 25 | |
| Capital stock | | 696,997 |
| Advances for future capital increase | | 128,471 |
| Special reserve of goodwill | | 95,271 |
| Accumulated deficit | | (1,548,539) |
| Total shareholders deficit | | (627,800) |
| Total | | 2,006,084 |

The accompanying notes are an integral part of these financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**STATEMENTS OF LOSS**

**For the Year Ended December 31, 2001 and**
**For the Period from January 1, 2002 to December 27, 2002**
**(In thousands of Brazilian reais except per thousand shares)**

| | Note | 2001 | 2002 |
|---|---|---|---|
| NET OPERATING REVENUE | 5 | 425,930 | 512,168 |
| COST OF SERVICES AND GOODS | 6 | (452,209) | (423,774) |
| GROSS MARGIN | | (26,279) | 88,394 |
| OPERATING EXPENSES: | | | |
| Selling expenses | 7 | (149,780) | (124,402) |
| General and administrative expenses | 8 | (50,649) | (45,484) |
| Other net operating expenses | 9 | (54,617) | (26,084) |
| OPERATING LOSS BEFORE NET FINANCIAL EXPENSES | | (281,325) | (107,576) |
| NET FINANCIAL EXPENSES | 10 | (574,441) | (663,150) |
| OPERATING LOSS | | (855,766) | (770,726) |
| Net nonoperating expenses | | (350) | (417) |
| NET LOSS | | (856,116) | (771,143) |
| Shares outstanding at December 31, 2001 and December 27, 2002 (thousands) | | 1,789,974 | 7,724,599 |
| Loss per thousand shares | | (0.478) | (0.100) |

The accompanying notes are an integral part of these financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**STATEMENTS OF CHANGE IN SHAREHOLDERS EQUITY (DEFICIT)**

**For the Year Ended December 31, 2001 and**
**For the Period from January 1 to December 27, 2002**
**(In thousand of Brazilian reais)**

| | Capital Stock | Advances for Future Capital Increase | Special Reserve of Goodwill | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| BALANCE AT DECEMBER 31, 2000 | 615,481 | 210,000 | | (551,148) | 274,333 |
| Prior year adjustment (Note 3(a)) | | | | (141,275) | (141,275) |
| Takotel s shareholder s deficit merged | 81,516 | (81,529) | | | (13) |
| Special Reserve of Goodwill | | | 95,271 | | 95,271 |
| Net loss | | | | (856,116) | (856,116) |
| BALANCE AT DECEMBER 31, 2001 | 696,997 | 128,471 | 95,271 | (1,548,539) | (627,800) |
| Net loss | | | | (771,143) | (771,143) |
| BALANCE AT DECEMBER 27, 2002 | 696,997 | 128,471 | 95,271 | (2,259,682) | (1,398,943) |

The accompanying notes are an integral part of these financial statements.

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**STATEMENTS OF CHANGES IN FINANCIAL POSITION**

**For the Year Ended December 31, 2001 and**
**For the Period from January 1 to December 27, 2002**
**(In thousand of Brazilian reais)**

| | 2001 | 2002 |
|---|---|---|
| SOURCES OF FUNDS: | | |
| From operations (see below) | | 332,658 |
| From shareholders: | | |
| Advance for future capital increase | | 2,630,270 |
| Takotel s shareholder s equity merged | (13) | |
| From third parties: | | |
| Long term debt | 2,048,893 | 215,584 |
| Noncurrent tax payable, other than income taxes | 33,629 | 68,273 |
| Intercompany payables | | 531,440 |
| Total sources | 2,082,509 | 3,778,225 |
| USES OF FUNDS | | |
| In operations (see below) | 376,584 | |
| Property, plant and equipment | 422,559 | 152,321 |
| Increase in deferred charges | | 7,525 |
| Payment of license acquisition rights | | |
| Prepayment of noncurrent liabilities | 1,288,325 | 2,927,634 |
| Noncurrent assets | 16,854 | 453,654 |
| Total uses | 2,104,322 | 3,541,134 |
| Increase (decrease) in negative working capital | (21,813) | 237,091 |
| Represented by: | | |
| Current assets | 41,485 | (30,001) |
| Beginning of period | 148,565 | 190,050 |
| End of period | 190,050 | 160,049 |
| Current liabilities | 63,298 | (267,092) |
| Beginning of period | 430,490 | 493,788 |
| End of period | 493,788 | 226,696 |
| Increase (decrease) in negative working capital | (21,813) | 237,091 |
| FUNDS PROVIDED BY (USED IN) OPERATIONS | | |
| Net loss | (856,116) | (771,143) |
| Items not affecting working capital: | | |
| Depreciation and amortization | 158,932 | 202,935 |
| Monetary and exchange variations on noncurrent items, net | 291,020 | 893,996 |
| Net book value of property, plant and equipment and investments sold | 1,612 | 3,842 |

| | | |
|---|---|---|
| Reserve for contingencies and other | 7,297 | 3,840 |
| Provision for loss on property, plant and equipment | 20,671 | (812) |
| Total provided by (used in) operations | (376,584) | 332,658 |

The accompanying notes are an integral part of these financial statements.

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**GLOBAL TELECOM S.A.**

**STATEMENTS OF CASH FLOWS**
**For the Year Ended December 31, 2001 and For the Period from January 1 to December 27, 2002**
**(In thousands of Brazilian reais)**

| | 2001 | 2002 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | (856,116) | (771,143) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 158,932 | 202,935 |
| Exchange and monetary variation | 339,988 | 457,893 |
| Provision for doubtful accounts | 32,823 | 8,832 |
| Provision for loss on property, plant and equipment | 20,671 | (812) |
| Net book value of property, plant and equipment | 1,612 | 3,842 |
| (Increase) in accounts receivable | (52,864) | (34,545) |
| (Increase) decrease in inventories | (34,899) | 17,227 |
| (Increase) in recoverable taxes | (16,378) | (7,740) |
| (Increase) decrease in prepaid expenses | (3,916) | 456 |
| (Increase) in other current assets | (174) | (704) |
| (Increase) in other noncurrent assets | (24) | (4,344) |
| Increase (decrease) in payroll and related accruals | 5,441 | (1,974) |
| Increase (decrease) in trade accounts payable | 139,188 | (141,045) |
| Increase in taxes payable | 31,687 | 61,170 |
| Increase in other current liabilities | 3,322 | 2,394 |
| Increase in other noncurrent liabilities | 7,297 | 3,840 |
| Net cash used in operating activities | (223,410) | (203,718) |
| INVESTING ACTIVITIES | | |
| Payments of license of concession | (292,691) | |
| Additions to property, plant and equipment | (422,559) | (152,321) |
| Acquisition of intangible assets | | (7,525) |
| Net cash used in investing activities | (715,250) | (159,846) |
| FINANCING ACTIVITIES | | |
| Net increase in current loans | 293,984 | 185,310 |
| Payment of noncurrent liabilities | (1,421,299) | (616,454) |
| New loans obtained non current | 2,048,893 | 215,584 |
| Takotel s shareholder s equity merged | (13) | |
| Intercompany payables | | 531,440 |
| Net cash provided by financing activities | 921,565 | 315,880 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (17,095) | (47,684) |
| CASH AND CASH EQUIVALENTS: | | |
| At the beginning of the year | 69,999 | 52,904 |
| At the end of the year | 52,904 | 5,220 |
| SUPPLEMENTARY CASH FLOW INFORMATION: | | |

| | | |
|---|---|---|
| Interest paid | 146,548 | 132,215 |
| Payment of GT loan by TCP | | 2,630,270 |
| Recognition of tax benefit related to corporate restructuring | 95,271 | |

The accompanying notes are an integral part of these financial statements.

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS**

**As for the Year Ended December 31, 2001 and**
**For the Period from January 1 to December 27, 2002**
**(In thousand of Brazilian reais, unless otherwise indicated)**

## 1. Background and Operations

Global Telecom Ltda. was constituted on December 22, 1997 as a limited liability company. On January 29, 1999, the shareholders converted the Company into a closely held corporation called Global Telecom S.A. (GT or the Company). The Company provides mobile telephone services under a license granted by the National Agency for Telecommunications ( ANATEL ) in accordance with Brazilian laws and sells telecommunication handsets.

On April 8, 1998, under Act 098 of ANATEL, the Company was granted a license to operate B Band mobile telephone services for concession area 5, covering two states of Brazil (Paraná and Santa Catarina), for a 15-year period.

The license acquisition price was R$ 773,918, with a down payment of R$ 309,567, corresponding to 40% of the total price. The remaining 60% were paid in three equal annual installments, starting on April 8, 1999, restated by the variation of IGP-DI from Fundação Getúlio Vargas, plus interest at the rate of 1% per month, starting from April 7, 1997, the date the proposal for license was delivered to ANATEL.

On February 6, 2001, Global Telecom S.A. s shareholders, composed by the following holding companies ( The Holdings ): Daini do Brasil ( Daini ), Global Telcom Telecomunicações S.A. ( Globaltelcom ) and Inepar S.A. Participações em Investimentos de Telecomunicações ( Inepar ), acquired all Motorola NMG Brasil Ltda s share capital, changing the company s name to Takotel Telecom Ltda. ( Takotel ), which held 19.31% of common shares and 42.24% of preferred shares of GT s capital stock.

On the same date, The Holdings which held in a majority of GT s capital stock, sold 49% of their common shares and 100% of their preferred shares (in total representing 83% of the economic interest in GT) to Telesp Celular Participações S.A. ( TCP ), in accordance with the Purchase and Stock Sales Agreement, signed on January 13, 2001.

Due to current acquisitions, TCP and The holdings settled a goodwill in the amount of R$ 585,548 and R$ 175,502, respectively, according to the shareholder s participation in the acquired companies.

Prior to the transactions described above, the shareholders of GT were as follow:

| The Holdings | Participation in Capital Stock |
|---|---|
| Daini | 49.08% |
| Globaltelcom | 10.26% |
| Inepar | 6.07% |
| Takotel | 34.59% |
| Total | 100.00% |

Through several legal acts, on December 2001, TCP and The Holdings created new holdings companies with contribution of investment and paid goodwill, generated at the acquisition of GT shares.

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

The new created holding companies and Takotel, before being merged by GT, recorded a provision for controlling shareholder s integrity, which reflects the net value between the total goodwill to be amortized and its correspondent tax credit.

After the merger of the new created holding companies and Takotel into GT, the difference between the goodwill and the provision for controlling shareholder s integrity, was recorded as Special Reserve of Goodwill in GT s books, which will be capitalized when the tax benefit are realized.

After the completion of the transactions described above, the participation of The Holdings at GT, is as follows:

| The Holdings | Participation in Capital Stock |
|---|---|
| Daini | 75.55% |
| Globaltelcom | 15.73% |
| Inepar | 8.72% |
| Total | 100.00% |

After merger of Takotel into GT through a series of transactions, in effect, the participation of TCP on The holdings referred above, remain unchanged in 83% of total capital stock.

On December 27, 2002, after obtaining approval from ANATEL, TCP purchased the remaining 51% of the outstanding common stock of the Holdings (representing an economic interest of 17%). Considering TCP s direct and indirect interests, TCP now owns 100% of the capital of the Holdings and GT and, as of the date of the acquisition, began to consolidate the Holdings.

**Effects on Global Telecom S.A.**

On December 21st, 2001, an Extraordinary Shareholders Meeting, approved the new created holdings companies and Takotel incorporation by Global Telecom. The goodwill amounting to R$ 95,271 was recorded at Global Telecom as Noncurrent Assets, against Special Reserve of Goodwill. As required by CVM Instruction No.349/01, the Company recorded a reduction in the reserve in the shareholders equity and the goodwill. The net amounts remaining on the balance sheet reflect only the potential future tax benefit related to the corporate restructuring.

The goodwill amortization will be based on the expected future income streams from Company s operations.

**2. Liquidity**

The Company has incurred operating losses and negative cash flow from operations since inception and has a working capital and shareholders equity deficit at December 31, 2001. Consequently, the Company has been dependent on their shareholders (or their affiliates) to provide funds to support operations and meet debt service requirements.

On September 18, 2002, TCP made an advance for future capital increase to GT amounted to R$ 2,630,270.

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

***Migration from SMC to SMP***

On December 10, 2002, ANATEL and GT signed a document authorizing Personal Mobile Service (SMP), effective from the date of publication in the official gazette on December 12, 2002.

Under the above-mentioned document, Mobile Cellular Service (SMC), provided under license, was replaced by Personal Mobile Service (SMP), provided under authorization, both granted by the Federal Government.

The authorization granted to the Company is valid for the remaining period of the license previously granted and currently replaced, to April 8, 2013, and may be renewed once for fifteen years, on a chargeable basis.

The principal changes arising from the migration from SMC to SMP are:

Consolidation of the joint venture between Telefónica Móviles and PT Móveis in Brazil;

The SMP user will have the right to choose the long distance service provider through the provider selection code (CSP) for calls within the access areas;

More demanding quality goals;

Free negotiation of interconnection tariffs beginning June 2004.

***Joint Venture***

On December 27, 2002, the assets in the Brazilian mobile telephony market held by the shareholders PT Móveis Serviços de Telecomunicações, SGPS ( PT ) and Telefónica Móviles S.A. ( TEM ), represented by the direct and indirect equity interests in Telesp Celular Participações S.A., Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., and CRT Celular Participações S.A., were transferred to Brasilcel N.V., to form a joint venture based in the Netherlands (50% owned by PT and 50% owned by TEM).

As a result, as of December 31, 2002, Telesp Celular Participações S.A. is a publicly held company owned by Brasilcel N.V. (57.26% of total capital) and Portelcom Participações S.A. (7.86% of total capital) which is wholly owned by Brasilcel N.V. Total voting capital directly and indirectly owned by Brasilcel N.V. as of December 31, 2002 was 93.7%.

The Senior Management of the companies involved understand that the mentioned process will result in significant gains for all the corporations, mainly due to the synergies achieved with the operations increase volume and unification of operative processes, which may case systemic adjustments.

**3. Presentation of Financial Statements**

These consolidated financial statements are being presented to comply with the requirements of Rule 3-05 of Regulation S-X of the Securities and Exchange Commission ( SEC ) in connection with a registration statement filed by TCP with the SEC.

These financial statements have been prepared in accordance with accounting practices adopted in Brazil ( BR CL ) and the applicable rules for telecommunications service companies, established by ANATEL.

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

***a) Change in Accounting Practices***

Effective January 1, 2001, the Company changed its method of accounting for subscriber acquisition costs. The effect of this change has been recorded as an adjustment to beginning accumulated deficit balance (Note 25c). The accounting changes are described below:

*Subscriber acquisition cost* Prior to January 1, 2001, the Company deferred losses on sales of handsets below cost. The losses were amortized during the estimated period over which the subscriber was expected to remain as a customer. Although this accounting is acceptable under BR CL, the Company decided to conform this practice to US GAAP requirements as allowed by BR CL. Since January 1, 2001 these losses recorded as merchandising expenses when incurred. The accumulated deferred asset was written-off as a prior year adjustment.

**4. Summary of Principal Accounting Practices**

*(a) Cash and Cash Equivalents* Are considered to be all available balances in cash and banks and all highly liquid temporary cash investments, stated at cost plus interest accrued to the balance sheet date, with original maturity dates of three months or less.

*(b) Trade Accounts Receivable* Accounts receivables from customers are calculated at the tariff rate on the date the services were rendered. Trade accounts receivable also include services provided to customers up to the balance sheet date, but not yet invoiced, as well as the accounts receivable from sale of handsets and accessories.

*(c) Allowance for Doubtful Accounts* Provision is made for accounts receivable for which recoverability is considered to be remote.

*(d) Inventories* Consist of handsets and accessories stated at the average acquisition cost. A provision is recognized to adjust the cost of handsets and accessories to net realizable value for inventory considered obsolete.

*(e) FISTEL fees* Fees related to activations of new customers are being deferred and amortized over the estimated customer relationship period. This amortization period commences upon the date of the activation.

*(f) Foreign currency transactions* Are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Gains and losses related to exchange variations on foreign currency denominated assets and liabilities are recognized in the statements of loss as they occur. Exchange variation related to derivative contracts are calculated and recorded monthly regardless of the settlement period.

*(g) Property, Plant and Equipment* Is stated at the cost of acquisition or construction, less accumulated depreciation calculated under the straight-line method based on the estimated useful lives of these assets. License acquisition costs are included in property, plant and equipment, which is being amortized using the straight-line method over the initial license period (15 years) beginning in the month of its acquisition. The interest on loans for financing construction in progress is capitalized as part of the cost of the asset.

Costs incurred for repairs and maintenance that represent improvements, increases in capacity or in the useful lives of the assets are capitalized. All other routine costs are charged to results of operations.

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

*(h) Deferred assets* Represents preoperating expenses incurred that have been deferred. Preoperating expenses are being amortized using the straight-line method over a period of ten years, starting from the beginning of operations.

*(i) Vacation Payable Accrual* Cumulative vacation payable due to employees is accrued as incurred.

*(j) Income and Social Contribution Taxes* Are calculated and recorded based on the tax rates in effect on the balance sheet date, on an accrual basis. The deferred taxes attributable to temporary differences, taxes losses and social contribution tax loss carryforwards are recorded when their realization is considered to be more likely than not.

However, to date, the Company has not recorded deferred tax assets related to its net operating losses tax carryforwards, since their realization is not considered to be more likely than not.

*(k) Loans and Financing* Loans and financing are updated for monetary and/or exchange variations and include accrued interest to the balance sheet date.

*(l) Reserve for Contingencies* Are based on legal advice and management s opinion as to the likely outcome of the outstanding matters at the balance sheet date.

*(m) Revenue Recognition* Revenues from cellular telephone services consist of monthly subscription charges, usage charges, network usage charges and charges for maintenance and other customer services. Revenues for all services are recognized when the services are provided. Revenues for pre-paid services are deferred and recognized when the service is rendered, based on airtime usage. Billings are on monthly basis. Unbilled revenues from the billing date to the month end are estimated and recognized as revenues during the month in which the service is provided. Revenues from the sales of handsets and accessories are recorded when delivered.

*(n) Net Financial Expense* Represents interest earned (incurred) during the period and exchange and monetary variation resulting from financial investments and loans and financing. Exchange gains and losses on forward contracts and swaps are included in net financial expenses.

*(o) Research and Development* Research and development costs are charged to expense as incurred.

*(p) Derivative Financial Instruments* GT enters into currency swap contracts in order to manage its exposure to the devaluation of the Real to other foreign currencies, specifically as it relates to its obligations. The derivatives are recorded at their settlement amounts at the balance sheet date.

*(q) Segment Information* The Company s operates solely in one segment for local and regional cellular telecommunications. All revenues are generated in states of Paraná and Santa Catarina.

*(r) Use of Estimates* The preparation of financial statements in accordance with accounting practices adopted in Brazil requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period reported. Actual results could differ from those estimates.

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. Net Operating Revenue**

| | 2001 | 2002 |
|---|---|---|
| Monthly subscription charges | 99,819 | 107,069 |
| Usage charges | 138,234 | 147,324 |
| Interconnection charges | 147,088 | 226,137 |
| Sales of merchandise | 147,451 | 139,571 |
| Other | 4,570 | 14,461 |
| Gross operating revenue from services | 537,162 | 634,562 |
| Value-added and other sales taxes | (100,787) | (110,270) |
| Discounts granted and other | (10,445) | (12,124) |
| Net operating revenue | 425,930 | 512,168 |

There are no customers which contributed more than 10% of gross operating revenues in 2001 and 2002, except for Brasil Telecom S.A., the fixed service provider for the area, that contributed approximately 22% of the total gross revenue in 2002 (17% in 2001), mainly in relation to interconnection charges.

**6. Cost of Services and Goods**

| | 2001 | 2002 |
|---|---|---|
| Depreciation | (52,778) | (89,033) |
| License acquisition right amortization | (61,065) | (61,064) |
| Personnel | (5,707) | (4,399) |
| Interconnection | (65,602) | (58,161) |
| Materials and services | (16,315) | (11,851) |
| Rentals and insurance | (26,677) | (28,930) |
| Fistel regulated taxes | (11,285) | (19,124) |
| Cost of merchandise sold | (201,393) | (140,853) |
| Other | (11,387) | (10,359) |
| Total | (452,209) | (423,774) |

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**7. Selling Expenses**

| | 2001 | 2002 |
|---|---|---|
| Personnel | (22,111) | (17,735) |
| Marketing and publicity | (46,601) | (39,168) |
| Third-party services | (34,861) | (30,965) |
| Leases and insurance | (1,634) | (2,742) |
| Provision for doubtful accounts receivables | (32,823) | (8,832) |
| Depreciation | (6,085) | (11,151) |
| Other | (5,665) | (13,809) |
| Total | (149,780) | (124,402) |

**8. General and Administrative Expenses**

| | 2001 | 2002 |
|---|---|---|
| Personnel | (17,380) | (14,212) |
| Third-party services | (18,290) | (13,721) |
| Leases and insurance | (1,774) | (1,662) |
| Depreciation | (7,341) | (10,024) |
| Other | (5,864) | (5,865) |
| Total | (50,649) | (45,484) |

**9. Other Net Operating Expenses**

| | 2001 | 2002 |
|---|---|---|
| Provision for losses on property, plant and equipment | (20,671) | 812 |
| Amortization of deferred assets | (31,663) | (31,663) |
| Accrued liability for contingencies (net of reversals) | (7,282) | (3,993) |
| Other | 4,999 | 8,760 |
| Net operating expenses | (54,617) | (26,084) |

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10. Net Financial Expenses**

| | 2001 | 2002 |
|---|---|---|
| Income: | | |
| Interest | 9,022 | 8,497 |
| Gains on swap contracts | 27,391 | 620,411 |
| Total financial income | 36,413 | 628,908 |
| Expense: | | |
| Interest | (129,402) | (171,368) |
| Monetary/exchange variations | (209,516) | (1,031,890) |
| Loss on swaps contracts | (221,794) | |
| Other financial expenses | (50,142) | (88,800) |
| Financial expenses | (610,854) | (1,292,058) |
| Net financial expenses | (574,441) | (663,150) |

**11. Deferred and Recoverable Taxes**

Brazilian income taxes comprise federal income tax and social contribution tax. At December 31, 2001 and December 27, 2002 the statutory rate for income tax was 25%, and the statutory rates for social contribution tax was 9%. The combined statutory rate was 34% as of December 31, 2001 and December 27, 2002.

At December, 31, 2001, GT had accumulated tax loss carryforwards, in the amount of R$ 1,397,029, whose related tax asset, in the amount of R$ 461,020 was not recorded in the financial statements since their realization is not considered to be more likely than not.

The accumulated tax loss carryforwards do not expire and can be offset against taxable income. The tax legislation also define that tax loss carryforwards can be used, in any year, up to the limit of 30% of income before taxes, determined in accordance with Brazilian accounting practices and considering adjustments defined by tax legislation.

Deferred income tax assets and recoverable taxes are comprised of the following:

| | 2001 |
|---|---|
| Merged tax credit (Note 1) | 95,271 |
| Value Added Tax (ICMS) | 25,537 |
| Other | 270 |
| Total | 121,078 |
| Current | 7,704 |
| Noncurrent | 113,374 |

Value added tax (ICMS) represent the amount paid on the acquisition of equipment and inventories and can be offset against future ICMS payable generated from telecommunications services revenues. Recovery of ICMS taxes associated with equipment purchase is generally limited to 1/48th per month of the credit amount. The long-term portion of recoverable ICMS was R $18,103 at December 31, 2001.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

## 12. Cash and Cash Equivalents

| | 2001 |
|---|---|
| Cash and banks | 2,298 |
| Certificates of Deposit | 50,606 |
| Total | 52,904 |

Temporary cash investments refer principally to fixed income deposit certificates (CDBs) which are indexed to interbank deposit (CDI) rates.

## 13. Trade Accounts Receivable, Net

| | 2001 |
|---|---|
| Billed amounts to customers | 25,044 |
| Billed amounts for sales of handsets and accessories | 23,683 |
| Unbilled services to customers | 12,542 |
| Interconnection | 10,674 |
| Allowance for doubtful accounts | (9,637) |
| Total | 62,306 |

The changes in the allowance for doubtful accounts were as follows:

| | 2001 | 2002 |
|---|---|---|
| Beginning balance | (6,968) | (9,637) |
| Provision for doubtful accounts charged to selling expense | (32,823) | (8,832) |
| Write-offs | 30,154 | 8,167 |
| Ending balance | (9,637) | (10,302) |

## 14. Inventories

| | 2001 |
|---|---|

| | |
|---|---|
| Handsets and accessories | 65,008 |
| Other | 493 |
| Provision for excess and obsolete inventories | (8,624) |
| Total | 56,877 |

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**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

## 15. Other Assets

| | 2001 |
|---|---|
| Deferred Fistel taxes | 6,490 |
| Prepaid expenses | 2,819 |
| Advances to suppliers | 950 |
| Other | 234 |
| Total | 10,493 |
| Current | 10,259 |
| Noncurrent | 234 |

Prepaid expenses consist primarily of contracted services, which are being charged to expense over the terms of the service contracts.

## 16. Property, Plant and Equipment, Net

***a) Composition***

| | 2001 |
|---|---|
| License acquisition costs | 915,926 |
| Transmission equipment | 408,009 |
| Computer hardware and software | 152,210 |
| Automatic switching equipment | 62,795 |
| Support and protectors | 79,690 |
| Buildings | 10,976 |
| Handsets | 9,149 |
| Land | 2,986 |
| Other assets | 20,081 |
| Construction-in-progress | 158,208 |
| Total cost | 1,820,030 |
| Accumulated amortization of license acquisition costs | (228,948) |
| Accumulated depreciation | (128,389) |
| Total | 1,462,693 |

During the year ended December 31, 2001 and for the period from January 1 to December 27, 2002, interest capitalized by GT on loans and financing for construction-in-progress amounting to R$ 15,205 and R$ 10,331, respectively.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

***b) Depreciation Rates***

The annual depreciation rates applied to property, plant and equipment are as follows:

| | |
|---|---|
| License acquisition | 6.70 |
| Transmission equipment | 10.00 |
| Computer hardware and software | 20.00 |
| Supports and protectors | 3.50 |
| Automatic switching equipment | 10.00 |
| Buildings | 2.80 |
| Private handsets | 33.00 |
| Other assets (excluding land) | 4.00 to 20.00 |

***c) Rentals***

The Company rents premises and cellular towers through a number of operating lease agreements that expire at different dates. Total annual rental expense under these agreements was R$ 34,333 for the period from January 1 to December 31, 2002 (R$ 32,072 in 2001).

Rental commitments of operating leases with noncancellable terms are:

| | 2001 |
|---|---|
| Year ending December 31, | |
| 2002 | 32,884 |
| 2003 | 31,021 |
| 2004 | 30,289 |
| 2005 | 29,817 |
| 2006 | 28,552 |
| 2007 and after | 43,610 |
| Total minimum payments | 196,173 |

**17. Deferred Assets, Net**

| | 2001 |
|---|---|
| Preoperating expenses: | |
| Amortization of license | 80,496 |
| Financial expenses | 184,430 |
| General and administrative expenses | 43,633 |

| | |
|---|---|
| Total | 308,559 |
| Accumulated amortization | (68,826) |
| Deferred assets, net | 239,733 |

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**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18. Payroll and Related Accruals**

| | 2001 |
|---|---|
| Wages and salaries | 1,232 |
| Accrued vacation and social security charges | 3,641 |
| Accrued benefits | 4,400 |
| Other | 139 |
| Total | 9,412 |

**19. Trade Accounts Payable**

| | 2001 |
|---|---|
| Materials and services local currency | 234,384 |
| Services foreign currency | 10,931 |
| Other | 1,843 |
| Total | 247,158 |

**20. Taxes Payable**

| | 2001 |
|---|---|
| State VAT (ICMS) | 40,786 |
| Withholding income tax | 7,826 |
| FISTEL fees | 2,577 |
| Other taxes on revenues | 2,971 |
| Total | 54,160 |
| Current | 16,481 |
| Noncurrent | 37,679 |

The noncurrent portion refers to the ICMS Programa Paraná Mais Emprego , an agreement made with the Paraná State Government, on July 21, 2000, for deferral of ICMS payments Pursuant to this agreement the due date of ICMS is the 49th month after the amount determined. The balances are subjected to monetary correction based on FCA *Fator de Conversão e Atualização da Secretária da Fazenda do Paraná*, a monetary correction rate established by State of Paraná.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

## 21. Loans and Financing

### *a. Composition of Debt*

| | Annual Interest rate | 2001 |
|---|---|---|
| Working capital: | | |
| J. P. Morgan(1) | 32.17% | 35,386 |
| Banco do Brasil(2) | 0.8% | 65,372 |
| Floating Rate Notes (3) | EURIBOR + 2.75% | 1,671,540 |
| BNDES(4) | UMBNDES and TJLP + 3.6% | 311,444 |
| Interest payable on the above loans and settlement value of swap contracts | | 223,486 |
| Total | | 2,307,228 |
| Current | | 212,465 |
| Noncurrent | | 2,094,763 |

(1) JP Morgan This loan was contracted in November 29, 2001, and was due in a single installment in February 2002. This loan was paid in full on the due date.

(2) Banco do Brasil This loan was contracted on April 2001, equivalent to ¥3,707,351 thousands, with maturity in a single installment on March 2002. This loan was paid in full on due date.

(3) Floating Rate Notes These notes, issued by GT in July 2001, were acquired by Portugal Telecom International Finance B.V. (a related finance company of the parent company of TCP See Note 1), equivalent to EUR 810 million, and are due in a single installment in 2004. The interest is due annually. Proceeds from this loan were used for prepayment on July 2001 of the following loans:

Motorola Working capital This loan was contracted in December 1998, with a total credit line of US$110 million.

Eximbank Working capital financing of operational activities. This loan was contracted in September 1999, in the amount of US$220 million.

Motorola Equipment This loan was contracted on December 1998, with a total credit line of US$220 million.

These debts were repaid at their approximate carrying amount on each prepayment date. No significant gains or losses resulted from these early extinguishments of debt.

Considering the effects of derivatives financial instruments, the cost of debt is proportionate to the interbank offered rate in Brazil (CDI). At December 31, 2001 the CDI rate was 19% per annum.

On August 9, 2002 and September 16, 2002, TCP paid down the Floating Rate Notes at their approximate carrying value on behalf of GT. This amount was recorded as an advance for future capital increases made by TCP.

(4) Banco Nacional de Desenvolvimento Econômico e Social (BNDES) This loan was contracted with BNDES and the banks Bradesco S.A. and Alfa S.A. in July 2001. Principal of this loan will be paid in 60 monthly installments starting in November 2002. This loan is guaranteed by the pledge of the

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Company s revenues, which can be retained up to a limit of 140% of the highest monthly installment, and also co-signed by Telesp Celular S.A.

This loan agreement requires compliance with certain covenants such as the maintenance of minimum indexes of capitalization, the current ratio, financial results and debt service coverage, as well as places restrictions on the creation of new loans and financing. As of December 27, 2002, GT was not in compliance with the current ratio, financial result and debt service coverage covenants contained in the loan agreement. GT has obtained waivers relating to these covenants through December 31, 2003.

As December 27, 2002 the outstanding debt consisted of R$ 336,447 related to the loan contracted with BNDES., maturing as follows:

| | Amount |
|---|---|
| 2003 | 72,506 |
| 2004 | 71,103 |
| 2005 | 71,103 |
| 2006 | 71,103 |
| 2007 | 50,632 |
| Total | 336,447 |

***c) Swap Contracts***

During 2001, GT entered into currency swap contracts to reduce the impact of the devaluation of the Brazilian real on its Euro and Yen denominated obligations. Under the terms of these swap arrangements, the Company is required to pay the counterparts the amounts, if any, that represents the excess of the variation of the CDI (interbank) rate or a fixed interest rate over the variations of the applicable foreign currency exchange rate, all computed on the notional amounts. If the inverse occurs, GT is entitled to receive the difference from the counterparts. At each balance sheet date the swap contracts are being carried at their estimated net settlement amount. The gains and losses attributable to these instruments are being recognized in income on a current basis.

At December 31, 2001 GT had currency swap contracts in the notional equivalent of R$ 1,128,707 denominated in foreign currencies (equivalent to EUR 509,834 and ¥ 3,707,351 in 2001) with the purpose to reduce the effect of a potential devaluation of the Brazilian currency. The parameters for the currency swap contracts in Euro and Yens are subject to foreign currency variation plus fixed interest rates from 0.8% to 8.39%. During 2001 the result of these instruments was a unrealized loss of R$ 194,403 recorded as loan and financing. At December 27, 2002, GT had currency swaps contracts denominated in Euros in the amount of EUR 299,693, unrealized gains related to these swaps of R$ 620,411 was recorded in the statements of income as net financial expenses during 2002.

Part of the currency swap contracts in Euros, in the amount of R$ 96,443, was subrogated from a swap currency contract originally signed with a commercial bank by Telesp Celular Participações S.A.

**22. Reserve for Contingencies and Other**

GT is part to certain legal proceedings arising in the normal course of business, including civil, administrative, tax and labor proceedings. GT considers the risk of loss of each contingency, such risk being

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

classified as probable, possible or remote, considering the analysis of their legal advisors. The contingencies for which a loss is considered probable are accrued for in the financial statements.

The composition of the provisions recorded as liabilities, is as follows:

| | 2001 |
|---|---|
| Labor | 1,244 |
| Tax | 6,000 |
| Civil and other | 410 |
| Total | 7,654 |

The labor contingencies were computed based on an estimate made by management of GT, supported by the advice of its legal advisors, of the probable losses with judicial processes from former employees.

The tax contingencies primarily relate to matters linked to the taxation of the portable terminals of cellular mobile telephony, in the State of Paraná, during the period from December 14, 2000 to July 02, 2001. In this period, the tax rate was reduced for 7%, according to item 14-A of the Table I of the Attachment II of RICMS/PR (Value-added tax regulation in the state of Paraná), which was later revoked with retroactive effect.

In the State of Santa Catarina, GT had a reduction in the base computation of VAT on sales, for the period from August 1999 to December 2001. The tax rule prescribes that any amount of benefit resulting from VAT credit on purchases, should not be used to reduce future obligations. The Company is contesting such tax ruling.

The provisions for civil contingencies were computed based on an estimate of the cases filed against the GT.

GT is subject to potential contingencies, related to civil claims, classified as possible risk of loss by the legal advisors, which was not accrued by the Company, amounting to R$ 1,320 as of December 31, 2001.

**23. Transactions with Related Parties**

The principal transactions with unconsolidated related parties are as follows:

a) Use of network, long-distance and roaming cellular communication These transactions involve companies owned by the same group: Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A. and Telesp Celular S.A.. This group became a related party on December 27, 2002 as a result of the joint venture described in Note 2. The table below includes balances and transactions with these companies for all periods presented. These transactions were established following guidance issued by ANATEL.

b) Advances for capital increase represents advances made by TCP to the Holdings and GT for future capital increases.

c) Intercompany payable in order to optimize the financial resources of the Group companies, TCP and TC made payments to suppliers of cellular handsets which were jointly negotiated and charged to GT, as intercompany loans subject to charges and restatement compatible

with market conditions. The commercial conditions of these services are based on the usual market practices applied to the Companies other contracts.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

d) Loans and financing Represents intercompany loans with the Portugal Telecom Group. A summary of balances and transactions with unconsolidated related parties is as follows:

| | 2001 | 2002 |
|---|---|---|
| Assets: | | |
| Account receivable by services | 1,374 | N/A |
| Liabilities: | | |
| Account payable | 2,158 | N/A |
| Intercompany payable | 2,693 | N/A |
| Income: | | |
| Services revenues | 5,511 | 5,497 |
| Cost of services | (6,116) | (6,238) |
| Financial expenses, net | (5,640) | 156,871 |

**24. Financial Instruments and Risk Management**

Estimated fair values of the Company s financial assets and liabilities have been determined using available market information and valuation methodologies identified to be appropriate by the management of the Company. However, considerable judgment was required in interpreting the market data to determine the estimated fair values. Accordingly, the estimates presented below are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair value information as of December 31, 2001 presented below is based on pertinent information available to management as of those dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts at December 31, 2001 current estimates of fair values may differ significantly from the amounts shown.

| | Book Value | Fair Value | Unrealized Gains (Losses) |
|---|---|---|---|
| Loans and financing | 2,067,697 | 1,987,094 | 80,603 |
| Derivatives instruments | 239,531 | 292,005 | (52,474) |
| Total | 2,307,228 | 2,279,099 | 28,129 |

***Loans and Financing***

The fair values of loans and financing were determined based on current market interest rates of similar instruments, with similar maturities and credit risk.

***Cash, Cash Equivalents, Accounts Receivable, Other Current Assets, Accounts Payable and Accrued Expenses***

The carrying value of cash, cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximate of their fair value.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

***Currency Swap Contracts***

The derivative financial instruments held by the Company consist of foreign currency swap contracts, which are described in note 21 (c). The Company engages in these currency swap contracts for hedging purposes. Currency Swap contracts were entered into in order to reduce the currency exchange risk resulting from the Company s Euro and Yen denominated loans. Although the amounts and maturities related to the contracts are not fully matched to the Company s foreign currency denominated liabilities, the amounts hedged represent management s estimate of the Company s foreign currency liabilities expected to mature at or near the maturity dates of the derivative contracts. Foreign currency swap contracts are recorded at the settlement amount at the balance sheet date.

The fair market value of these instruments has been determined based on the discounted projected cash flow as of the balance sheet date. The projected cash flow considers estimated future exchange rates, future interest rates and other factors present at balance sheet date.

**25. Shareholders Deficit**

***a Capital***

The capital stock is comprised of preferred shares and common shares, all without par value. Capital as December 31, 2001 amounted to R$ 696,997, which is represented by shares distributed as follows:

| | Shares Issued and Outstanding |
|---|---|
| Common shares | 596,658 |
| Preferred shares | 1,193,316 |
| Total | 1,789,974 |

Each common share has one voting right in the general meetings. Preferred shares are nonvoting and have priority in the reimbursement of capital in case of dissolution of the Company. According to the Brazilian corporate legislation, preferred shareholders, if there is no provision in the corporate by-laws to the contrary, will have the right to an additional 10% of dividends paid to the common shareholders, when profitability are in place and if income is available for distribution

Under Brazilian corporate law, the number of nonvoting shares or shares with limited voting rights, such as the preferred shares, may not exceed two-thirds of the total number of shares.

***b Special Reserve of Goodwill***

This reserve resulted from the corporate restructuring implemented by the Company and will be capitalized in favor of the shareholders when the tax benefit is effectively realized.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

***c Prior Year Adjustment***

The prior year adjustment was recorded as a result of the change in accounting for subscriber acquisition costs as described in Note 3(a), which was recorded as an adjustment to the accumulated deficit on January 1, 2001, as follows:

| | 2001 |
|---|---|
| Write off of subscriber acquisition cost | (166,381) |
| Write off of subscriber acquisition cost accumulated amortization | 25,106 |
| Total adjustments (See Note 3a) | (141,275) |

**26. Subsequent Events**

***a. Capital Increase***

On December 30, 2002, R$ 2,310,878 of the advance for future capital increases made by TCP were formally capitalized contributed as capital in exchange for 5,934,625 additional shares of GT stock. On September 18, 2003, R$ 595,472 of the advance for future capital increases made by TCP were formally capitalized contributed as capital in exchange for 1,916,859 additional shares of GT stock.

***b. Merger of Daini do Brasil S/ A, Globaltelcom Telecomunicações S/ A and GTPS S/ A Participações em Investimentos de Telecomunicações into GT***

As described in Note 1, on December 27, 2002, TCP purchased the remaining 51% of the outstanding common stock of (17% of total capital) of the Holdings (Daini do Brasil S/A, Globaltelcom Telecomunicações S/A and GTPS S/A Participações em Investimentos de Telecomunicações). As of March 31, 2003, TCP, aiming to minimize administrative and financial costs, completed the merger of Daini do Brasil S/A, Globaltelcom Telecomunicações S/A and GTPS S/A Participações em Investimentos de Telecomunicações into GT. With this operation, TCP became the direct owner of GT.

***c. Cancellation of Derivative Contracts***

Between April 2 and May 8, 2003, GT cancelled all of its outstanding swap contracts with notional amounts of 299,693,000, resulting in the recognition of a loss for the period of R$ 164,704.

**27. Summary of the Differences Between Accounting Practices Adopted in Brazil ( BR CL ) and US GAAP**

The Company s accounting policies comply with accounting practices adopted in Brazil ( BR CL ), which differ significantly from accounting principles generally accepted in the United States of America ( US GAAP ). and are described below:

***a. Different Criteria for Capitalizing and Amortizing Capitalized Interest***

In 2000, the Company elected record capitalized interest for BR CL purposes. In 2001 and 2002, the Company elected to record capitalized interest for BR CL purposes, on its construction-in-progress.

Under US GAAP, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 34    Capitalization of Interest Costs, interest incurred on borrowings is capitalized to the extent

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that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under US GAAP, the amount of interest capitalized excludes the monetary gain associated with the borrowings and the foreign exchange gains and losses on foreign currency borrowings, and other financial expenses related to borrowings.

The effects of these different criteria for capitalizing and amortizing capitalized interest are presented below:

| | 2001 | 2002 |
|---|---|---|
| Capitalized interest difference: | | |
| US GAAP capitalized interest | | |
| Interest which would have been capitalized and credited to income | 4,465 | 6,456 |
| Less BR CL capitalized interest | | |
| Interest capitalized and credited to income (up to the limit of interest and foreign exchange variation incurred on loans obtained for financing capital investments) | (15,205) | (10,331) |
| US GAAP difference | (10,740) | (3,875) |
| Amortization of capitalized interest difference: | | |
| Amortization under BR CL | 552 | 1,940 |
| Less Amortization under US GAAP | (1,076) | (1,849) |
| US GAAP difference | (524) | 91 |

***b. Classification of Financial Expenses***

Under BR CL financial expenses are classified as operating expenses. For US GAAP purposes financial expenses are usually disclosed in the statement of operations as other expenses not related to operations.

***c. Permanent Assets***

Losses on disposals of permanent assets were R$ 1,612 in 2001 and R$ 3,842 in 2002. Such losses were included in non-operating expenses for BR CL. Under US GAAP such losses would have reduced operating income.

***d. Valuation of Long-lived Assets***

For U.S. GAAP, effective January 1, 1996 the Company adopted SFAS No. 121 Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of. In accordance with this standard, the Company periodically evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is separately identifiable and is less than their carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 superseded SFAS

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No. 121, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS No. 144 also amends Accounting Research Bulletin No. 51, Consolidated Financial Statements , to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 also broadens the presentation of discontinued operations to include more disposal transactions. The Company adopted SFAS No. 144, effective January 1, 2002.

The Company has performed a review of its long-lived assets and concluded that the recognition of an impairment charge was not required. The Company s evaluation of its ability to recover the carrying value of its long-lived assets was based upon projections of future operations that assumed a higher level of revenues and gross margin percentages that the Company has historically achieved. There can be no assurance that the Company will be successful in achieving these improvements in its revenues and gross margin percentages. Should the Company be unable to achieve such improvements, future impairment provisions may be recorded related to its investments in property, plant and equipment and the licenses acquired to operate its cellular networks.

***e. Currency Swap Contracts***

Statement of Financial Accounting Standards (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value.

SFAS 133 requires that the changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. During June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 (SFAS 138) which amends SFAS 133 for certain derivative instruments and certain hedging activities. SFAS 133, as amended is effective for fiscal years beginning after June 15, 2000 and should not be retroactively applied to financial statements of prior periods.

The Company adopted SFAS 133, as amended on January 1, 2001. Since the Company did not have significant derivative outstanding as of December 31, 2000, the implementation of SFAS 133 did not have a material impact on the Company s results of operations and financial position.

As mentioned in Note 21 (c) the Company contracted swap contracts for long term agreements at various exchange rates, in a total amount of R$ 1,128,707. These contracts had notional amounts of EUR 509,834 and ¥ 3,707,351 at December 31, 2001. Under BR CL, foreign currency swap contracts are recorded at the notional amount multiplied by the terms of the contract as if it had been settled at the balance sheet date. The premium accrued at that date are recorded as an expense and payable. For US GAAP purposes, these swap contracts do not qualify for hedge accounting. US GAAP requires that financial instruments of this nature be recorded at fair value through earnings. Accordingly, an adjustment has been included in the reconciliation to US GAAP.

During 2001 and the period from January 1 to December 27, 2002, incurred losses on swap contracts of R$ 194,403 and gains of R$ 620,411, respectively. As of December 31, 2001, unrealized losses, which represent the fair value of the currency swap contracts amounted to R$ 292,005.

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The table below shows the fair value of the Company s derivatives as of December 31, 2001:

| | Expiration Date | Notional Amount | Fair Value / Unrealized Losses |
|---|---|---|---|
| Foreign exchange swap CDI/EURO | July 2004 | EUR 299,692 | 124,897 |
| Foreign exchange swap CDI/EURO | November 2004 | EUR 210,142 | 94,667 |
| Foreign exchange swap CDI/YEN | March 2002 | ¥ 3,707,351 | 72,441 |

***f. Commissions fees***

Until December 31, 2000, arrangement fees paid, in order to obtain new financing, were recorded as expenses under Brazilian GAAP. Under US GAAP these fees have been recorded as prepaid expenses and have been amortized over the period of the related financing.

***g. License acquisition interest capitalization***

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate B Band mobile telephone services and the date of the initial operations of Company was recorded as deferred assets according to BR CL. Under US GAAP the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interest accrued in 1998.

***h. Amortization of license acquisition costs***

The Company recorded amortization of license acquisition costs during the start-up period as deferred assets according to BR CL. Under US GAAP such amortization is reversed and the amortization period starts on the start-up date, January 1st, 1999.

***i. Special Reserve of Goodwill***

The related tax benefits transferred to the Company as a result of the corporate restructurings and recorded as an equity contribution under BR CL as a Special Reserve of Goodwill, are reversed for U.S. GAAP purposes, as the basis in such tax benefits of the transferring entities reflects a valuation allowance in accordance with U.S. GAAP.

***j. Deferred Income Taxes***

The Company, as mentioned in Note 11, has net loss carryforwards amounting to R$ 1,397,029 at December 31, 2001. The net tax loss carryforwards (tax benefit), amounting to R$ 461,020 at December 31, 2001.

These tax carryforwards do not have a time limitation or expiration date and are subject to a limit of 30% of income before taxes, per each fiscal year, determined in accordance with Brazilian accounting practices and considering adjustments defined by Brazilian tax legislation.

In addition during 2001, the Company recorded a deferred tax asset amounting to R$ 95,271 referring to the future benefit arising from the amortization of an intangible asset originating from the corporate restructuring as previously described in note 1 to the accompanying financial statements. The related tax

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**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

benefits transferred to the Company as a result of the corporate restructurings, recorded as a contribution of equity under BR CL, are reversed for U.S. GAAP purposes as the basis in such tax benefits of the transferring entities reflects a valuation allowance in accordance with U.S. GAAP.

***k. Deferred assets***

The Company has recorded pre-operational costs and subscribers acquisition costs as deferred assets, to be amortized on a straight-line basis over 10 and 5 years, respectively, as allowed by BR CL. Under US GAAP such deferrals and respective amortization have been fully reversed.

***l. FISTEL fee***

Under BR CL, the Fistel (Telecommunication Inspection Fund) fee assessed on each activation of a new cellular line is deferred for amortization over the customers estimated subscription period. For US GAAP purposes, this tax is charged directly to the statement of operations as incurred.

***m. Classification of license acquisition cost***

Under BR CL license acquisition costs are reported as a component of property, plant and equipment, net on the balance sheet. For US GAAP purposes, the license fee would be reported as an intangible asset and not included in property, plant and equipment.

***n. Revenue recognition***

For US GAAP, the Company recognizes service revenue as the service are provided. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Sales of handsets along with the related cost of the handset are amortized over three years, representing the useful life of the handsets. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. The following is a reconciliation of net revenue between BR CL and US GAAP.

| | **2001** | **2002** |
|---|---|---|
| Net revenue under BR CL | 425,930 | 512,168 |
| Value added and other sales taxes | 80,400 | 93,667 |
| Deferred revenue sales of handsets, net of amortization | (88,377) | (40,124) |
| Net revenue under US GAAP | 417,953 | 565,711 |

(i) Value-added and other sales taxes

Under BR CL, these taxes are recorded as a reduction to revenues. Under US GAAP, these taxes are recorded gross as revenue and related costs of services and goods. Accordingly, this difference in accounting policy has no impact in net income (loss) nor in shareholders equity. The impact of this difference under US GAAP was to increase both net revenues and cost of services and goods by R$ 80,400 and R$ 93,667 for 2001 and 2002, respectively.

(ii) Deferred revenue sales of handsets

Under BR CL, revenues and costs related to handset sales, including applicable value added and other sales taxes, are recognized when sold. Under US GAAP, revenue on sales of handsets along with the related cost of the handset, including applicable value added and other sales taxes

are amortized over

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

three years. Any excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. As substantially all of the Company s handsets are sold below cost, this difference in accounting policy had no impact on net income (loss) nor in shareholders equity. The amount of unamortized deferred revenue and the related amounts of unamortized deferred costs was R$ 183,528 at December 31, 2001.

**Reconciliation of the Net Loss between BR CL and US GAAP:**

| | 2001 | 2002 |
|---|---|---|
| BR CL net loss | (856,116) | (771,143) |
| Add (deduct): | | |
| Different criteria for: | | |
| Capitalized interest | (10,740) | (3,875) |
| Amortization of capitalized interest | (524) | 91 |
| Reversal of deferred assets | | |
| Amortization of license acquisition interest costs | (6,161) | (6,159) |
| Amortization of deferred assets | 31,663 | 31,663 |
| FISTEL fee | (6,490) | (1,807) |
| Swap contracts | (52,474) | (115,999) |
| Amortization of commissions fees | (2,782) | |
| Loss on incorporation of advance for future capital increase | (13) | |
| US GAAP net loss | (903,637) | (867,229) |

**Reconciliation of the Shareholders Deficit between BR CL and US GAAP:**

| | 2001 |
|---|---|
| BR CL shareholders deficit | (627,800) |
| Add (deduct): | |
| Different criteria for- | |
| Capitalized interest | (1,185) |
| Amortization of capitalized interest | (1,258) |
| Interest capitalized on license acquisition costs | 42,006 |
| Amortization of license acquisition costs | 27,277 |
| Deferred assets | (308,559) |
| Deferred assets, accumulated amortization | 68,826 |
| FISTEL Fee | (6,490) |
| Swap contracts | (52,474) |
| Special reserve of goodwill | (95,271) |
| US GAAP shareholders deficit | (954,928) |

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**Statements of changes in shareholder s equity in accordance with US GAAP:**

| | 2001 |
|---|---|
| Shareholder s equity (deficit) under US GAAP as of beginning of the year | (51,291) |
| Net loss for the year | (903,637) |
| Shareholder s equity (deficit) under US GAAP as of ending of the year | (954,928) |

**28. Disclosures Required by US GAAP**

***a. Concentration of Risks***

Credit risk with respect to trade accounts receivable is diminished due to the diversified nature of the Company s customers. The Company continually monitors the level of trade accounts receivable and limits the exposure to bad debts by cutting access to the telephone network if any invoice is 15 days past due. Exceptions comprise telephone services that must be maintained for reasons of safety or national security.

In conducting its business, Global Telecom S.A. is fully dependent upon the cellular telecommunications concession, granted by the Federal Government.

The collective labor agreements currently in force expire in August 2003 with a salary renegotiation scheduled for September 2003.

***b. Commitments (Unaudited)***

Planned capital expenditures for 2003 are approximately R$ 116,142. Most of the 2003 capital expenditures relate to infrastructure, transmission equipment and information technology.

The Company is subject to obligations concerning quality of services, network expansion and modernization. The Company believes that it is currently in compliance with its quality of service and expansion obligations.

***c. Post-retirement Benefits***

The Company has no pension plan, post-retirement health care insurance or other benefits plan. Therefore, SFAS No. 87 Employers Accounting for Pensions and SFAS No. 106 Employers Accounting for Post-retirement Benefits other than Pensions has no effect on Company s financial statements.

***d. New Accounting Pronouncements***

*SFAS No. 141 Business Combinations*

During June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations . SFAS 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16 (Opinion 16), Business Combinations and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises . All business combinations in the scope of SFAS 141 are to be accounted for using one method the purchase method. In addition, SFAS 141 requires that intangible assets be recognized as assets apart from goodwill if they meet two criteria-the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, SFAS 141 also provides a list of intangible assets that meet

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

either of those criteria. In addition to the disclosure requirements prescribed in Opinion 16, SFAS 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. SFAS 141 also requires that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. SFAS 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The adoption of SFAS 141 on January 1, 2002 did not result in any impact to the Company s financial position, cash flows and results of operations.

*SFAS No. 142 Goodwill and Other Intangible Assets*

During June 2001, FASB issue SFAS No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion 17, Intangible Assets. SFAS No. 142 also amends SFAS No. 121, Accounting for the Impairment of Long Lived Assets and for long-lived Assets to Be Disposed Of , to exclude from its scope goodwill and intangible assets that are not amortized. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provision of SFAS No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued. An exception to SFAS No. 142 application date is for goodwill and intangible assets acquired after June 30, 2001, which will be immediately subject of the nonamortization and amortization provisions of this statement. The adoption of SFAS No. 142 on January 1, 2002 did not have an impact on the Company s financial position, cash flows and results of operations.

*SFAS No. 143 Accounting for Asset Retirement Obligations*

During June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations . SFAS No. 143 basically requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost are capitalized as part of the carrying amount of the long-lived asset. Under SFAS No. 143 the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS No. 143 will provide more information about asset retirement obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with earlier application encouraged. Based on an initial assessment of the provisions and requirements of SFAS 143, management believes that the implementation of this statement will not result in any impact to the Company s financial position, cash flows and results of operations.

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**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

*SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 of SFAS 145*

In April 2002, the FASB issued Statements of Accounting Standards No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 ( SFAS 145 ). SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt made to satisfy Sinking-Fund requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after 15 May 2002. The Company is currently evaluating the impact that the adoption of SFAS No. 145 will have on its results of operations and financial position. However, the Company does not believe that the adoption of SFAS No. 145 will have a material impact on the Company s financial position, cash flows and results of operations.

*SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities*

In June 2002, the FASB issued Statement of Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities . This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ( EITF 94-3 ). SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognised when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognised at the date of an entity s commitment to an exit plan. SFAS No. 146 also concluded that an entity s commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 is applicable for exit or disposal activities initiated after December 31, 2002, and as such, the Company cannot reasonably estimated the impact of the adoption of these new rules until and unless they affect relevant activities in future periods.

*SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ( SFAS No. 150 ), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . SFAS No. 150 requires certain financial instruments that have historically been classified as equity to be classified as liabilities (or as an asset in certain circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. Since the requirements of SFAS No. 150 apply prospectively to financial instruments

**PART NINE FINANCIAL STATEMENTS**

**GLOBAL TELECOM S.A.**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

entered into or modified after May 31, 2003, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

*FIN No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN No. 45 ). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods after December 15, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Based on an initial assessment of the provisions and requirements of FIN No. 45, management believes that the implementation of this statement will not result in any impact to the Company s financial position, cash flows and results of operations.

*EITF 00-21 Revenue Arrangements with Multiple Deliverables*

At the September and October 2002 meetings of the Emerging Issues Task Force (EITF), the Task Force reached a tentative conclusion on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which outlines an approach to be used to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. Specifically, in an arrangements with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

The arrangement consideration allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

The guidance in EITF 00-21 is effective prospectively for revenue arrangements entered into in fiscal years beginning after June 15, 2003. Alternatively, entities may elect to report the change in accounting as a cumulative-effect adjustment in accordance with Accounting Principles Board Opinion 20, Accounting Changes. We are currently evaluating the impact of EITF 00-21 in our financial statements, specifically including our treatment of revenue from handset sales under US GAAP. The Company cannot reasonably estimate the impact of the adoption of these new rules until and unless they affect relevant activities in future periods.



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| Financial statements of DDI do Brasil Ltda. (whose name was subsequently changed to Daini do Brasil S.A.) as of and for the years ended December 31, 1999 and 2000, originally set forth on pages F-70 through F-85 of TCP s Registration Statement on Form F-3/A filed July 1, 2002 | E-1 |
| Financial statements of Global Telecom S.A. as of December 31, 2000 and 2001 and for each of the three years in the period ended December 31, 2001, originally set forth on pages F-127 through F-163 of TCP s Registration Statement on Form F-3/A filed July 1, 2002 | F-1 |

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**ANNEX A**

**INFORMATION DERIVED FROM TCP S ANNUAL REPORT ON FORM 20-F FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 FILED JUNE 23, 2003, AS AMENDED BY TCP S ANNUAL REPORT ON FORM 20-F/A FILED ON JUNE 24, 2003**

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**INTRODUCTION**

All references in this annual report to:

Telesp Celular Participações S.A., TCP, we, our and us are to Telesp Celular Participações S.A. and its consolidated subsidiaries (unle the context otherwise requires), including the operations of Telesp Celular S.A., known as Telesp Celular, and Global Telecom S.A., known as Global Telecom;

Brazilian government are to the federal government of the Federative Republic of Brazil;

*real,* *reais* or R$ are to Brazilian *reais*, the official currency of Brazil;

U.S.$, dollars or U.S. dollars are to United States dollars;

ADSs are to our American Depositary Shares, each representing 2,500 shares of our non-voting preferred stock;

Commission are to the U.S. Securities and Exchange Commission;

CVM are to the *Comissão de Valores Mobiliários*, the Brazilian securities commission;

Brazilian Central Bank, Central Bank of Brazil or Central Bank are to the *Banco Central do Brasil*, the Brazilian central bank;

General Telecommunications Law are to Lei Geral de Telecomunicações, as amended, which regulates the telecommunications industry in Brazil;

Brazilian corporate law are to Law No. 6,404 of December, 1976, as amended;

Anatel are to *Agência Nacional de Telecomunicações ANATEL*, the Brazilian telecommunication regulatory agency; and

SMP are to *Serviço Móvel Pessoal*, a service rendered pursuant to a new legislation that authorizes wireless companies to provide wireless services.

Unless otherwise specified, data relating to the Brazilian telecommunications industry included in this annual report was obtained from Anatel.

The Appendix A Glossary of Telecommunications Terms provides the definitions of certain technical terms used in this annual report.

**PRESENTATION OF FINANCIAL INFORMATION**

Our consolidated financial statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000, have been prepared in accordance with accounting principles adopted in Brazil as prescribed by the Brazilian corporate law, or the Brazilian corporate law method, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 37 to our financial statements appearing elsewhere in this annual report describes the principal differences between the Brazilian corporate law method and U.S. GAAP as they relate to us, and provides a reconciliation to U.S. GAAP of net income (loss) and shareholders equity. These consolidated financial statements have been audited by Deloitte Touche Tohmatsu Auditores Independentes.

The consolidated financial statements included in this annual report, and the selected financial data presented herein, have been prepared on the same basis of accounting as that used in our annual and interim financial statements published in Brazil.

Before December 31, 2000, we presented financial information using price-level accounting methodology prescribed by the Brazilian Federal Accountancy Council. On December 31, 2000, we changed the presentation of our financial information to the Brazilian corporate law method, which does not permit price-level accounting since 1996, because we do not primarily rely on price-level accounting to report our financial information to investors and authorities in Brazil. For consistency, we presented all of our financial information in this annual report according to the Brazilian corporate law method.

This annual report also contains the audited combined financial statements of Globaltelcom Telecomunicações S.A., Daini do Brasil S.A. and Inepar S.A. Participações em Investimentos de Telecomunicações (which, as of December 31, 2002, is known as GTPS S.A. Participações em Investimentos de Telecomunicações), collectively known as Global Telecom Holdings, as of December 31, 2001, and for the periods from February 6, 2001 to December 31, 2001 and from January 1, 2002 to December 27, 2002. These combined financial statements have been audited by Deloitte Touche Tohmatsu Auditores Independentes.

On February 6, 2001, TCP acquired 49% of the voting shares and 100% of the non-voting shares of Global Telecom Holdings, which collectively held 95% of the voting shares and 100% of non-voting shares of Global Telecom. After obtaining authorization from Anatel, Global Telecom Holdings acquired the remaining 5% of the voting shares of Global Telecom. On December 31, 2001, TCP s aggregate direct economic interest in Global Telecom Holdings represented an indirect 83% interest of the total equity of Global Telecom, which is a mobile operator in the Brazilian states of Paraná and Santa Catarina. On December 27, 2002, after obtaining approval from Anatel, TCP purchased the remaining 51% of the outstanding common stock of Global Telecom Holdings and now indirectly and directly owns 100% of the capital of Global Telecom.

The combined financial statements of Global Telecom Holdings included in this annual report have been prepared in accordance with the Brazilian corporate law method. A discussion of the principal differences

between the Brazilian corporate law method and U.S. GAAP relevant to Global Telecom Holdings is set out in Note 27 to Global Telecom Holdings s audited combined financial statements.

**FORWARD-LOOKING STATEMENTS**

The U.S. Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain sections in this annual report, principally in Item 3D. Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, contains information that is forward-looking, including but not limited to:

- statements concerning our operations and prospects;
- the size of the Brazilian telecommunications market;
- estimated demand forecasts;
- our ability to secure and maintain telecommunications infrastructure licenses, rights-of-way and other regulatory approvals;
- our strategic initiatives and plans for business growth;
- industry conditions;
- our funding needs and financing sources;
- network completion and product development schedules;
- expected characteristics of competing networks, products and services; and
- other statements of management s expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

Forward-looking statements may also be identified by words such as believe, expect, anticipate, project, intend, should, seek, est future or similar expressions. Forward-looking information involves risks and uncertainties that could significantly affect expected results. The risks and uncertainties include, but are not limited to:

- the short history of our operations as an independent, private-sector entity and the introduction of competition to the Brazilian telecommunications sector;
- the cost and availability of financing;
- uncertainties relating to political and economic conditions in Brazil;
- inflation and exchange rate risks;
- the Brazilian government s telecommunications policy; and
- the adverse determination of disputes under litigation.

We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

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## PART I

**Item 1.** ***Identity of Directors, Senior Management and Advisers***

Not applicable.

**Item 2.** ***Offer Statistics and Expected Timetable***

Not applicable.

**Item 3.** ***Key Information***

**A. Selected Financial Data**

The selected financial data as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 included in this annual report have been derived from, and should be read in conjunction with, our audited consolidated financial statements and notes thereto included elsewhere in this annual report and audited by Deloitte Touche Tohmatsu Auditores Independentes. The selected financial data as of December 31, 2000 and 1998 and for the years ended December 31, 1999 and 1998 included in this annual report have been derived from our audited financial statements and notes thereto also audited by Deloitte Touche Tohmatsu Auditores Independentes, which are not included in this annual report. The selected financial data as of December 31, 1999 included in this annual report have been derived from our audited financial statements and notes thereto audited by Arthur Andersen S/C, which are not included in this annual report. See Presentation of Financial Information above for more information on the presentation of our financial data.

In February 2001, we acquired an interest of 49% of the outstanding common stock and 100% of the outstanding preferred shares in Globaltelecom Telecomunicações S.A., Daini do Brasil S.A. and GTPS S.A. Participações em Investimentos de Telecomunicações, or Global Telecom Holdings, that held 95% of the voting shares and 100% of the non voting shares of Global Telecom for aggregate consideration of approximately R$902 million, and we incurred R$700 million in indebtedness to finance part of the acquisition price. In July 2001, we financed part of the acquisition by the holding companies of the remaining 5% of the voting shares of Global Telecom. The total amount paid by us in 2001 in the acquisition of our indirect economic interest in Global Telecom, including acquisition expenses, was R$932.4 million. On December 27, 2002, after obtaining approval from Anatel, TCP purchased the remaining 51% of the outstanding common stock of each of the holding companies for R$290.3 million and now owns directly and indirectly 100% of the capital of Global Telecom. In September 2002, we made advances to future capital increases in Global Telecom in the total amount of R$2,630.3 million and in December 2002, part of this advance for future capital increases (in the amount of R$2,310.9 million) was capitalized. The selected financial information reflects our investment in Global Telecom Holdings since the date of acquisition until December 27, 2002 under the equity method of accounting. As of December 31, 2002, the balance sheets of Global Telecom and the holding companies that became TCP s subsidiaries on December 27, 2002 were fully consolidated. Results of Operations of Global Telecom and the holding companies for the year ended December 31, 2002 are reflected in the statement of income under the equity method of accounting.

**Accounting Consequences of the Restructuring of Telebrás**

At the May 22, 1998 shareholders meeting for Telecomunicações Brasileiras S.A. Telebrás, or Telebrás, the shareholders established the shareholders equity of each new holding company formed as a result of the reorganization of the Telebrás system, or the Breakup of Telebrás, and allocated to each a portion of the retained earnings of Telebrás. Telebrás preserved sufficient retained earnings from which to pay certain dividends and other amounts. The balance of its retained earnings was allocated to each new holding company in proportion to the total net assets allocated to each such company. TCP was one of these new holding companies.

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**Brazilian Corporate Law Method Accounting**

Our consolidated financial statements included in this annual report, and the selected financial data presented below, have been prepared in accordance with the Brazilian corporate law method, which is the same basis of accounting as that used in our annual and interim financial statements published in Brazil.

**Brazilian Corporate Law Method and U.S. GAAP**

Our consolidated financial statements are prepared in accordance with the Brazilian corporate law method, which differs in certain material respects from U.S. GAAP. See Note 37 to our consolidated financial statements for a summary of the differences between the Brazilian corporate law method and U.S. GAAP.

The following tables present a summary of our selected financial data at the dates and for each of the periods indicated. You should read the following information together with our financial statements and the notes thereto included elsewhere in this annual report and with Item 5. Operating and Financial Review and Prospects.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 |
| | (R$ million, except per share data) | | | | | U.S.$(4) |
| **Income Statement Data(2):** | | | | | | |
| *Brazilian corporate law method* | | | | | | |
| Net operating revenue | 1,682.5 | 2,211.6 | 2,766.7 | 2,946.2 | 3,390.6 | 959.6 |
| Cost of services and goods sold | (641.3) | (1,353.2) | (1,689.2) | (1,656.4) | (1,648.4) | (466.5) |
| Gross profit | 1,041.2 | 858.4 | 1,077.5 | 1,289.8 | 1,742.2 | 493.1 |
| Operating expenses: | | | | | | |
| Selling expenses | (181.1) | (387.0) | (554.2) | (605.0) | (617.9) | (174.9) |
| General and administrative expenses | (76.2) | (131.7) | (217.9) | (271.2) | (288.5) | (81.7) |
| Other net operating income (expenses) | (40.2) | 61.4 | 33.9 | (67.6) | (70.1) | (19.8) |
| Operating income before equity in losses of unconsolidated subsidiary and net financial expenses | 743.7 | 401.1 | 339.3 | 346.0 | 765.7 | 216.7 |
| Equity in losses of unconsolidated subsidiary | | | | (653.6) | (890.7) | (252.1) |
| Net financial expenses | (87.5) | (206.0) | (137.1) | (541.5) | (808.4) | (228.8) |
| Operating income (loss) | 656.2 | 195.1 | 202.2 | (849.1) | (933.4) | (264.2) |
| Net non-operating income (expenses) | 0.2 | 1.3 | (0.6) | (0.4) | 10.0 | 2.8 |
| Income (loss) before income taxes, minority interests and extraordinary item | 656.4 | 196.4 | 201.6 | (849.5) | (923.4) | (261.4) |
| Income taxes | (169.4) | (36.4) | (49.4) | 14.7 | (46.5) | (13.2) |
| Minority interests | (118.6) | (47.1) | | | | |
| Extraordinary item, net of taxes | (47.0) | | | (278.8) | (170.9) | (48.4) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income before interest income, unallocated interest expense and taxes | 0.54 | 0.18 | 0.36 | | | |
| Net income (loss) | 321.4 | 112.9 | 152.2 | (1,113.6) | (1,140.8) | (323.0) |

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 |
| | (R$ million, except per share data) | | | | | U.S.$(4) |
| Net income (loss) per 1,000 shares | 0.96 | 0.34 | 0.33 | (2.43) | (0.97) | (0.28) |
| Dividends declared per thousand preferred shares(3) | 0.269525 | 0.092498 | 0.245220 | | | |
| Dividends declared per thousand common Shares(3) | 0.269525 | 0.092498 | 0.112948 | | | |
| *U.S. GAAP* | | | | | | |
| Net operating revenue | 2,035.7 | 2,379.8 | 2,963.7 | 3,599.7 | 4,550.6 | 1,287.9 |
| Operating income | 587.0 | 310.6 | 220.2 | 198.0 | 328.8 | 93.0 |
| Net financial expenses | (23.4) | (315.4) | (192.1) | (743.5) | (1,149.6) | (325.4) |
| Equity in losses of unconsolidated subsidiaries | | | | (733.8) | (759.1) | (214.8) |
| Net non-operating income (expenses) | 0.2 | 1.3 | (0.6) | (9.6) | 9.8 | 2.8 |
| Income (loss) before income taxes, minority interests and extraordinary item | 563.8 | (3.5) | 27.5 | (1,288.9) | (1,570.1) | (444.4) |
| Income taxes and minority interest | (265.4) | 15.6 | 9.4 | 97.5 | 74.4 | 21.1 |
| Extraordinary item, net of tax | | | | (12.7) | | |
| Net income (loss) | 298.4 | 12.1 | 36.9 | (1,204.1) | (1,495.7) | (423.3) |
| Basic and diluted net income (loss) per 1,000 shares common and preferred(1) | 0.89 | 0.04 | 0.09 | (2.63) | (2.18) | (0.62) |

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2002 |
| | (R$ million) | | | U.S.$(4) |
| **Cash Flow Data:** | | | | |
| *Brazilian corporate law method* | | | | |
| Cash flows from operating activities | 597.4 | 779.7 | 984.4 | 278.6 |
| Cash flows from investing activities | (868.2) | (1,767.7) | (3,820.5) | (1,081.3) |
| Cash flows from financing activities | (501.1) | 683.4 | 2,772.3 | 784.6 |
| *U.S. GAAP* | | | | |
| Cash flows from operating activities | 552.2 | 784.0 | 1,061.6 | 300.5 |
| Cash flows from investing activities | (823.0) | (1,745.3) | (3,835.0) | (1,085.4) |
| Cash flows from financing activities | 501.1 | 656.7 | 2,709.6 | 766.9 |

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| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2002 |
| | (R$ million, except for per share data) | | | | | U.S.$(4) |
| **Balance Sheet Data(2):** | | | | | | |
| *Brazilian corporate law method* | | | | | | |
| Property, plant and equipment, net | 2,420.6 | 3,219.8 | 3,454.0 | 3,695.8 | 4,778.1 | 1,352.3 |
| Total assets | 3,205.5 | 5,454.3 | 6,204.0 | 6,872.2 | 9,654.4 | 2,732.4 |
| Loans and financing | 719.7 | 1,690.0 | 1,399.4 | 2,580.1 | 4,460.8 | 1,262.5 |
| Net assets | 1,125.5 | 2,267.0 | 3,857.1 | 2,742.6 | 4,010.0 | 1,134.9 |
| Capital Stock | 355.4 | 434.7 | 1,873.3 | 1,873.3 | 4,373.7 | 1,237.9 |
| Number of shares as adjusted to reflect changes in capital | 334,399,027 | 334,399,027 | 458,367,772 | 458,367,772 | 1,171,784,352 | |
| *U.S. GAAP* | | | | | | |
| Property, plant and equipment, net | 3,692.4 | 3,490.2 | 3,555.7 | 3,783.5 | 4,855.5 | 1,374.2 |
| Total assets | 3,556.2 | 6,057.0 | 7,089.1 | 7,218.3 | 10,202.0 | 2,887.4 |
| Total liabilities | 1,907.2 | 3,415.6 | 3,414.7 | 4,787.4 | 6,894.7 | 1,951.3 |
| Net assets | 1,216.9 | 2,229.8 | 3,674.4 | 2,430.9 | 3,307.3 | 936.0 |
| Capital stock | 355.4 | 434.7 | 1,873.3 | 1,873.3 | 4,373.7 | 1,237.9 |
| Number of shares as adjusted to reflect changes in capital | 334,399,027 | 334,399,027 | 458,367,772 | 458,367,772 | 1,171,784,352 | |

(1) Basic net income (loss) per share was equal to diluted net income (loss) per share for the years ended December 31, 1998 and 1999 because the Company did not have any potentially diluted shares outstanding. As result of the corporate restructuring completed on January 2000, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit realized on the amortization of the intangible related to concession that was transferred in the merger. The number of issuable shares, which are determined on the basis of estimates using the Company s share price at the date of the balance sheet, are considered dilutive and are included in the denominator for purposes of calculating dilutive earnings per share for the year ended December 31, 2000, 2001 and 2002. The potentially dilutive shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for 2001 and 2002 as their effect would have been anti-dilutive.

(2) Telesp Celular was established effective in January 1998 by means of a spin-off from Telecomunicações de São Paulo S.A. TELESP, and we were established effective May 22, 1998 in the Breakup of Telebrás. Although the spin-off from Telecomunicações de São Paulo S.A. TELESP was approved at a shareholders meeting that occurred on February 28, 1998, the statements of income for the year ended December 31, 1998 reflect the operations of Telesp Celular for the full year of 1998.

(3) Interest on shareholders equity are included as part of the dividends and they are presented net of taxes. The right to receive 1998 s dividend is expired.

(4) U.S. dollar amounts in millions, except per share data, for the year ended December 31, 2002 are translated from reais solely for the convenience of the reader, at an exchange rate of R$3.5333 per U.S.$1.00. See Presentation of Financial Information above.

**Exchange Rates**

There are two legal exchange markets in Brazil:

the commercial rate exchange market, and

the floating rate exchange market.

Most trade and financial foreign-exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial market may be carried

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out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

Between March 1995 and January 1999, the Brazilian Central Bank permitted the gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*/ U.S. dollar exchange rate could fluctuate.

Responding to pressure on the *real,* on January 13, 1999, the Brazilian Central Bank widened the foreign exchange band and, on January 15, 1999, allowed the *real* to float freely. Since then, the *real* reached a low of R$1.4659 on January 15, 1999 and a high of R$3.9552 on October 22, 2002. At June 18, 2003, the commercial market rate for purchasing U.S. dollars was R$2.8902 to U.S.$1.00.

The Brazilian government may impose temporary restrictions on the conversion of *reais* into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil s balance of payments or reason to foresee a serious imbalance.

[Text deleted.]

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

*This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Our business, results of operations or financial condition could be harmed if any of these risks materializes and, as a result, the trading price of the ADSs could decline.*

**Risks Relating to Brazil**

***The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business, operations and the market price of our preferred shares and our ADSs.***

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in policy. The Brazilian government s actions to control inflation and effect other policies have often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other things. Our business, financial condition, results of operations and the market price of our preferred shares and ADSs may be adversely affected by changes in government policies, as well as general economic factors, including:

- currency fluctuations;
- inflation;
- price instability;
- energy policy;
- interest rates;
- tax policy; and

other political, diplomatic, social and economic developments in or affecting Brazil.

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***Tax reforms may affect our tariff rates.***

If our subsidiaries providing telecommunication services experience a higher tax burden as a result of the tax reform, they may have to pass the cost of such tax increase to their customers. This increase may have a material negative impact on their and our revenues and operating results, and as a result, in the dividends paid by them to us.

***Inflation and certain government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market and/or our business and operations.***

Brazil has historically experienced extremely high rates of inflation. Inflation and certain of the Brazilian government s measures taken in the attempt to curb inflation have had significant negative effects on the Brazilian economy. Since 1994, Brazil s inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. In 2002, the general price index, or the IGP-DI (the *Índice Geral de Preços Disponibilidade Interna*), an inflation index developed by the *Fundação Getúlio Vargas*, a private Brazilian economic organization, reflected inflation of 26.4% compared to 10.4% in 2001 and 9.8% in 2000. If Brazil experiences significant inflation, we may be unable to increase service rates to our customers in amounts that are sufficient to cover our increasing operating costs, and our business may be adversely affected.

***Fluctuations in the value of the real against the value of the U.S. dollar may adversely affect our ability to pay U.S. dollar-denominated or U.S. dollar-linked obligations and could lower the market value of our preferred shares and ADSs.***

The Brazilian currency has historically experienced frequent devaluations. The *real* devalued against the U.S. dollar by 9.3% in 2000 and by 18.7% in 2001. During 2002, the *real* continued to undergo significant devaluation due in part to the political uncertainty in connection with the elections and the global economic slowdown. In 2002, the *real* devalued against the U.S. dollar by 52.3%. See Selected Financial Data Exchange Rates for more information on exchange rates.

As of December 31, 2002, we had R$4,460.8 million in total debt, of which 74.4% was denominated in foreign currencies, primarily the U.S. dollar and the euro. As of December 31, 2002, we had currency derivatives in place to cover 127.5% of our foreign currency-denominated debt. This excess hedge was a consequence of the capital increase that took place in 2002. We are considering unwinding our overhedge position, which could create financial losses because, under Brazilian corporate law, currency derivatives are carried at book value and not at market value. Also, significant costs relating to our network infrastructure are payable or linked to payment by us in U.S. dollars. At the same time, while we may derive income from derivative transactions denominated in foreign currencies, all of our operating revenues are generated in *reais*. To the extent that the value of the *real* decreases relative to the U.S. dollar, our debt becomes more expensive to service and it becomes more costly for us to import the technology and the goods that are necessary to operate our business.

***Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business.***

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil.

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For example, in 2001, after a prolonged recession, followed by political instability, Argentina announced that it would no longer continue to service its public debt. In order to address the deteriorating economic and social crisis, the Argentine government abandoned its decade-old fixed dollar-*peso* exchange rate, allowing the *peso* to float to market rate levels. In 2002, the Argentine *peso* experienced a 237% devaluation against the U.S. dollar. The situation in Argentina has negatively affected investors perceptions towards Brazilian securities.

The recent political crisis in Venezuela may also influence investors perception of risk in Brazil. If market conditions in Argentina and Venezuela continue to deteriorate, they may adversely affect our ability to borrow funds at favorable interest rates or to raise equity capital, when and if there is a need. Adverse developments in Argentina, in Venezuela or in other emerging market countries could lead to a reduction in both demand and the market price for our preferred shares and ADSs.

**Risks Relating to the Brazilian Telecommunications Industry and Us**

***Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition and changes in our cost structure.***

Our business is subject to extensive government regulation, including any changes that may occur during the period of our authorization to provide telecommunication services. Anatel, which is the main telecommunications industry regulator in Brazil, regulates, among other things:

- industry policies and regulations;
- licensing;
- tariffs;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;
- interconnection and settlement arrangements; and
- universal service obligations.

This extensive regulation and the conditions imposed by our authorization to provide telecommunication services may limit our flexibility in responding to market conditions, competition and changes in our cost structure.

***Our results may be affected in the medium or long term as a result of the new SMP rules.***

In 2002, Anatel changed the SMP regime (first enacted in December 2000), thus encouraging companies operating under the SMC system to migrate to the SMP system. New rules will be applicable to the migrating companies, as contemplated by Anatel Resolutions Nos. 316/02 through 321/02 and 326/02.

Under the SMP regime, we will no longer receive payment from our customers for outbound long distance traffic, but will receive payment for the use of our network, in accordance with the network usage remuneration plan. However, there is no assurance that the interconnection fees that we will receive from long distance operators will compensate us for the revenues that we would have received from our customers for outbound long distance traffic.

The SMP regime establishes free negotiation of the network usage fee among telecommunication service providers or a confirmation, until June 30, 2004, of the maximum fee by Anatel. After that date, negotiation of that fee will be the rule.

We cannot assure you that the new rules will not affect negatively our revenues and results of operations.

***If the inflation adjustment index now applied to our tariffs is changed, the new index may not be adequate.***

The Brazilian government is considering replacing the IGP-DI, the monetary adjustment index currently used in connection with the tariffs applied in the telecommunications industry, with another index, which has not yet been identified. We cannot assure you that a new index, if any, would adequately reflect the true effect of inflation on our tariffs.

***We face substantial competition that may reduce our market share and harm our financial performance.***

There is substantial competition in the telecommunications industry. We not only compete with wireless telecommunications companies, but also with companies that provide fixed-line telecommunications and Internet access services.

We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products and services. Our ability to compete successfully will depend on our marketing techniques, as well as on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by our competitors. To the extent that we do not keep pace with technological advances, or fail to timely respond to changes in competitive factors in our industry, we could lose a portion of our market share or experience a decline in our revenue. Competition from other mobile communications service providers in the region in which we operate may also affect our financial results by causing, among other things, the rate of our customer growth to decline and bring about decreases in tariff rates and increases in selling expenses. This could have a material adverse effect on our results of operations.

There has been consolidation in the Brazilian telecommunications market, and we believe this trend may continue. Consolidations may result in increased competitive pressures within our market. We may be unable to adequately respond to pricing pressures resulting from consolidation, which would adversely affect our business, financial condition and results of operations.

***Our results of operations would be affected by a high rate of customer turnover or a decrease in our customer growth.***

A high rate of customer turnover and/or a decrease in our customer growth could adversely affect our results of operations as well as our competitive position. The rate of customer turnover may be the result of several factors, including limited network coverage and lack of sufficient reliability of our services, as well as increased competition in the region in which we operate and the economic conditions in Brazil.

***The industry in which we conduct our business is subject to rapid technological changes and these changes could have a material adverse effect on our ability to provide competitive services.***

The telecommunications industry is subject to rapid and significant technological changes. Our success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will be further developed.

The advent of new products and technologies could have a variety of consequences for us. These new products and technologies may reduce the price of our services by providing lower-cost alternatives, or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, requiring investment in new technology. The cost of upgrading our products and technology in order to continue to compete effectively could be significant, and our ability to fund this upgrading may depend on our ability to obtain additional financing.

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***Our controlling shareholders have a great deal of influence over our business.***

PT Móveis S.G.P.S., S.A. and Telefónica Móviles, S.A., our principal shareholders, currently own through Brasilcel, N.V., directly and indirectly, approximately 93.7% of our common shares and 65.1% of our total capital. PT Móveis S.G.P.S., S.A. is 100% controlled by Portugal Telecom, S.G.P.S., S.A. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders. Due to their share ownership, our principal shareholders have the power to control us and our subsidiaries, including the power to elect our directors and officers and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations and the timing and payment of our dividends. In addition, Portugal Telecom and Telefónica Móviles share their participation in us equally. Any disagreement or dispute between our controlling shareholders may have an impact on the decision-making capabilities of our management.

***The wireless industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.***

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. We cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites to expand our network, which in turn may delay the expansion and may affect the quality of our services.

***Our investment in Global Telecom Holdings has adversely affected, and could continue to adversely affect, our financial performance.***

Our investment in Global Telecom Holdings presents operational and financial risks. Global Telecom started operations in 1999, and its principal competitor in its concession area has been in operation for a longer period of time and has a larger market share in that area. Global Telecom has had substantial net losses (R$408.4 million in 2000, R$856.1 million in 2001 and R$771.1 million in 2002) resulting in significant part from capital expenditures, indebtedness and increased expenses in connection with the rapid expansion of its network infrastructure and upgrading its marketing and commercial capabilities.

In 2002, our financial results were adversely affected by (a) our R$890.7 million of equity losses in Global Telecom Holdings, (b) an extraordinary adjustment from our investment in Global Telecom and (c) the interest expense arising from indebtedness we incurred to finance our acquisition of Global Telecom, which resulted in a net loss of R$1,140.8 million in 2002, compared to a net loss of R$1,113.6 million in 2001 and a net income of R$152.2 million for 2000.

***We may not be able to successfully integrate new operations into our business and may not be able to achieve the anticipated benefits of the acquisition.***

In April 2003 we acquired 61.1% of the voting capital of Tele Centro-Oeste Celular Participações S.A., or TCO (NYSE: TRO). TCO provides telecommunications services in the mid-west region of Brazil, which includes 11 states and the Federal District. The integration of TCO s operations into our business involves numerous risks, including:

- difficulties in incorporating TCO s services and operations into our business;
- the diversion of our resources and of our management s attention from other business concerns;
- the potential loss of key TCO employees; and

our estimation of the liability we may assume as a result of the acquisition, including tax and litigation claims, may not be accurate.

Our failure to integrate and manage TCO s business successfully could adversely affect our business and financial performance. In addition, if TCO s operations and financial results do not meet our expectations, we may not realize the synergies, operating efficiencies, market position or revenue growth we anticipate from the acquisition.

***We face risks associated with litigation.***

We are party to lawsuits and other proceedings in the ordinary course of our business. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. For a more detailed description of these lawsuits, see Item 8. A Legal Matters.

**Risks Relating to Our Preferred Shares and Our ADSs**

***Our preferred shares and our ADSs generally do not have voting rights.***

In accordance with Brazilian corporate law and our by-laws, holders of our preferred shares, and therefore of our ADSs, are not entitled to vote at meetings of our shareholders, except in limited circumstances. See Item 10B. Memorandum and Articles of Association.

***You might be unable to exercise preemptive rights with respect to our preferred shares unless there is a current registration statement in effect that covers those rights or unless an exemption from registration applies.***

You will not be able to exercise the preemptive rights relating to our preferred shares underlying your ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights, or unless an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary, or, if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. For more information on the exercise of your rights, see Item 10. Additional Information.

***The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of ADSs.***

Investments in securities, such as the preferred shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit the ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The São Paulo Stock Exchange *(Bolsa de Valores de São Paulo)*, or BOVESPA, the main Brazilian stock exchange, had a market capitalization of U.S.$124 billion as of December 31, 2002, and an average monthly trading volume of approximately U.S.$4.1 billion for 2002. In comparison, the NYSE had a market capitalization of U.S.$9.7 trillion as of December 31, 2002, and an average monthly trading volume of approximately U.S.$859 billion for 2002.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 46.8% of the aggregate market capitalization of BOVESPA as of December 31, 2002. The top ten stocks in terms of trading volume accounted for approximately 56.5% of all shares traded on BOVESPA.

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**Item 4.** ***Information on the Company***

**A. Our History and Development**
**General**

We are incorporated under the laws of the Federative Republic of Brazil under the name Telesp Celular Participações S.A., as a corporation with unlimited duration, known as TCP. We have the legal status of a *sociedade por ações*, or a stock corporation, operating under the Brazilian corporate law. Our principal executive offices are located at Rua Abílio Soares, 409, 04005-001 São Paulo, SP, Brazil. Our telephone number is +55 11 3059-7530, our facsimile number is +55 11 3059-7563, and our website is *www.vivo.com.br*. The information on our website is not part of this annual report. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

We are a holding company engaged through wholly owned companies in cellular telecommunications businesses in Brazil. We control, directly and/or indirectly, Telesp Celular, and, since December 27, 2002, Global Telecom.

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Below you will find a chart showing the major companies in our ownership structure as of December 31, 2002:

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(1) PT Móveis S.G.P.S., S.A. is a 100% controlled by Portugal Telecom S.G.P.S., S.A.

**Telebrás and the Privatization**

TCP was created as a result of a restructuring of Telebrás in May 1998. Before 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás and its operating subsidiaries, known as the Predecessor Companies, and collectively known as the Telebrás System, were created, acquiring almost all of the telecommunication companies in Brazil, and creating a near monopoly over the provision of public telecommunications services in Brazil.

On August 5, 1993, our predecessor company began providing cellular telecommunications services as a Telebrás System operating company in the state of São Paulo.

In 1995, the federal government began a comprehensive reform of Brazil s telecommunications regulatory system. In July 1997, Brazil s national congress adopted the General Telecommunications Law, which provided for the establishment of a new regulatory framework, the introduction of competition and the privatization of the Telebrás System.

In January 1998, in preparation for the restructuring and privatization of the Telebrás System, the cellular telecommunications operations of the Telebrás System were spun off into separate companies. In May 1998, the Telebrás System was restructured to form, in addition to Telebrás, 12 new holding companies. Virtually all of the Predecessor Companies assets and liabilities were allocated to the new holding companies, which we refer to as the New Holding Companies. The New Holding Companies, together with their respective subsidiaries, consisted of: (i) eight cellular holding companies, each in one of eight cellular regions, holding one or more operating companies that provide cellular services; (ii) three wireline holding companies, each in one of three wireline regions, holding one or more operating companies that provide local and intraregional long distance services; and (iii) Embratel Participações S.A., a holding company of Empresa Brasileira de Telecomunicações S.A. Embratel.

TCP was one of the New Holding Companies. In connection with the reorganization of the Telebrás system, or the Breakup of Telebrás, TCP was allocated all of the share capital held by Telebrás in Telesp Celular, one of the cellular operating companies that provided cellular telecommunications service in the state of São Paulo. In July 1998, as part of its restructuring and privatization plan, the federal government sold substantially all its common shares of the New Holding Companies, including TCP, to private sector buyers.

The federal government s shares of TCP were purchased by Portelcom Participações S.A., or Portelcom, a consortium comprised of Portugal Telecom S.A., or Portugal Telecom, which owned 64.2% of Portelcom and Telefónica, which owned the remaining 35.8% of the shares in Portelcom. In July 1998, Portelcom acquired 51.8% of the common stock of TCP.

**Reorganization**

As part of a corporate reorganization conducted in 1999 and 2000 to allow us to use certain tax credits, Portelcom established a subsidiary called Celular Telecom Holding S.A., or CTH, and it contributed goodwill and its shares of TCP to CTH. Effective December 14, 1999, CTH was merged into TCP. Effective January 14, 2000, TCP conducted a partial spin-off and merged the spun-off assets and liabilities into Telesp Celular. Effective January 14, 2000, all the shares of Telesp Celular owned by shareholders other than TCP were exchanged for newly-issued shares of TCP. As a result of these transactions, in January 2000, Telesp Celular, which previously had a substantial public float, became our wholly owned subsidiary.

**Public Offering**

In a public offering in June 2000, Portugal Telecom acquired 30.29% of the common stock of TCP. As a result, Portugal Telecom s ownership increased to 83.6% of our common stock, representing 35.5% of TCP s total capital.

**Capital Increase**

In October 2000, TCP had a capital increase of R$1.125 billion. As a consequence, Portugal Telecom increased its participation in TCP to 36.2% corresponding to 85.1% of the common shares and 17.7% of the preferred shares.

**Swap With Telefónica**

In November 2000, after Anatel s approval, Telefónica participated in a stock swap transaction with Portugal Telecom, involving their participations in Telesp Celular and Telecomunicações de São Paulo S.A.-TELESP, known as Telesp, respectively. In the stock swap transaction, Telefónica swapped 35.8% of its direct and indirect stake in Portelcom for Portugal Telecom s 23% indirect stake in SP Telecommunicações Holding. This transaction increased Portugal Telecom s participation in Telesp Celular from 36.2% to 41.2%.

**Ceterp Celular S.A.**

On November 27, 2000, we acquired 100% of the share capital of Ceterp Celular S.A., or Ceterp Celular, from Centrais Telefônicas de Ribeirão Preto S.A. Ceterp Celular is the A Band mobile operator in the Ribeirão Preto region of Brazil. The Ribeirão Preto region is a medium-sized metropolitan area in the northwest region of the state of São Paulo with approximately 500,000 inhabitants. During the reorganization of Telesp Celular, Ceterp was merged into Telesp Celular S.A.

**Global Telecom**

Global Telecom was formed to acquire a B Band cellular concession in the states of Paraná and Santa Catarina, known as Area 5. In April 1998, Global Telecom won the concession for Area 5 and, after building out its network, it began commercial operations in December 1998.

In February 2001, we acquired an 81.61% indirect economic interest in Global Telecom, through the acquisition of 49% of the voting shares and 100% of the non-voting shares of each of three holding companies that collectively held 95% of the voting shares and 100% of the non-voting shares of Global Telecom. The remaining 5% of Global Telecom s voting shares were held by another investor who, upon authorization from Anatel in July 2001, sold them to the three holding companies.

On December 11, 2002, after all of the TCP operators had switched over to the SMP system, Anatel approved our acquisition of the remaining capital stock of Global Telecom Holdings and, on December 27,

2002, we acquired the remaining portion of those three holding companies. We own, directly and indirectly, 100% of the voting stock and economic interest of Global Telecom.

On March 31, 2003, after a restructuring process, TCP became the direct holder of 100% of the capital stock of Global Telecom S.A.

**Increase in Capital**

In September 2002, TCP s R$2.5 billion capital increase was successfully completed. After this capital increase of TCP, Portugal Telecom s participation in TCP increased to 93.7% of the voting shares, 49.8% of the preferred shares and 65.1% of the total capital.

**Brasilcel**

On January 23, 2001, Portugal Telecom and Telefónica Móviles entered into a strategic agreement to create a mobile services company in Brazil that would aggregate all of their investments in cellular telecommunications businesses to the extent permitted under Brazilian law. In December 2002, Anatel approved the joint venture between Portugal Telecom and Telefónica Móviles. This joint venture, named Brasilcel N.V., or Brasilcel, with headquarters in the Netherlands, created a company that has 40% of the total market in Brazil, with 13.7 million users at December 31, 2002. Its operations cover an area of more than 100 million inhabitants, or 56% of the Brazilian population, and approximately 71% of its GDP. Portugal Telecom and Telefónica Móviles are managing the joint venture on an equal basis.

In December 2002, Portugal Telecom and Telefónica transferred to Brasilcel all of their direct and indirect interests in:

TCP, which controls an A Band operator in the state of Sao Paulo and a B Band operator in the states of Parana and Santa Catarina;

Tele Sudeste Celular Participações S.A., which controls A Band operators in the states of Rio de Janeiro and Espirito Santo;

Tele Leste, which controls A Band operators in the states of Bahia and Sergipe; and

Celular CRT Participações S.A., which controls an A Band operator in the state of Rio Grande do Sul.

Portugal Telecom and Telefónica Móviles agreed to propose to the operating companies controlled by Brasilcel to retain financial services of related third parties, at market conditions.

**Acquisition of TCO**

On April 25, 2003, TCP acquired 61.10% of the voting capital stock of TCO for approximately R$1.505 billion, corresponding to R$19.48719845 per each lot of 1,000 shares acquired. At the date hereof, we have paid R$284.7 million of the total amount and the remaining will be paid in installments. TCO is an A Band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO s B Band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

We will launch, in the third quarter of 2003, a tender offer for the voting shares of the minority shareholders of TCO, as legally required by the acquisition of the control of TCO. The price per share to be offered is fixed by law at 80% of the price paid to the controlling shareholders. After the acquisition and the tender offer, TCP expects to issue shares in exchange of the preferred shares of TCO and the remaining common shares that were not tendered in the tender offer. Considering merge TCO into TCP. With the acquisition of its participation in TCO, Brasilcel provides services to approximately 50% of the total Brazilian market. Brasilcel, including TCO, covers 86% of the Brazilian territory.

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**Capital Expenditures**

The following table sets forth Telesp Celular s capital expenditures for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| | | (R$ million) | |
| Switching equipment | 339.2 | 153.0 | 105.7 |
| Transmission equipment | 225.5 | 387.8 | 90.8 |
| Information Technology | 130.1 | 245.0 | 76.2 |
| Others(1) | 89.2 | 151.0 | 54.6 |
| Total capital expenditures | 784.0 | 936.8 | 327.3 |

(1) Handsets for rental, network constructions, furniture and fixtures, office equipment, and store layouts.

The following table sets forth Global Telecom s capital expenditures for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| | | (R$ million) | |
| Switching equipment | 10.9 | 93.0 | 23.0 |
| Transmission equipment | 100.3 | 268.4 | 89.3 |
| Information Technology | 32.8 | 46.9 | 22.2 |
| Others(1) | 6.6 | 14.3 | 17.8 |
| Total capital expenditures | 150.6 | 422.6 | 152.3 |

(1) Handsets for rental, network constructions, furniture and fixtures, office equipment and store layouts.

We anticipate that our capital expenditures for 2003 will be approximately R$402.1 million, of which R$116.1 million is related to Global Telecom. We expect to increase our capital expenditures for 2003 due to the consolidation of TCO s financial results into our consolidated financial statements to reflect TCO s capital expenditures. We expect to fund these expenditures with cash generated from operations.

The primary focus of our capital expenditure program has been, and continues to be, the expansion of the capacity of the services we currently offer and the provision of new services.

**B. Business Overview**

**Overview**

Telesp Celular is the leading cellular operator, by number of customers, in the state of São Paulo and in Brazil, according to data published by Anatel, and Global Telecom is one of the cellular operators in the states of Paraná and Santa Catarina. TCP s net operating revenues in 2000, 2001 and 2002 were R$2,766.7 million, R$2,946.2 million and R$3,390.6 million, respectively. Until December 27, 2002, Global Telecom s results were not fully consolidated into TCP. The table below sets forth the net operating revenues in each of our operating subsidiaries:

| | Year Ended December 31,(1) | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| | | (R$ million) | |
| Telesp Celular | 2,766.7 | 2,946.2 | 3,390.6 |
| Global Telecom | 246.7 | 425.9 | 512.2 |

(1) Global Telecom s net revenues were not consolidated in the periods indicated.

The state of São Paulo covers an area of 248,209 square kilometers, representing approximately 2.9% of Brazil s territory. Its population is approximately 38.3 million, and represents 21.9% of Brazil s total

population. In 2002, the state of São Paulo was the most economically developed in Brazil, and its gross domestic product, or GDP, in 2002 was an estimated R$461.3 billion, or approximately U.S.$130.6 billion, representing approximately 34.9% of Brazil s GDP in 2002. Its per capita income during 2002 was an estimated R$12,055.51, or approximately U.S.$3,412.26, according to Brasil em Foco Target 2002, our estimates based on percentages of the states GDP published by IBGE in previous years and Brazil s GDP 2002 calculated by IBGE and published by the *Diário Oficial do Estado de São Paulo* on March 28, 2003.

The states of Paraná and Santa Catarina cover an area of 294,661 square kilometers, representing approximately 3.5% of Brazil s territory. The population of the states of Paraná and Santa Catarina is approximately 15.3 million, representing 8.8% of Brazil s total population. The GDP of the states of Paraná and Santa Catarina in 2002 was an estimated R$132.0 billion, or approximately U.S.$37.4 billion, representing approximately 10.0% of Brazil s GDP for 2002. The income per capita in the states of Paraná and Santa Catarina during 2002 was an estimated R$8,539.11 and R$8,719.24, respectively, or approximately U.S.$2,416.96 and U.S.$2,467.94, respectively, according to Brasil em Foco Target 2002, our estimates based on percentages of the states GDP published by IBGE in previous years and Brazil s GDP 2002 calculated by IBGE and published by the *Diário Oficial do Estado de São Paulo* on March 28, 2003.

Telesp Celular uses a frequency range known as A Band that covers 76% of the municipalities in the state of São Paulo and 97% of the population of São Paulo. At December 31, 2002, Telesp Celular had 6.1 million cellular lines in service, which represented an 18.7% increase from December 31, 2001, and a market share of approximately 67% in São Paulo.

Global Telecom uses a frequency range known as B Band that covers 28% of the municipalities in the states of Paranáand Santa Catarina and 74% of the population of Paraná and Santa Catarina. At December 31, 2002, Global Telecom had 1.2 million cellular lines in service, which represented a 36.5% net increase from December 31, 2001, and a market share of approximately 41% in those states.

**Our Operations**

The following tables set forth information on Telesp Celular and Global Telecom s cellular telecommunication base, coverage and related matters at the dates and for the years indicated.

***Telesp Celular***

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Cellular lines in service at year-end (in thousands) | 4,302 | 5,104 | 6,060 |
| Contract customers | 1,604 | 1,369 | 1,426 |
| Prepaid customers | 2,698 | 3,735 | 4,634 |
| Digital | 3,496 | 4,764 | 5,913 |
| Analog | 806 | 340 | 147 |
| Growth in cellular lines in service during year | 48.7% | 18.6% | 18.7% |
| Churn(1) | 14% | 20% | 17% |
| Estimated population of concession areas (million)(2) | 37.1 | 37.7 | 38.3 |
| Estimated covered population (million)(3) | 36.4 | 36.7 | 37.2 |
| Percentage of population covered(4) | 98.1% | 97.3% | 97.1% |
| Penetration at year-end(5) | 18.0% | 21% | 23.8% |
| Percentage of authorization areas covered | NA | 63% | 63% |
| Average monthly minutes of use per customer(6) | 125 | 117 | 110 |
| Estimated market share(7) | 63% | 65% | 67.2% |

(1) Churn is the number of customers that leave us during the year, calculated as a percentage of the simple average of customers at the beginning and the end of the year.

(2) Projections based on estimates of the Instituto Brasileiro de Geografia e Estatística IBGE and Target 2002 Brasil em Foco.

(3) Number of people within our Region that can access our cellular telecommunication signal. The decrease in covered population was due to a decrease of the population in the municipalities covered.

(4) Percentage of the population in our Region that can access our cellular telecommunication signal. The decrease in covered population was due to a decrease of the population in the municipalities covered.

(5) Number of cellular lines in service in our Region, including our competitors, divided by the population of our Region.

(6) Average monthly minutes of use per lines in service is the total minutes of calls received and made by our customers divided by the simple average of lines in service during the relevant year (includes roaming in and excludes roaming out).

(7) Estimated percentage of all lines in service in our Region at year-end.

***Global Telecom***

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2000** | **2001** | **2002** |
| Cellular lines in service at year-end (in thousands) | 463 | 862 | 1,177 |
| Contract customers | 353 | 323 | 252 |
| Prepaid customers | 110 | 539 | 924 |
| Growth in cellular lines in service during year | 282% | 86% | 36.5% |
| Churn(1) | 16% | 23% | 20% |
| Estimated population of concession areas (million)(2) | 14.9 | 15.1 | 15.3 |
| Estimated covered population (million)(3) | 8.9 | 10.6 | 11.0 |
| Percentage of population covered(4) | 60% | 71% | 74% |
| Penetration at year-end(5) | 13% | 17% | 19% |
| Percentage of authorization areas covered | 17% | 30% | 35% |
| Average monthly minutes of use per customer(6) | 183 | 133 | 97 |
| Estimated market share(7) | 25% | 35% | 41% |

(1) Churn is the number of customers that leave us during the year, calculated as a percentage of the simple average of customers at the beginning and the end of the year.

(2) Projections based on estimates of the Instituto Brasileiro de Geografia e Estatística IBGE and TARGET 2002 Brasil em Foco .

(3) Number of people within our Region that can access our cellular telecommunication signal.

(4) Percentage of the population in our Region that can access our cellular telecommunication signal.

(5) Number of cellular lines in service in our Region, including our competitors, divided by the population of our Region.

(6) Average monthly minutes of use per lines in service is the total minutes of calls received and made by our customers divided by the simple average of lines in service during the relevant year (includes roaming in and excludes roaming out).

(7) Estimated percentage of all lines in service in our Region at year-end.

**Our Services**

We provide cellular telecommunications services using both digital and analog technologies. Our network provides both CDMA digital service and AMPS, or analog services. We began providing digital services in the São Paulo metropolitan area in November 1998. All our services are provided in the frequency of 850 MHz. We offer ancillary services, including voicemail and voicemail notification, call forwarding, three-way calling,

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caller identification, short text messaging for our digital network customers and wireless Internet access, or Waaap. Our services can be offered in packages or prepaid plans.

In June 2000, we launched Waaap, which allows our CDMA customers to access Internet pages on their cellular phone display. They can also send and receive e-mails, use search engines, play games, and access the banking system and other Internet-based services and applications. Through our Waaap PAG service, our CDMA customers can also conduct secure micro payments, or small value payment transactions, through their WAP-enabled mobile handsets. Customers who subscribe to our prepaid plans are now able to recharge their prepaid minutes directly through their handsets. The Waaap PAG service plans offer customers the ability to purchase a wide variety of products and services, such as movie tickets and gasoline, from their WAP-enabled handsets. At December 31, 2002, more than 46% of our total customers already had WAP-enabled handsets and more than 13% of these had already accessed Waaap in December at Telesp Celular. At Global Telecom, 58% of the total customers had WAP-enabled handsets and 13% of these had already accessed Waaap in December 2002.

In September 2001, we launched a line of products focused on providing mobile telecommunication solutions to small- and medium-sized companies and large corporate customers called Telesp Celular Empresas.

We divide up our corporate customer base in accordance with value criteria, increasing our ability to protect ourselves against new competitors, as well as our ability to attract new high-value customers.

In 2002 Global Telecom implemented a sales model focused on small- and medium-sized companies, with tariffs adjusted to meet the needs of customers and competitive pressures. In an effort to take advantage of opportunities in its market, Global Telecom launched the Elections project, which consisted of the temporary activation of handsets to be used in the election campaigns, and the Summer project to be used for temporary workers at Santa Catarina s seaside.

We began to offer 2.5G services using CDMA 1xRTT technology in December 2001, enabling us to provide high-speed packet data service by increasing potential data transmission speeds from current Waaap circuit switched at 14.4 kb per second to packet switched at up to 144 kb per second. Our current commercial pilot program has an average speed of approximately 100 kb per second, ranging from a low of 60 kb per second to a high of 144 kb per second. Building on our 2.5G network, we are now offering three types of high-speed data services:

Waaap Turbo, which provides access to existing Waaap services from 2.5G cellular phones, and bills customers according to the amount of information transferred (Kbytes) rather than on a per-minute basis;

Zaaap, which offers direct access to the Internet through either PCMCIA cards designed to connect compatible PDAs and laptops to 2.5G service or through 2.5G cellular phones by cable connection; and

Zaaap VPN, which offers our corporate customers secure access to their intranet and office resources.

Waaap Turbo, Zaaap and Zaaap VPN customers are billed monthly and their subscriptions include the transfer of a certain amount of megabytes for free.

We offer roaming services through agreements with local cellular service providers throughout Brazil and in other countries that allow our customers to make and receive calls outside of our Region. In turn, we provide reciprocal roaming services in our Region to customers of those cellular service providers while they are in our authorization areas. See Roaming Agreements.

Global Telecom launched 1xRTT service in the Curitiba and São José dos Pinhais areas in March 2003.

**Our Regions**

Telesp Celular provides mobile telecommunications services on the A Band frequency range in two authorization areas of Region III of the General Authorization Plan PGA, which together cover approxi-

mately 248,209 square kilometers, representing approximately 2.9% of Brazil s territory, or our Region. These authorization areas consist of more than 38.3 million people, representing 21.9% of Brazil s population, and 63 municipalities with populations in excess of 100,000, including the City of São Paulo, Brazil s largest city, with more than ten million people.

Global Telecom provides mobile telecommunications services on a frequency range known as B Band in its authorization area, which encompasses the states of Paraná and Santa Catarina in area II of the General Authorization Plan. This area is composed of 294,661 square kilometers, representing approximately 3.5% of Brazil s territory, with a population of approximately 15.3 million people, representing 8.8% of Brazil s population, and 22 municipalities with populations in excess of 100,000 people.

Before December 2002, we provided telecommunication services under an SMC concession. In December 2002, we began providing our services under an SMP authorization. Under our SMP authorization, we will provide cellular telecommunication services with more flexibility. See also Our Network and Regulation of the Brazilian Telecommunications Industry SMP Regulation.

The following tables set forth population, GDP and per capita income statistics for each state in our Regions at the dates and for the year indicated.

***Telesp Celular***

| | At December 31, 2002 | | Year Ended December 31, 2002 | | |
|---|---|---|---|---|---|
| **Area** | **Population (Million)(1)** | **% of Brazil s Population(1)** | **GDP (Billions of *reais*)(2)(3)** | **% of Brazil s GDP(3)** | **Per Capita Income (*reais*)(2)(3)** |
| Sao Paulo state | 38.3 | 21.9% | 461.3 | 34.9% | 12,055.51 |

(1) Estimates from Target 2002 Brazil em Foco.

(2) Our estimates expressed in nominal reais.

(3) Nominal Brazilian GDP was R$1,320 billion as of December 2002 calculated by IBGE and published by the Diário Oficial do Estado de São Paulo on March 28, 2003. Source: IBGE. We calculated the GDP for the states based on percentages published by IBGE in previous years.

***Global Telecom***

| | At December 31, 2002 | | Year Ended December 31, 2002 | | |
|---|---|---|---|---|---|
| **Area** | **Population (Million)(1)** | **% of Brazil s Population(1)** | **GDP (Billions of *reais*)(2)(3)** | **% of Brazil s GDP(3)** | **Per Capita Income (*reais*)(2)(3)** |
| Parana state | 9.8 | 5.6% | 83.7 | 6.3% | 8,539.11 |
| Santa Catarina state | 5.5 | 3.2% | 48.3 | 3.7% | 8,719.24 |
| Our Region | 15.3 | 8.8% | 132.0 | 10.0% | 8,604.16 |

(1) Estimates from Target 2002 Brazil em Foco.

(2) Our estimates expressed in nominal reais.

(3) Nominal Brazilian GDP was R$1,320 billion as of December 2002 calculated by IBGE and published by the Diário Oficial do Estado de São Paulo on March 28, 2003. Source: IBGE. We calculated the GDP for the states based on percentages published by IBGE in previous years.

Our business, financial condition, results of operations and prospects depend in part on the performance of the Brazilian economy. See Item 3D. Risk Factors.

**Marketing and Sales**

During 2002, we continued to invest in the expansion of our customer base and in the increase of our penetration rate, building on the increased capacity made available by our intensive investment program during 2000 and 2001.



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In 2001, we launched our prepaid Peg & Fale Gol service, which was targeted at the soccer fans in the state of São Paulo, because its handsets are identified with the main soccer teams of the state. During the soccer season, customers of Peg & Fale Gol have the right to reduced tariffs in cellular-to-cellular calls within our network.

In 2001, we also launched our prepaid Baby MTV service targeted at the teenage segment. The Baby MTV handsets have headphones for listening to radio broadcasts. Baby MTV customers receive a 50% discount on calls made between 8:00 p.m. and 8:00 a.m. from Monday to Thursday, and on the weekends between 8:00 p.m. on Friday and 8:00 a.m. on Monday.

In 2002, we created a plan targeted at younger segments of the population and other plans designed to increase the use of the SMS service, known as *Coisa,* which offers users a 50% discount on local calls between Telesp Celular handsets in our Region from Monday through Friday, from 8 p.m. until 8 a.m. and during the weekends. Customers using this plan may also choose one Telesp Celular number, register the number, and obtain a 50% discount on local calls for any time of the day.

Telesp Celular kept its focus on profitable growth and customer value in 2002, with an emphasis on investment returns. We implemented the new model for service and customer management (call center and marketing) on the basis of segmentation by customer profitability in 2001, and in 2002 targeted increased loyalty and focused on customer retention. One of our main strategies concentrated on attracting the younger population set, with the launching of the *Coisa* campaign.

In 2002, we developed several campaigns for prepaid customers, including the *Carrega Brasil* promotion during the World Cup, and the call discount promotions implemented at the end of the year, in order to celebrate our growth to a customer base of six million. Our campaigns will continue in 2003, with such plans as the Recarregou Identificou promotion, launched in February, whereby customers recharging their credits for any amount will be entitled to caller ID at no charge, for varied lengths of time depending upon the amount that is recharged.

Global Telecom also developed several campaigns for prepaid customers in 2002.

Since March 2003, as a result of the *Tagarela* promotion, prepaid customers in Paraná and Santa Catarina (as well as in Rio Grande do Sul, Rio de Janeiro, Bahia and Sergipe) may earn up to 100% in bonuses for local calls between handsets of the same operating company by recharging their cellular credits. This promotion enables customers to speak for twice as much time, with the same amount of prepayment.

We divide our consumer market into two main categories: individual customers and business customers. We market and promote our services in varied ways and occasionally develop special plans and services for particular categories of customers. We promote our services to large corporations through a major accounts program pursuant to which we identify contacts and support large corporate customers.

As required by Brazilian regulations, we provide cellular telecommunications service to all individual applicants, regardless of income level, in the order in which we receive applications. Nonetheless, in May 1998, we began performing credit checks on potential customers to assist in management of payment default risk. We may interrupt services if a customer fails to make timely payments. See Billing and Collection.

In addition to our consumer marketing efforts, and to enhance public relations and institutional marketing, we contributed approximately R$8 million in sponsorships for several major cultural and sporting events in the state of São Paulo in 2002, including the Summer Project (Blue Summer), Skol Beats, Casa Cor 2002, Winter Festival at Campos do Jordão, a Red Hot Chili Peppers concert, the Peace Parade, the Circuito Universitário Project and the tenth series of Formula Renault Brasil.

Our marketing efforts for Internet-based and messaging services have been primarily focused on our Waaap and SMS services and applications, in an effort to increase the usage and number of customers for these services. Our marketing and sales efforts have resulted in almost doubling Telesp Celular s net revenues from data-related services, from R$30.8 million in 2001 to R$51.5 million in 2002. The *Coisa* plan offers a broad portfolio of Waaap and SMS services. This plan was launched in October 2002 by Global Telecom and is responsible for an increase in its net revenues from R$1.6 million in 2001 to R$6.8 million in 2002.

The launch of our 2.5G commercial pilot program in December 2001 made us the first mobile operator in Latin America to offer 2.5G services using 1xRTT technology. Before the launch, we joined with leading application service providers in order to provide high quality applications that run on 1xRTT technology to customers of our 2.5G services. See Our Services. Global Telecom launched this 2.5G service in March 2003.

On April 13, 2003, Brasilcel launched a new trademark and logo, known as Vivo, for all of its telecommunication companies in Brazil, including us. In connection with the launch of the new trademark, we are changing the names of the services we offer to our customers.

**Network Sales**

We market our services and provide customer service through a network of stores. In December 2002, Telesp Celular s network included 2,345 point of sale stores, covering substantially all of the cities in its Region. We operated 65 stores, while independent distributors operated the remaining 2,280 stores. We also had three regional centers in the City of São Paulo and three in the interior of the state of São Paulo to supervise the stores and to strengthen marketing and customer relations.

In December 2002, Global Telecom s network included 776 point-of-sale stores, covering substantially all of the cities in its Region. We operated 26 stores, while independent distributors operated the remaining 750 stores.

In 2002, we opened 21 new stores, reaching a total of 65 stores by December 2002. Until the end of the first quarter of 1999, our stores had focused on customer services, but, as a result of a renovation effort that began in 1999, their focus shifted to the sale of products and services, in addition to customer services. The Excellency Program was initiated in 2002 against this background, with the purposes of standardizing the processes and visual identities of our stores, as well as improving customer services. The granting of the ISO 9002 award at the end of 2000 marked the successful development of this program.

**Customer Service**

We have outsourced to Mobitel S/ A Telecomunicações, a subsidiary of Portugal Telecom, all customer service for Telesp Celular and Global Telecom, including managing the call center and dealing with customer complaints. Customer Service is available 24-hours a day through the call centers and through our website.

***Telesp Celular***

On December 31, 2002, Telesp Celular had 2,135 attendants working in 894 positions during peak hours, which represented one customer service attendant per 2,839 customers. During 2002, the customer service team answered, on average, 182,147 calls per business day.

Telesp Celular s back office (technical assistance and billing customer service department) consist of 275 employees, who respond to requests made by e-mails, letters, faxes, the website, the call center and in the stores. In 2002, the department answered approximately 73,894 requests per month.

***Global Telecom***

On December 31, 2002, Global Telecom had 642 attendants working in 325 positions during peak hours, which represented one customer service attendant per 1,833 customers. During 2002, the customer service team answered, on average, 23,933 calls per business day.

Global Telecom s back office (technical assistance and billing customer service department) consists of 35 employees, who respond to requests made by e-mails, letters, faxes, the website, the call center and in the stores. In 2002, the department answered approximately 21,365 requests per month.

***Quality of Service***

Telesp Celular s and Global Telecom s services, and customers perception of the quality of our services, are an important aspect of our business. Both companies consider three main points when evaluating the way in which customers perceive the quality of our services:

- infrastructure;
- terminal equipment and its performance in its environmental conditions (either in home area or when roaming nationally or internationally); and
- our Customer Care departments and their effectiveness in handling customers complaints.

Telesp Celular and Global Telecom have addressed these concerns in several ways:

- through frequent network performance evaluations based on drive-testing and collected data analyses;
- by evaluating the data gathered from the several event counters available in the network as well as specific analysis tools; and
- through customer complaints handled by the Customer Care and Corporate Sales teams.

Another important aspect of our quality-of-service analysis relates to our methods for comparison with our competitors. We use the following three types of analyses to analyze the competition:

- tests and performance comparisons, to address issues such as call completion, dropped calls, interference levels or signal-to-noise ratios, voice quality scoring, etc.;
- comparisons with the monthly data reported to Anatel and the data that is publicly available; and
- use of competitors services in the guise of customers, in order to evaluate the way that their customer care centers evaluate and solve complaints.

Recent tests have increasingly shown that Telesp Celular and Global Telecom QoS s services compare favorably with those provided by its competitors in all geographic areas. Its technology minimizes the potential problems that can be linked to bugs in the software programs or hardware malfunctioning.

As a standard procedure of both companies, before making a product available for the general public, a device (either a cell phone or a PCMCIA card) must be closely evaluated:

- Suppliers are required to present a CDG2 certificate issued by each major infrastructure manufacturer, along with a general compliance statement. This certificate provides assurance that the device has been tested in a laboratory environment, and is able to operate properly with the particular manufacturer s technology. This is a pass/fail procedure with the standard infra version, which does not guaranty that the terminal equipment will operate properly in the specific and customized implementation in the operator plant.
- In an effort to eliminate any possible problems resulting from that implementation, the device is also evaluated in another set of tests (known as CDG3), which will show clearly if the equipment complies with the issued specification, and is able to function properly with the network in all aspects related to the regular service provisioning. If not, it will be possible to immediately identify which function does not meet the requirements, and locate the source of the problem. The device also supplies the manufacturers with information that will allow them to solve the problem in a short period of time.
- Some other characteristics are also tested and evaluated in a lab before the device is submitted for legal approval. These characteristics are mainly related to their radio properties (transmitted frequencies, spurious, radiation level, etc.).

The Customer Care department is one of our key areas of operation, and it has been made a priority in terms of organization and human resources management.

In 2000 the Customer Care department received the ISO 9002 certificate of quality for its operation of the call centers for São Paulo and Campinas. On May 1, 2001, the system of Quality Control was extended to the Relationship Board with customers accomplishing the transition of Regulation ISO 9002 certification for the servicing of the required regulation NBR ISO 9001/1994.

In the continued search for quality during 2002, regulation ISO 9001 was updated to a newer version called Regulation 2000. This newer version incorporated fundamental changes, such as increasing the focus on customer service, systematically encouraging products quality, demanding clearer measures and results, and continuously striving for excellence. We received this certificate On October 23, 2002. The certificate has a validity of three years, with a yearly re-evaluation by the Certification department.

**Our Network**

Before November 1998, our network used only AMPS analog technology. After our privatization in 1998, we began to use CDMA digital technology. Digitalization offers certain advantages, such as greater network capacity and additional revenue through the sale of value-added services. Digital cellular telecommunications service also reduces the risk of fraud. We continue to increase network capacity and coverage to improve the quality of service and to meet customer demand.

At December 31, 2002, Telesp Celular s telecommunications network, which provides both CDMA digital and AMPS analog services, covered 76% of the municipalities in the state of São Paulo, representing 97% of the population in its Region. Telesp Celular s network is connected primarily through a fiber-optic transmission system leased from Telesp, consisting of 48 cellular switches, 15 of which are digital, 24 are dual mode and nine are analog, 2,920 base stations, 2,141 of which are digital (12 mobile base stations may be added to these, if necessary) and 779 are analog, and 90 other network elements such as voicemail, prepaid service, short message service and home location registers and gateways, as of December 31, 2002. NEC do Brasil S.A., Nortel Networks Northern Telecom do Brasil, Motorola do Brasil Ltda. (presently Motorola Industrial Ltda. and Motorola Services Ltda.), Lucent Technologies do Brasil, Ind. e Com. Ltda. and Ericsson Telecomunicações S.A. are Telesp Celular s main suppliers.

Global Telecom began its activities in December 1998 and only offers services through CDMA digital technology.

At December 31, 2002, Global Telecom s telecommunications network covered 28% of the municipalities in the Region, representing 74% of the population. Global Telecom s network is primarily connected by a fiber-optic transmission system leased from fixed operating companies (Brasil Telecom and Embratel) and Copel Companhia Paranaense de Energia S.A., consisting of eight cellular switches, 633 base stations and 24 other network elements, such as: voicemail, prepaid service, short message service and home location registers and gateways, as of December 31, 2002. Motorola and Ericsson are Global Telecom s main suppliers.

Our advanced network management technology ensures global management and supervision of all our network processes and network performance. The network management center is located in São Paulo and monitors the base stations, switching centers and all critical network operational parameters of Telesp Celular and Global Telecom. This center is able to identify abnormalities in both our network and in other networks, using the failure and signal monitoring systems. In addition, quality and service standards are constantly monitored. The network management center is integrated into the maintenance and operations center and is designed to maintain network elements, as well as cellular infrastructure and transmission, in addition to operating the radio network elements and computing bases, service platforms and backbone.

Our network is prepared to provide continuity of service for our customers in the event of network interruptions due to power failures. We have developed the following standard operating and maintenance procedures for use in such emergencies:

*Contingency plan for catastrophes in our switching centers*. This plan allows us to recover the most important BTSs, or digital base stations, which are connected to the trunk line that has been affected by an accident, by redirecting the transmission route of these BTSs.

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*Contingency plan for interruption of the public power supply*. This plan ensures autonomy in our network, through a battery system in all BTSs that provides between six and eight consecutive hours of power, in addition to generators at strategic sites.

*Security contingency plan.* This plan includes a detection and alarm system, restricted access and a fire combat system for our sites.

The introduction of the 2.5G network in December 2001 in Telesp Celular has provided for the development of new services, diversification and the improvement of Internet applications available to our customers. This technological advance allows for always on services, meaning that the customer is constantly connected to the Internet. Customers of these services are billed for the amount of information transferred (Kbytes) rather than on a per-minute basis. Notebooks, palmtops and PDAs that are connected to standard PCMCIA 1xRTT cards operating like a wireless modem or that are connected to 2.5G handsets by cable are now able to access Internet services and corporate intranets. Our 2.5G network allows for greater spectrum efficiency, accommodating approximately 1.6 times more customers than the standard second-generation network.

During 2002, Telesp Celular experienced significant growth:

92 new sites were activated;

90 1xRTT carriers were activated;

a new prepaid platform was activated allowing data billing in packet way rather than in time basis;

prepaid roaming between Telesp Celular and Global Telecom was activated;

chat platform was implemented, connecting Global Telecom s and Telesp Celular s networks;

the transmission system in the state of Sao Paulo was improved, reducing the leasing cost of the transmission system; and

the interconnection IP between Telesp Celular and Telerj Celular S.A. was activated.

Likewise, Global Telecom also experienced significant growth by:

deploying 127 sites;

servicing 22 new municipalities;

reducing costs by sharing 70 sites with its competitors;

improving the fiber optical system;

reducing monthly lease lines costs by optimization of the transmission system routes;

activating a new switching center in Curitiba;

replacing the prepaid platform;

activating the voice chat platform; and

activating the interconnection of SMS with a competitor.

Under our authorizations, we are obligated to meet certain requirements for service quality and annual network expansion. See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies. We have already achieved all of our required network expansion obligations.

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**Sources of Revenue**

We generate revenue from:

- usage charges, which include measured service charges for calls and other similar charges;
- network usage charges (or interconnection charges), which are amounts we charge other cellular and fixed-line service providers for the use of our network;
- monthly subscription charges, which are not charged to our prepaid customers;
- the sale of cellular handsets and accessories; and
- other charges, including charges for call forwarding, call waiting, short message service and call blocking, which are charged only when the customer s plan does not include these services.

Our rates are subject to approval by Anatel. See Regulation of the Brazilian Telecommunications Industry Rate Regulation.

***Contract Customers***

Since October 1994, cellular telecommunications service in Brazil has been offered on a calling party pays basis, under which the customer pays only for calls that it originates. In addition, customers pay roaming charges on calls made or received outside their home registration area.

Customer charges are calculated based on the customer s calling plan, the location of the party called, the place from which the call originates and certain other factors, as described below. Our Region is divided into 18 areas, called registration areas, designated for payment purposes.

***Interconnection Charges***

We earn revenues from any call that originates from another cellular or fixed-line service provider network connecting one of our customers. We charge the service provider from whose network the call originates a network usage charge for every minute that our network is used in connection with the call. See Operating Agreements Interconnection Agreements. For Telesp Celular, our average interconnection charges for 2000, 2001 and 2002 were R$0.1964, R$0.2407 and R$0.2670 per minute net of value-added taxes, respectively. For Global Telecom, our average interconnection charges for 2001 and 2002 were R$0.2321 and R$0.2667 per minute net of value-added taxes, respectively. In February 2003, Anatel authorized the increase of Telesp Celular s tariff per minute to R$0.3296, and Global Telecom s tariff per minute to R$0.3329. Cellular operating companies, once authorized to increase the tariff, are now obligated to grant a 30% discount on certain tariffs for local calls during off peak hours originating with Telecomunicações de São Paulo S.A., in the case of Telesp Celular and Brasil Telecom and Sercomtel, in the case of Global Telecom.

***Bill and Keep***

Under the SMP system, usage of the network remuneration between SMP mobile operators will only be due if traffic carried in the same registration area between two networks, in a given direction, exceeds 55% of the total traffic exchanged between them. In this case, only those calls which have surpassed the 55% threshold will be subject to payment for network usage. This rule is valid until June 30, 2005. Thereafter, SMP operators will adopt full Bill and Keep, by which no remuneration will be due for network usage among SMP networks, regardless of the amount of carried traffic.

***Roaming Fees***

We receive revenue pursuant to roaming agreements with other cellular service providers. When a customer of another cellular service provider makes a call within our Region, that service provider pays us for the call at the applicable rate. Conversely, when one of our customers makes a cellular call outside of our Region, we must pay the charges associated with that call to the cellular service provider in whose Region the call originates. See Operating Agreements Roaming Agreements.

**Handset Sales**

We sell dual-mode (800MHz CDMA-1xRTT/ AMPS and 800MHz CDMA/ AMPS) and tri-mode (1900MHz CDMA and 800MHz CDMA/ AMPs) cellular handsets and PCMCIA boards through our own stores and dealers. Although we still have some customers using analog service (approximately 2.4% of our total customer base at December 31, 2002), we have implemented a series of actions, such as providing discounts on digital handsets, discounts on monthly fees for digital services, digital handset rentals and free digital handsets to our high value customers, to encourage analog customers to transfer to digital service. Our current suppliers are Motorola, LG, Samsung, Nokia and Toshiba.

**Operating Agreements**

We have an agreement with Telesp, which enables us to share physical space and real estate and that pertains to the supply of air conditioning, energy, security and cleaning services. Under this agreement, we use approximately 520 of Telefónica s sites and Telefónica uses approximately 207 of our sites.

We also lease from Telesp, transmission capacity necessary to complete the construction of our network infrastructure. In December 2001, we renegotiated this leasing arrangement with Telesp. The lease will last for five years, expiring on December 31, 2006.

***Interconnection Agreements***

The terms of our interconnection agreements include provisions with respect to the number of connection points and traffic signals. See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies and Interconnection. At the beginning of our operations, we entered into interconnection agreements with Embratel Participações S.A., or Embratel, and the Predecessor Companies.

Telesp Celular entered into a new interconnection agreement with Telesp in January 1998, with BCP S.A., or BCP, in May 1998, with Tess S.A., or Tess, its competitor, in November 1998, and with Vésper S.A., or Vésper, a WLL (Wireless Local Loop) company that provides fixed-line services in December 1999. In May 2000 and in June 2001, Telesp Celular entered into new interconnection agreements with two long distance carriers, Intelig Telecomunicações Ltda., or Intelig, and Embratel. During 2002, Telesp Celular also entered into interconnection agreements with Nextel Telecomunicações Ltda., or Nextel, and our new competitor, TIM São Paulo S.A.

Global Telecom entered into interconnection agreements with Brasil Telecom and Sercomtel S.A. Telecomunicações, in April 1999, with Telepar Celular S.A. and Telesc Celular S.A. in September 1999, with Global Village Telecom S.A. a WLL (Wireless Local Loop) company that provides fixed line services, in May 2000, and with Sercomtel Celular S.A., its competitor, in May 2002.

In July 1998 and in December 2000, Global Telecom entered into interconnection agreements with two long distance carriers, Embratel and Intelig. In addition, in 2002, Global Telecom also entered into interconnection agreements with Nextel.

In 2002, we entered into an interconnection agreement with our competitors for the supply of SMS among our customers and, through the Brazilian Roaming Committee, we entered into an interconnection agreement for remitting and receiving SMS to and from all operating companies in Brazil.

***Roaming Agreements***

We are a member of the Brazilian Roaming Committee, a group comprised of 21 cellular telecommunications service providers operating in Brazil through either A Band or B Band. The Brazilian Roaming Committee was created to independently conduct the activities related to roaming services in Brazil and the international roaming agreements entered into by Brazilian companies with telecommunications service providers operating in the member countries of the Mercosur.

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Automatic roaming permits our customers to use their cellular handsets on the networks of other cellular service providers while traveling or roaming outside our Regions. Conversely, we provide cellular telecommunications service to customers of other cellular service providers from outside of our Regions when those customers are within our Regions.

The roaming agreements require us and the other cellular service providers to provide service to roaming customers on the same basis that each member provides service to its own customers, and to carry out a monthly reconciliation of roaming customer usage charges.

We offer international roaming in United States, Canada, Mexico, the Caribbean, Argentina and Uruguay. In 1999, we began providing international GSM (Global System for Mobile) services, through the use of GSM handsets, in most parts of Europe, Africa, Asia and Oceania. In the first half of 2002 we launched international roaming in South Korea.

**Taxes on Telecommunications Services and Handset Sales**

The cost of telecommunications services and handset sales to customers incorporates a variety of taxes, including:

**ICMS.** The principal tax is the *Imposto sobre Circulação de Mercadorias e Serviços*, or the ICMS. The ICMS is a tax that the Brazilian states impose at varying rates on certain revenues from the sale of goods and services, including telecommunications services. The ICMS rates for domestic telecommunications in the States of São Paulo, Santa Catarina and Paraná are 25%, 25% and 27%, respectively. During 2002, the states of São Paulo and Paraná imposed ICMS rates of 7% for Motorola and LG handsets, and 18% for other handsets. In the state of Santa Catarina the ICMS rate was 7% for all handset sales.

**COFINS.** The *Contribuição Para Financiamento da Seguridade Social*, or COFINS, is a social contribution tax on gross operating revenues. On November 27, 1998, the Brazilian federal government, through Law No. 9,718, increased the COFINS rate from 2% to 3%, allowing a set-off of up to one-third of the COFINS amount with the amount owed as a result of the *Contribuição Social Sobre Lucro Líquido*, or CSLL. On January 1, 2000, we began to include the COFINS tax in our bills at a rate of 3%.

**PIS.** The *Programa de Integração Social*, or PIS, is another social contribution tax that is imposed on gross operating revenue at a rate of 0.65%. Law No. 9,718 also indirectly raised the PIS contribution tax owed by Telesp Celular and Global Telecom, leading our subsidiaries to challenge such increase judicially. See Item 8A. Consolidated Statements and Other Financial Information Legal Matters. In October 2002, Law No. 10,637 was enacted, making such contribution noncumulative and increasing the rate to 1.65%, except in connection with telecommunication services, where the rate continues to be 0.65%.

**FUST.** On August 17, 2000, the Brazilian federal government, through Law No. 9,998, created the *Fundo de Universalização dos Serviços de Telecomunicações*, or FUST, a social contribution tax applicable to all telecommunications services. The purpose of the FUST tax is to fund a portion of the costs incurred by telecommunication service providers to meet the universal service targets required by Anatel, in case these costs are not entirely recoverable through the provision of the telecommunications services. The FUST is imposed at a rate of 1% of gross operating revenues exclusively from telecommunication services, net of ICMS, PIS and COFINS and its cost may not be passed on to customers. It became effective on January 1, 2001.

**FUNTTEL.** On November 28, 2000, the Brazilian federal government, through Law No. 10,052, created the *Fundo para Desenvolvimento Tecnológico das Telecomunicações*, or FUNTTEL, a social contribution tax applicable to all telecommunications services. The purpose of the FUNTTEL tax is to promote the development of telecommunications technology in Brazil and to improve competition in the industry by:

encouraging research and the development of new technologies;

promoting the training of personnel;

creating new employment opportunities; and

allowing small-and medium-sized companies to access the lending market.

FUNTTEL is imposed at a rate of 0.5% of gross operating revenues exclusively from telecommunication services, net of ICMS, PIS and COFINS, and its cost may not be passed on to customers. It became effective on March 1, 2001.

**FISTEL.** On July 7, 1966, the Brazilian federal government, through Law No. 5,070, created the *Fundo de Fiscalização das Telecomunicações*, or FISTEL, a tax applicable to telecommunications transmission equipment. The purpose of FISTEL is to provide financial resources for the Brazilian federal government to control and inspect the industry.

The FISTEL tax is comprised of two different fees:

an installation and inspection fee that is assessed every time we activate a new cellular number, as well as every time an authorization certificate is issued with respect to new equipment in telecommunications stations; and

an operation and inspection fee, assessed annually on the basis of the total number of cellular numbers in use and the total number of radio base stations installed at the end of the fiscal year, which is equal to 50% of the installation and inspection fee.

Effective April 2001, the installation and inspection fee has been assessed based on the net activation of cellular numbers, i.e., the number of new cellular activations subtracted from the number of cancelled subscriptions, as well as on the basis of the net additions of radio base stations.

**Billing and Collection**

In 2002, we improved our billing system by implementing revenue assurance processes throughout all of our operational cycles, including traffic recording, rating, billing and collections in an effort to maximize performance. We improved our practices in order to increase our level of service and to meet customers expectations.

We offer over 165 price plans and other services in our billing system, targeted towards different customer profiles. Telesp Celular uses six staggered billing cycles and six different payment dates each month while Global Telecom uses eight staggered billing cycle and eight different payment dates each month. The customer can choose the date of payment when the contract is signed.

Pursuant to Brazilian law, customers must receive a bill at least five days before the due date, and companies must allow customers at least 15 days from the due date before suspending outgoing service for nonpayment. Customers may choose from a number of billing options, including traditional paper bills, direct withdrawal from the customer s bank account and some deferred payment options. We have also introduced a new billing service through which customers can receive and pay bills via the Internet.

Telesp Celular and Global Telecom have established a uniform policy for dealing with delinquent customer accounts. Service may only be suspended after notice has been provided to the customer. If a customer s payment is more than 15 days past due, outgoing service is suspended, and if payment is more than 90 days past due, both outgoing and incoming services are suspended until full payment for all outstanding charges is received. If a customer s payment is more than 180 days past due, service is discontinued. In 2002, approximately 58% of our mobile bills were paid in full within the due date, 76% were paid before the first reminder was sent, and 94% of our mobile bills were paid by the time that the second reminder was sent.

Telesp Celular s collection system has a mechanism for tracking customers who are delinquent in making payments, and its collections department has had a high rate of success in the collection of payments from

customers. In addition, Telesp Celular employed six outside collection agencies to recover payments from accounts from customers that were over 95 days past due.

We make provisions for customer accounts when we determine that the likelihood of collection is no longer probable, and write off customer accounts that are over 180 days past due. We wrote off R$53.4 million in Telesp Celular and R$8.1 million in Global Telecom for accounts more than 180 days past due in 2002 related to telecommunication service charges.

Telesp Celular s provisions for doubtful accounts (Provision for doubtful accounts including handsets/ Gross operating revenue) were 3.5%, 2.45% and 1.57% of gross operating revenue of service in 2000, 2001 and 2002, respectively. Global Telecom Holdings s provisions for doubtful accounts (Allowance for doubtful accounts including handsets/ Gross operating revenue) were 6.03% and 1.39% of gross operating revenue of service in 2001 and 2002, respectively. See Item 5A. Operating Results Results of Operations for 2000, 2001 and 2002 for TCP Operating Expenses.

After each collection cycle, we and other telecommunications service providers settle the roaming and network usage fees outstanding balances. See Sources of Revenue Roaming Fees and Sources of Revenue Network Usage Charges. For international calls made by our customers, we forward the gross amounts collected for such calls to the international long distance carrier and charge them a fee for the use of our cellular telecommunications network. Domestic long distance fees are reconciled and distributed to each Brazilian telecommunication operating company by a clearinghouse operated by Embratel.

**Fraud Detection and Prevention**

We incur costs associated with the unauthorized use of our wireless networks, particularly our analog cellular networks. These costs include administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs, capacity costs, administrative costs and payments to other carriers for unbillable fraudulent roaming.

The three most prevalent types of fraud are cloning fraud, subscription fraud and default fraud. Cloning fraud consists of duplicating the cellular signal of a *bona fide* customer, enabling the perpetrator of the fraud to make calls using the customer s signal. We ultimately bear the costs of all fraudulent calls originating from our cell phone base. We have installed a fraud detection system that analyzes various aspects of customers usage in order to detect cloning fraud. In addition, the introduction of digital service is significantly reducing the incidence of cloning fraud. We do not consider cloning fraud a significant problem.

Subscription fraud occurs when a person, typically using false or stolen documents, obtains cellular telecommunications service, and then incurs substantial charges that are billed to a customer who does not exist or who did not request the service.

Default fraud is similar to subscription fraud, except that the customer does not make use of false documentation, but nonetheless fails to pay for services used.

Historically, the majority of our fraud-related losses are related to the types of fraud listed above. In order to safeguard ourselves against these fraudulent activities, we review documentation provided by customers and conduct a credit check prior to initiating service. We use credit bureaus to enhance our reviews.

We have implemented certain fraud detection and fraud prevention measures in an effort to reduce fraud-related losses, including the automatic review of call detail records in the state of São Paulo, Paraná and Santa Catarina. These records are analyzed to identify abnormal calling patterns. When abnormal patterns are found, our fraud control staff contacts the customer and, if cloning has occurred, the customer s number is changed or an exchange of handsets is made. Fraud prevention measures include restrictions on international calls from a given number, restrictions on international calls to certain high-risk destinations, automatic blocking of calls to certain high-risk destinations and restrictions on three-way calling by customers with international direct-dial access.

We have installed, and are a part of, a nationwide fraud detection system. This system aids in fraud detection in various ways, including identifying simultaneous usage by a single customer, call frequency and

unusually high usage patterns. We are able to monitor telecommunication usage by our customers even when they are located outside of our Region. In the state of São Paulo, the antifraud system became operational in 1998.

**Competition**

***A Band***

The Brazilian territory was initially divided by Anatel into eight separate cellular service regions, each known as A Band, and each serviced by one of the New Holding Companies operating in the cellular telecommunications business, created with the Breakup of Telebrás (see Our History and Development Telebrás and the Privatization ).

The New Holding Companies operate in the 800+ MHz frequency, according to concessions or authorizations granted and regulations issued by Anatel. TCP is one of these companies operating in the state of São Paulo and using AMPS/ CDMA technology.

Global Telecom s current competitor, Tele Celular Sul Participações S.A, or TIM Sul, is another of these companies and uses AMPS/ TDMA technology. TIM Sul, which is controlled by Telecom Italia Mobile, or TIM, migrated to authorization and announced its intention of doing an overlay in GSM/ GPRS technology.

***B Band***

The General Telecommunications Law provided for the introduction of competition to telecommunications services in Brazil. The Brazilian federal government has granted ten licenses to provide cellular telecommunications service within certain regions in Brazil, known as B Band. There are two B Band service providers operating in Telesp Celular s region, BCP Telecomunicações S.A., or BCP, which operates in the metropolitan area of the state of São Paulo, and Tess, which operates in the rest of São Paulo.

Global Telecom is the B Band operator in the states of Paraná and Santa Catarina and uses CDMA technology.

BCP is controlled by a consortium led by BellSouth and the Safra family. Tess is controlled by Telecom Américas Ltd. (controlled by América Móvil S.A. de C.V.). The rights and obligations of BCP and Tess under their respective licenses are substantially identical to Telesp Celular s right and obligations under its authorizations. Although BCP and Tess provide only digital service, their customers use dual-mode cellular handsets that can operate with analog networks.

***C Band***

There are no providers of C Band services in our Region.

***D Band and E Band***

In February 2002, TIM acquired the D Band license for the entire state of São Paulo (Region III-SMP). In September 2002, TIM began operations in São Paulo, using the GSM/ GPRS technology.

In November 2002, the Telecom Américas Group acquired an E Band license for the metropolitan area of São Paulo (Region III-SMP). Vésper acquired the E Band license for the São Paulo countryside (Region III-SMP). Both companies are scheduled to begin operations in 2003.

On February 13, 2001, Anatel held an auction for the D Band SMP licenses. Tele Norte Leste Participações S.A., or Telemar, the primary fixed-line operator in Region I-SMP, bid successfully for the license covering the region in which Telemar offers fixed-line telecommunications services, comprising 16 states in northeastern Brazil. TNL PCS S.A. started its operating activities on June 24, 2002 under the brand name Oi and provides SMP services using GSM/ GPRS digital technology.

The D Band license of the mid-south region of Brasil was awarded to TIM.

On March 13, 2001, Anatel held an auction for the E Band SMP authorization. TIM was the only bidder and acquired a license to provide services in the region comprising 16 states in northeastern Brazil, in which Telemar operates as a fixed-line provider.

At that time, there were no bidders for the E Band authorizations covering the two remaining SMP service regions.

Through an auction held in October 2002, the remaining D Band and E Band licenses were allocated to the remaining nine areas as follows: three licenses to the Telecom Américas Group, controlled by América Móvil, three licenses to Brasil Telecom in the regions in which it already operated wireline telecommunications and three licenses to Vésper.

TIM controls two A Band operators serving the states of Paraná and Santa Catarina and the Northeast region, and two B Band service providers, one operating in the state of Minas Gerais and the other in the states of Bahia and Sergipe. TIM also acquired two D band licenses and one E band license in the SMP service auctions carried out by the Brazilian government during 2001. However, TIM had to give back part of its SMP license to provide mobile services in those areas within the D Band, including Paraná and Santa Catarina, and the E Band where it is already providing mobile services. TIM is able to offer wireless services nationwide. TIM began its operations in the new areas in September 2002.

The Telecom Américas Group, which already controls ATL (B Band operator in Rio de Janeiro and Espírito Santo), Tess (B Band operator in the inner region of the state of São Paulo), Telet (B Band operator in Rio Grande do Sul) and Americel (B Band operator in the Region encompassing the states of Mato Grosso do Sul, Minas Gerais, Goiás, Tocantins, Rondônia and Acre), purchased the D Band remaining license in connection with the region of Paraná and Santa Catarina. It also purchased the E Band SMP license in the states of Bahia and Sergipe and the metropolitan region of São Paulo. These operators migrated to SMP service and, in March 2003, Telecom Américas Group communicated that it is acquiring BSE (B Band operator in the northeastern area).

Brasil Telecom S.A., or Brasil Telecom, purchased the remaining E Band license in the region of Rio Grande do Sul and in the region encompassing the states of Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Rondônia and Tocantins and the Federal District. It also purchased the E Band SMP service licenses in the states of Paraná and Santa Catarina. Brasil Telecom is controlled by Grupo Opportunity, which also has shareholding in Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A.

Vésper purchased the remaining E Band license in the inner region of São Paulo. In the region of Minas Gerais, Vésper purchased the E Band SMP license, and it also purchased the E Band SMP license in the states of the northeastern region: Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte.

We estimate that Telesp Celular s and Global Telecom s market share in their respective Region as of December 31, 2002 were approximately 67% and 41%.

***Other Competition***

We also compete with wireline telecommunication service providers. Some existing and potential customers may shift to wireline service providers for a number of reasons, including price, if sufficient capital is invested in the wireline telecommunication industry in our Regions to increase wireline availability and improve service. The main wireline service provider in Telesp Celular s Region is Telesp and in Global Telecom s Region is Brasil Telecom.

We also compete with certain other wireless telecommunications services, such as mobile radio (including digital trunking technology, offered by Nextel), paging and beeper services, which are used by some in our Region as a substitute for cellular telecommunications services. Satellite services, which provide nationwide coverage, are also available in Brazil. Although satellite services have the benefit of covering a much greater area than cellular telecommunications services, they are considerably more expensive than cellular telecommunications services and do not offer comparable coverage inside buildings. We do not plan to offer mobile satellite services (other than pursuant to a roaming arrangement with a satellite service provider).

**Regulation of the Brazilian Telecommunications Industry**

***General***

Our business, the services we provide and the prices we charge are subject to regulation under the General Telecommunications Law and various administrative enactments, which regulate the services provided by Brazilian telecommunications operators.

Anatel is the agency that regulates telecommunications under the General Telecommunications Law and the July 2001 Regulamento da Agência Nacional de Telecomunicações, known as the Anatel Decree. Anatel is financially autonomous, and administratively independent of the federal government. Anatel maintains a close relationship with the Ministry of Communications. Any regulation proposed by Anatel is subject to a period of public comment, which may include public hearings. Anatel s actions may be challenged in the Brazilian courts. On November 25, 1998, Anatel enacted Resolution 73 Regulation of Telecommunication Services, which regulates in detail the new comprehensive framework for the provision of telecommunications services in Brazil established by the General Telecommunications Law.

***Concessions and Authorizations***

Before January 2000, Anatel had only authorized two mobile service providers in each of the ten franchise areas under A Band and B Band. A Band and B Band mobile service providers were granted concessions pursuant to the *Lei Mínima*, or the Minimum Law. Each concession is a specific grant of authority to supply cellular telecommunications services, subject to certain requirements contained in the applicable list of obligations appended to each concession. If a mobile service provider wishes to offer any telecommunications service other than those authorized by its concession, it may apply to Anatel for an authorization to offer such other services.

In accordance with the General Telecommunications Law, a concession relates to the provision of telecommunication services under the public regime, as determined by the public administration. A concession may only be granted upon a prior auction bidding process. As a result, regulatory provisions are included in the relevant concession agreements and the concessionaire is subject to public service principles of continuity, changeability and equal treatment of customers. Also, Anatel is empowered to direct and control the performance of the services, to apply penalties and to declare the expiration of the concession and the return of assets of the concessionaire to the government authority upon termination of the concession. Another distinctive feature is the right of the concessionaire under the concession agreement to be able to maintain certain economic and financial standards. The concession is granted for a fixed period of time and is generally renewable only once.

An authorization is a permission granted by the public administration under the private regime, which may or may not be granted upon a prior auction bidding process, to the extent that the authorized party complies with the objective and subjective conditions deemed necessary for the rendering of the relevant type of telecommunication service in the private regime. The authorization is granted for an indeterminate period of time. Under the authorization, the government does not guarantee to the authorized company certain economic and financial standards, as was the case under the concessions.

***SMP Regulation***

In November 2000, Anatel adopted certain regulations for the issuance of new licenses, which are authorizations to provide wireless communication services through SMP, personal mobile service, to compete with the then existing cellular operators in the various regions of Brazil. These regulations divided Brazil into three main regions covering the same geographic areas as the concessions for the fixed-line telecommunication services. Anatel organized auctions for three new licenses for each of those regions. The new licenses provided that the new services would be operated in the 1,800 MHz radio frequency bands, and they were denominated C Band, D Band and E Band. These new licenses were auctioned by Anatel and awarded during the first quarter of 2001 and at the end of 2002.

Under these new licenses:

- services are to be provided using the 1,800 MHz frequency;
- each operator may provide domestic and international long distance services in its licensed area;
- existing cellular service providers, as long as they do not have partnerships with fixed-line operators, as well as new entrants into the Brazilian telecommunications market can bid for C Band, D Band and E Band licenses. However, fixed-line operators, their controlling shareholders and affiliated cellular providers can only bid for D Band and E Band licenses;
- a cellular or SMP operator, or its respective controlling shareholders, may not have geographical overlap between licenses; and
- current A Band and B Band cellular service providers can apply for an extra frequency range.

Pursuant to the SMP services regulation, each of the three main regions is divided into registration areas, or tariff areas.

In order to transfer our services to SMP, we were required to comply with several technical and operational conditions, including, among others, the adoption of a carrier selection code for long distance calls originating from our network.

Under the General Telecommunications Law, all mobile telecommunications service providers must provide interconnection upon the request of any other mobile or fixed-line telecommunications service provider. Until June 30, 2004, SMP service providers may opt to establish a price cap or freely negotiate their interconnection charges. Thereafter, the terms and conditions of the interconnection are freely negotiated between wireless and fixed-line operators, subject to compliance with regulations established by Anatel relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties. If a service provider offers any party an interconnection tariff below the price cap, it must offer the same tariff to any other requesting party on a nondiscriminatory basis. If the parties cannot reach an agreement on the terms of interconnection, including with respect to the interconnection tariff, Anatel will act as the final arbiter. Because Anatel considers us to be affiliated with Telefónica, which already provides wireline long distance services in the state of São Paulo and was awarded a license to provide these services nationwide, Anatel will not award a wireline long distance license to us. Though we and other mobile operators have requested that Anatel revise the current SMP regime, there can be no assurance it will do so. Under the SMP regime, we will receive revenues from interconnection fees paid to us by wireline long distance operators due to long distance traffic originating and terminating on our network.

The authorizations consist of two licenses one to provide mobile telecommunications services, and another to use the frequency spectrum for a period of 15 years. The frequency license is renewable for another 15-year period upon the payment of an additional license fee.

***Benefit of the SMP System***

According to the General Telecommunications Law and Decree No. 2056/96, control of the concessionaire can only be transferred after five years from the date of the privatization in the case of A Band concessionaires or the commencement of services in the case of B Band concessionaires. On the other hand, under the SMP system, the authorization or control of the authorized party can be transferred through merger of the relevant cellular mobile service provider, whether it is providing services under the A Band or the B Band.

***Obligations of Telecommunications Companies***

As a telecommunications service provider, we are subject to regulations concerning quality of service and network expansion, as established in our authorizations and our original concession agreements.

Any breach by the companies of telecommunications legislation or of any obligation set forth in their authorizations may result in a fine of up to R$50 million.

Telesp Celular s and Global Telecom s authorizations impose obligations to meet such quality of service standards as: the system s ability to make and receive calls, call failure rates, the network s capacity to handle peak periods, failed interconnection of calls and customer complaints. Anatel published the method for collecting these quality service standards data on April 23, 2003 (Anatel Resolution No. 335/03).

***Interconnection***

Under the General Telecommunications Law, telecommunications service providers are classified as providers of either collective or restricted services. All cellular operators, including SMP service providers, are classified by Anatel as collective service providers. All providers of collective services are required to provide interconnection upon request to any other collective service provider. The terms and conditions of interconnection are freely negotiated between parties, subject to price caps and other rules established by Anatel. Providers must enter into interconnection agreements, regarding, among other things, tariffs, commercial conditions and technical issues, with all requesting parties on a nondiscriminatory basis. If the parties cannot agree upon the terms and conditions of interconnection, Anatel may determine terms and conditions by arbitration.

Interconnection agreements must be approved by Anatel and may be rejected if they are contrary to the principles of free competition and the applicable regulations.

***Rate Regulation***

Our authorizations continue to provide for a price-cap mechanism to set and adjust rates on an annual basis. The cap is a maximum weighted average price for a package of services. The package consists of the services in our Basic Plan, including activation fees, monthly subscription fees, and certain roaming charges, which are charged for the use of mobile services under the SMP regime. The price cap is revised annually to reflect the rate of inflation as measured by the IGP-DI. However, mobile operators are able to freely set the rates for alternative service plans.

The initial price cap agreed to by Anatel and us in our authorizations had been based on the previously existing or bidding prices, and was adjusted annually on the basis of a formula contained in our authorizations. The price cap has been revised to reflect the rate of inflation as measured by the IGP-DI. The weighted average price for the entire package of services may not exceed the price cap, but the price for individual services within the package may be increased.

Other telecommunications companies that interconnect with and use our network must pay certain fees, primarily an interconnection fee. The interconnection fee is a flat fee charged per minute of use. The interconnection fee charged by us and other A and B Band service providers is still subject to a price cap stipulated by Anatel. The price cap for the interconnection fee varies from company to company, on the basis of the underlying cost characteristics of each company s network. B Band service providers are subject to price caps established during the auction process for their licenses.

***Internet and Related Services in Brazil***

In Brazil, Internet service providers, or ISPs, are deemed to be suppliers of value-added services and not telecommunications service providers. Anatel s Resolution 190 requires cable operators to act as carriers of third-party Internet service providers. The Brazilian House of Representatives is considering a law that would penalize Internet service providers for knowingly providing services that allow illegal goods or services to be sold on the Internet, and would impose confidentiality requirements on Internet service providers regarding nonpublic information transmitted or stored on their networks.

**C. Organizational Structure**

As of December 31, 2002, our voting shares were indirectly controlled by two major shareholders: Portugal Telecom and Telefónica Móviles, through Brasilcel N.V., with 93.7% of our voting stock, 49.8% of our preferred shares and 65.1% of our total capital stock.

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For a more detailed description of our ownership structure and the joint venture between Portugal Telecom and Telefónica Móviles, see Our History and Development.

**D. Property, Plant and Equipment**

Our principal physical property consists of transmission equipment, switching equipment and base stations. All switches, cell sites, administrative buildings, administrative facilities, warehouses and stores are insured against damages for policy operation risks.

At December 31, 2002, Telesp Celular had 48 cellular switches and other equipment installed in nine owned spaces and 29 shared spaces. Telesp Celular leases almost all of the sites in which its cellular telecommunications network equipment is installed. Its 2,920 permanent base stations were installed in 2,244 cell sites, administrative buildings, administrative facilities and warehouses, and the average term of these leases is five years. In addition, Telesp Celular leases administrative facilities (approximately 41,063 square meters), warehouse space (approximately 4,483 square meters) and 66 retail stores (1 of which is under construction) throughout its Region.

At December 31, 2002, Global Telecom had eight cellular switches and other equipment installed in five owned spaces. Global Telecom leases almost all of the sites in which its cellular telecommunications network equipment is installed. Its 633 permanent base stations and other network equipment were installed in 724 cell sites, and the average term of these leases is five years. In addition, Global Telecom has one administrative building (approximately 4,272 square meters) in which it has one store, and leases administrative facilities (approximately 3,547 square meters), one kiosk and 25 retail stores (one of which is under construction) throughout its Region.

**Item 5.** ***Operating and Financial Review and Prospects***

You should read the following discussion in conjunction with our consolidated financial statements and accompanying notes and other financial information included elsewhere in this annual report, and in conjunction with the financial information included under Item 3A. Selected Financial Data.

**Critical Accounting Policies**

The significant accounting policies that we believe are critical to aid in fully understanding and evaluating our reported financial position and results of operations reported under Brazilian Corporate Law are described in Note 3 to our consolidated financial statements. A description of the differences in accounting policies between Brazilian Corporate Law and U.S. GAAP is included in Note 37 to our consolidated financial statements. The accounting policies require us to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. The most important estimates include: (i) the valuation and useful lives of our permanent assets, including equipment, concession/authorization/license intangible assets, and goodwill on our investments; (ii) the allowance for doubtful accounts; (iii) realization of deferred tax assets; (iv) reserve for loss contingencies; and (v) the fair value of our financial instruments, including derivatives, as further explained below. While our revenue recognition policy does not require the exercise of significant judgment or the use of estimates, we believe that our policy is significant as revenue is a key component of our results of operations.

Depreciation on property, plant and equipment is calculated on a straight-line method of the estimated useful lives of the underlying assets, which consider historical information available to us, as well as known industry trends. The sensitivity of an impact in changes in the useful lives of property, plant and equipment was assessed by applying a hypothetical decrease of 10% to the useful lives of switching and transmission equipment existing at December 31, 2002. This hypothetical change would result in an incremental increase in the annual depreciation expense of R$81 million in the year of the change.

Realization of the deferred tax assets is dependent on our ability to generate future taxable income. Income and Social Contribution Taxes are calculated and recorded based on the tax rates in effect on the balance sheet date, on an accrual basis. The deferred taxes attributable to temporary differences,

tax losses and social contribution tax loss carryforwards of Telesp Celular are recorded as assets, based on the assumption of their future realization. The deferred tax assets of TCP and Global Telecom have not been recorded since their realization is not considered to be more likely than not. However, there can be no assurance that we will meet our expectations of future income. Management frequently evaluates the likelihood of realizing the deferred tax assets and assesses the need for valuation allowances. A future possible increase in our estimate of the valuation allowance would result in a reduction in net income in the period that the increase in valuation allowance is recorded.

We are subject to proceedings, lawsuits and other claims related to tax, labor and civil matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after careful analysis of each individual issue, based on legal advice. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters. Future possible changes in the recorded reserve amounts would impact our results of operations in the period that such changes are recorded.

With respect to financial instruments, we must make assumptions as to future foreign currency exchange and interest rates. For a discussion of the possible impact of fluctuations in the foreign currency exchange and interest rates on our principal financial instruments and positions, see Item 11 Quantitative and Qualitative Disclosures About Market Risk.

As of December 31, 2002, we have U.S.$12.9 million in off-balance sheet financing related to the leasing of network equipment. The expenses related to this financing are included as costs and amounted to R$26.7 million.

We have no majority-owned subsidiaries that are not included in our consolidated financial statements, nor do we have any interests in, or relationships with, any special purpose entities that are not reflected in our consolidated financial statements.

**U.S. GAAP Reconciliation**

We prepare our consolidated financial statements in accordance with the Brazilian corporate law method, which differs in significant respects from U.S. GAAP, as described in more detail in Note 37 to our consolidated financial statements. Net income (loss) for 2000, 2001 and 2002 was R$36.9 million, (R$1,204.1 million) and (R$1,495.7) million under U.S. GAAP, compared to a net income (loss) of R$152.2 million, (R$1,113.6) million and (R$1,140.8) million under the Brazilian corporate law method. Shareholders equity at December 31, 2001 and 2002 was R$2,430.9 million and R$3,307.3 million under U.S. GAAP, compared to R$2,742.6 million and R$4,010.0 million under the Brazilian corporate law method.

The principal differences between U.S. GAAP and the Brazilian corporate law method that affected our net income (loss) as well as our shareholders equity, relate to the accounting for purchase of Global Telecom the treatment of derivative instruments, the deferred tax effect of the U.S. GAAP adjustments, and the accounting for prepaid installment plan revenues.

See Note 37 to our audited consolidated financial statements for a description of the principal differences between the Brazilian corporate law method and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net income/loss and total shareholders equity. See Note 27 to the combined financial statements of Global Telecom Holdings for a description of the principal differences between Brazilian Corporate Law and U.S. GAAP as they relate to Global Telecom Holdings and a reconciliation to U.S. GAAP of its results of operations and total shareholders deficit.

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**New U.S. GAAP Accounting Pronouncements**

***SFAS No. 141 Business Combinations***

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), Business Combinations. SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board, or APB Opinion No. 16 (APB No. 16), Business Combinations and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations within the scope of SFAS No. 141 are to be accounted for using the purchase method. In addition, SFAS No. 141 requires that intangible assets be recognized as assets apart from goodwill if they meet two criteria: the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, SFAS No. 141 also provides a list of intangible assets that meet either one of these criteria. In addition to the disclosure requirements prescribed in APB No. 16, SFAS No. 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by a major caption on the balance sheet. SFAS No. 141 also requires that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. SFAS No. 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The adoption of SFAS No. 141 on January 1, 2002, did not have any impact on our financial position, cash flows or results of operations.

***SFAS No. 142 Goodwill and Other Intangible Assets***

In June 2001, FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. SFAS No. 142 also amends SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of, to exclude from its scope goodwill and intangible assets that are not amortized. SFAS No. 142 addresses the manner in which intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses the way that goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provision of SFAS No. 142 is required to be applied in fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued. An exception to the SFAS No. 142 application date is for goodwill and intangible assets acquired after June 30, 2001, which will be immediately subject to the non-amortization and amortization provisions of this statement. The adoption of SFAS No. 142 on January 1, 2002 did not have any impact on our financial position, cash flows or results of operations.

***SFAS No. 143 Accounting for Asset Retirement Obligations***

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations, (SFAS No. 143). SFAS No. 143 basically requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Under SFAS No. 143, the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS No. 143 will provide more information about asset retirement obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with earlier application encouraged. Based on an initial assessment of the provisions and requirements of

SFAS No. 143, our management believes that the implementation of this statement will not result in any impact on our financial position, cash flows or results of operations.

***SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets***

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) which supersedes Statement of Financial Accounting Standards No. 121 (SFAS No. 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of but retains SFAS No. 121 s fundamental provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30 (APB No. 30), Reporting the Results of Operations for segments of a business to be disposed of but retains APB No. 30 s requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those years. The adoption of SFAS No. 144 on January 1, 2002, did not have any impact on our financial position, cash flows or results of operations.

***SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 of SFAS 145***

In April 2002, the FASB issued Statements of Accounting Standards No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 ( SFAS No. 145 ). SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in ABP No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. We are currently evaluating the impact that the adoption of SFAS No. 145 will have on our results of operations, cash flows and financial position, but do not believe that the impact will be material.

***SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities***

In June 2002, the FASB issued Statement of Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) (EITF 94-3). SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity s commitment to an exit plan. SFAS No. 146 also states that an entity s commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. In addition, SFAS No. 146 establishes that fair value is the objective for initial measurement of the liability. The requirements of SFAS No. 146 apply prospectively to activities initiated after December 31, 2002, and, as such, we cannot reasonably estimate the impact that the adoption of these new rules will have until and unless they affect relevant activities in future periods.

***FIN No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others***

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN No. 45 ). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods ending after December 15, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Based on an initial assessment of the provisions and requirements of FIN No. 45, our management believes that the implementation of this statement will not result in any impact on our financial position, cash flows or results of operations.

***EITF 00-21 Revenue Arrangements with Multiple Deliverables***

At the September and October 2002 meetings of the Emerging Issues Task Force (EITF), the Task Force reached a tentative conclusion on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which outlines an approach to be used to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. Specifically, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if: (1) the delivered item(s) has value to the customer on a stand-alone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

The arrangement consideration allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

The guidance in EITF 00-21 is effective prospectively for revenue arrangements entered into for the fiscal years beginning after December 15, 2002. In the alternative, entities may elect to report the change in accounting as a cumulative-effect adjustment in accordance with APB Opinion No. 20, Accounting Changes. We are currently evaluating the impact of EITF 00-21 on our financial statements, specifically our treatment of revenue from handset sales under U.S. GAAP. We currently cannot reasonably estimate the impact that the adoption of the new rule would have on us.

**A. Operating Results**

In February 2001 and December 2002 we completed a series of transactions to acquire 100% of the ownership interests in Global Telecom Holdings, which owned 100% of the ownership interests in Global Telecom. See Item 4A. Our History and Development Global Telecom. Until December 27, 2002, we accounted for Global Telecom by the equity method, and we included our initial 83.0% equity in its net results on our income statement as equity in losses of unconsolidated subsidiaries. Beginning December 27, 2002, we are consolidating 100% of the results of Global Telecom. Except as otherwise specified, the following discussion does not reflect our investment in Global Telecom.

In 2002 and 2001, our results of operations were significantly impacted by our investment in Global Telecom Holdings. We recorded our equity in the losses of Global Telecom of R$890.7 million and R$653.6 million, respectively. In addition, we recognized additional losses on our investment in Global Telecom Holdings of R$170.9 million and R$278.8 million for the same periods.

Our investment in Global Telecom will continue to have a material effect on our financial condition and results because of three factors: (1) the indebtedness we incurred to make the investment; (2) our expectation

that Global Telecom (which began operations in December 1998) will continue to report net losses for an indeterminate period; and (3) we will consolidate 100% of such losses (as opposed to 83%) in 2003. Please see Results of Operations for 2001 and 2002 for Global Telecom Holdings below.

**Results of Operations for 2000, 2001 and 2002 for TCP**

***Net Operating Revenue***

Our operating revenue consists of the following:

usage charges, which include charges for outgoing calls, roaming and similar services, and revenues from the sale of airtime for prepaid services;

revenues from the sale of cellular handsets and accessories;

monthly subscription charges paid by our contract customers;

network usage charges, which are amounts we charge other cellular, fixed-line or long distance service providers for calls completed by our network; and

other charges, including charges for the transfer of cellular lines, call forwarding, call waiting, additional voicemail services and call blocking, SMS and WAP services.

The composition of our operating revenues has been affected by the shift toward prepaid services (which generate usage charges and interconnection charges but do not generate monthly subscription charges, and which have attracted lower income customers to our services) and more recently by our new strategic focus on profitability and selective customer growth. The shift from contract services to prepaid services was greatest in 2000. Our contract customer base stabilized in 2001. Net additions increased the number of contract customers by 4.2% to 1.426 million in 2002 and decreased by 14.7% to 1.369 million in 2001 from 1.604 million in 2000. Net additions increased the number of prepaid customers by 24.1% to 4.634 million in 2002 and by 38.4% to 3.735 million in 2001 from 2.698 million in 2000. Interconnection charges increased by 12.1% in February 2002 and 21.9% since February 2003. Anatel authorizes cellular operators to increase tariffs based upon the prior 12-month period s cumulative inflation, measured by the IGP variation from February to January of each year.

The composition of operating revenues by category of service is presented in our consolidated financial statements and discussed below before deduction of value-added and other taxes. We do not determine operating revenues on a net basis (i.e., after deduction of taxes) by category of service.

The following table sets forth the components of our net operating revenues for each of the years ended December 31, 2000, 2001 and 2002.

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000-2001 | 2001-2002 |
| | | (R$ million) | | (In percentages) | |
| Usage charges | 1,128.5 | 1,158.1 | 1,272.1 | 2.6 | 9.8 |
| Sales of handsets and accessories | 1,004.4 | 706.2 | 717.9 | (29.7) | 1.7 |
| Monthly subscription charges | 798.7 | 820.7 | 972.5 | 2.8 | 18.5 |
| Interconnection | 706.3 | 1,120.0 | 1,346.7 | 58.6 | 20.2 |
| Other | 44.5 | 36.2 | 43.0 | (18.7) | 18.8 |
| Total gross operating revenue | 3,682.4 | 3,841.2 | 4,352.2 | 4.3 | 13.3 |
| Value-added and other indirect taxes | (701.6) | (675.8) | (787.9) | (3.7) | 16.6 |
| Sales and services discount and return of goods sold | (214.1) | (219.2) | (173.7) | 2.4 | (20.8) |

| | | | | | |
|---|---|---|---|---|---|
| Net operating revenues | 2,766.7 | 2,946.2 | 3,390.6 | 6.5 | 15.1 |

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Net operating revenues increased by 15.1% to R$3,390.6 million in 2002, and by 6.5% to R$2,946.2 million in 2001 from R$2,766.7 million in 2000. The growth in net operating revenues over the three-year period was primarily due to the growth of our customer base and tariff increases. The growth in customers has primarily reflected an increase in prepaid customers. The decrease in average monthly revenue in 2001 was due to the increase in the participation of prepaid customers in the customer base, who generate lower average revenue per user than contract customers. Prepaid customers tend to be lower income customers or youngsters who select our prepaid service because it enables them to control and limit spending with the purchase of airtime prior to usage. Since the second quarter of 2001, we have been focusing more on profitability, and so we began targeting the corporate segment, high-income customers and the youth segment. Higher income and corporate customers tend to be contract customers and often use our ancillary services. Customers in the youth segment are generally prepaid customers but tend to be high volume users who also use our ancillary services. This approach has allowed us in 2002 to reverse the trend of decreasing contract customers and to improve average revenue per user in 2002.

*Usage charges.* Revenues from usage charges increased by 9.8% to R$1,272.1 million in 2002 and by 2.6% to R$1,158.1 million in 2001 from R$1,128.5 million in 2000. These increases were principally attributable to the growth in the customer base. Usage charges grew only slightly in 2001 as a result of the increase in the number of prepaid customers and the launch of our customer loyalty plans that provided free minutes of usage.

*Sales of handsets and accessories.* Revenues from sales of handsets and accessories increased by 1.7% to R$717.9 million in 2002 from R$706.2 million in 2001, which in turn represented a 29.7% decrease from R$1,004.4 million in 2000. Revenues from handset sales declined in 2001, as a result of a reduction in the number of handsets and accessories sold, as well as a decrease in handset prices. Revenues from handset sales grew in 2002 as a result of an increase in the number of handsets and accessories sold, in conjunction with an increase in prices. Revenues from handset sales are reported before commissions and promotional discounts, and include value-added taxes. In general, the purpose of handset sales is to encourage growth in customers and traffic, as opposed to generating profits on the sales, and we therefore subsidize varying portions of the costs of handsets. Although profit margins vary from one handset model to another and from time to time, on average profit margins are negative after taxes and discounts. In 2000 and 2001, the subsidy strategy resulted in a gross loss (calculated as the difference from net operating revenues from sales minus the cost of goods sold) of approximately R$16.4 million and R$113.1 million on handsets sales in 2000 and 2001, respectively. In 2002, we recorded a gross loss on handsets sales of approximately R$78.5 million, as a result of the lower subsidy strategy and lower handset costs.

*Monthly subscription charges.* Revenues from monthly subscription charges increased by 18.5% to R$972.5 million in 2002 from R$820.7 million in 2001, which in turn represented a 2.8% increase in 2001 from R$798.7 million in 2000. The increase in 2002 was due to the introduction of new monthly plans, which, together with the loyalty plans, attracted new contract customers, increasing our contract customer base by 4.2% to 1.426 million. In 2001, our contract customer base decreased by 14.7% to 1.369 million, from 1.604 million in 2000. The increase in monthly subscription revenue in 2001 was a result of the launch of our loyalty plans, which include free minutes of usage, but have higher monthly subscription charges.

*Interconnection charges.* Revenues from interconnection charges increased by 20.2% to R$1,346.7 million in 2002 and increased by 58.6% to R$1,120.0 million in 2001 from R$706.3 million in 2000. The increase in 2002 was due to the higher volume of incoming calls from outside our network due to the increase in our customer base as well as due to a rate increase in interconnection charges in 2002. The increase in 2001 was principally due to a higher volume of incoming calls from outside our network because of the increase in prepaid customers, which receive high numbers of incoming calls.

*Value-added and other indirect taxes.* Taxes on operating revenues were 19.1% of our gross operating revenues in 2000, 17.6% in 2001 and 18.1% in 2002. The principal tax is the ICMS, which is 25% on services and up to 18% on goods sold. ICMS is not payable with respect to interconnection charges. See Item 4B. Business Overview Taxes on Telecommunications Services and Handset Sales. Two federal social contribution taxes, the PIS and the COFINS, are imposed on gross revenues at a combined rate of 3.65%.

Beginning in 2001, all telecommunications service providers were required to contribute 1.0% to FUST and 0.5% to FUNTEL. The effective rate of taxes on gross operating revenues varies depending upon the composition of our revenues; as interconnection charges are not subject to ICMS, the increase in our interconnection charges as a result of the increased use of prepaid plans tends to reduce our effective tax rate.

*Sales and services discount and return of goods sold.* Deductions from operating revenues include discounts on cellular handset sales, discounts on services and returns of goods sold. Discounts and returns decreased by 20.8% in 2002 to R$173.7 million, compared to R$219.2 million in 2001, after an increase of 2.4% compared to R$214.1 million in 2000, due to discounts on services that were offered in 2000 and 2001 to encourage the migration of customers from our analog to our digital service.

***Cost of Services and Goods***

The following table sets forth the components of our costs of services and goods sold for 2000, 2001 and 2002.

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000-2001 | 2001-2002 |
| | | (R$ million) | | (In percentages) | |
| Depreciation and amortization | 510.5 | 519.8 | 564.1 | 1.8 | 8.5 |
| Materials and services | 395.5 | 457.0 | 422.9 | 15.5 | (7.5) |
| Personnel | 28.4 | 25.4 | 27.2 | (10.6) | 7.1 |
| Rental, insurance, condominium fees | 38.9 | 70.1 | 80.2 | 80.2 | 14.4 |
| Cost of goods sold | 666.6 | 580.6 | 548.9 | (12.9) | (5.5) |
| Fistel and other taxes | 49.3 | 3.5 | 5.1 | (92.9) | 45.7 |
| Cost of services and goods | 1,689.2 | 1,656.4 | 1,648.4 | (1.9) | (0.5) |

Cost of services and goods decreased by 0.5% in 2002 to R$1,648.4 million, from R$1,656.4 million in 2001, mainly as a result of the decrease in the cost of materials and services. The decrease in the cost of materials and services was, in turn, due principally to the renegotiation of rents for dedicated lines and base station sites with our fixed-line and long distance providers, which resulted in a decrease of R$40.6 million. A decrease in equipment maintenance costs also accounted for an additional decrease of R$13.9 million in the cost of materials and services. However, these decreases were partially offset by a R$20.5 million increase in interconnection charges of other operators. Tariff increases of the network usage charges of the other operators (TU-M) and the larger customer base increased the number of outgoing calls.

Cost of goods in 2002 decreased by R$31.7 million, mainly as a result of sharply lower cost of handsets, which was substantially offset by the devaluation of the *real*. Offsetting these declines was an 8.5% increase in depreciation and amortization from 2001 to 2002, resulting from the growth of our network. Our depreciation and amortization expenses in 2001 increased modestly to 1.8% because the effect of the expansion of our network in that year was largely offset by our re-evaluation of the expected life of our equipment, where, in many cases, we extended our assessment of useful life.

Cost of services and goods decreased by 1.9% in 2001 to R$1,656.4 million, from R$1,689.2 million in 2000, mainly as a result of decreased product costs due to a lower traded volume in 2001.

Gross margin, which is defined as gross profit as a percentage of net revenues, increased to 51.4% in 2002 from 43.8% in 2001, and from 38.9% in 2000.

***Operating Expenses***

The following table sets forth the components of our operating expenses for each of the years ended December 31, 2000, 2001 and 2002.

| | Year Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2000-2001 | 2001-2002 |
| | | (R$ million) | | (In percentages) | |
| Selling expenses | 554.2 | 605.0 | 617.9 | 9.2 | 2.1 |
| General and administrative expense | 217.9 | 271.2 | 288.5 | 24.5 | 6.4 |
| Other net operating expense (income) | (33.9) | 67.6 | 70.1 | 299.4 | |