

TELESP CELLULAR HOLDING CO /ADR/

Form 6-K

November 05, 2004

***Telesp Celular Participações S.A. and
Subsidiaries***

*Interim Financial Statements for the Nine-Month Period
Ended September 30, 2004 and Independent Auditors' Review
Report*

Deloitte Touche Tohmatsu Auditores Independentes

INDEPENDENT AUDITORS' REVIEW REPORT

To the Shareholders and Management of

Telesp Celular Participações S.A.

São Paulo - SP

1. We have conducted a special review of the interim financial statements of Telesp Celular Participações S.A. and subsidiaries for the nine-month period ended September 30, 2004, prepared under the responsibility of the Company's management, in conformity with accounting practices adopted in Brazil, which includes the balance sheets, individual and consolidated, the related statements of loss and the performance reports.
2. We conducted our review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, which consisted principally of: (a) inquiries of and discussions with persons responsible for the accounting, financial and operating areas as to the criteria adopted in preparing the interim financial statements, and (b) review of the information and subsequent events that had or might have had significant effects on the financial position and operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material modifications that should be made to the interim financial statements referred to in paragraph 1 for them to be in conformity with accounting practices adopted in Brazil and standards issued by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of mandatory interim financial statements.
4. We had previously reviewed the Company's individual and consolidated balance sheets as of June 30, 2004 and the individual and consolidated statements of loss for the nine-month period ended September 30, 2003, presented for comparative purposes, and our review reports thereon, dated July 22, 2004 and October 24, 2003, respectively, were unqualified.
5. The accompanying interim financial statements are an adaptation and a translation of the interim financial

statements originally issued in Portuguese and have been prepared into English for the convenience of readers outside Brazil.

São Paulo, October 27, 2004

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Domingos do Prado
Engagement Partner

TELESP CELULAR PARTICIPAÇÕES S.A.

BALANCE SHEETS

AS OF SEPTEMBER 30 AND JUNE 30, 2004

(In thousands of Brazilian reais)

A S S E T S

| | Company | | Consolidated | |
|---|-------------|-------------|--------------|-------------|
| | 09/30/2004 | 06/30/2004 | 09/30/2004 | 06/30/2004 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents..... | 76,482 | 1,661 | 1,508,846 | 1,099,469 |
| Trade accounts receivable, net..... | - | - | 1,335,327 | 1,343,085 |
| Inventories | - | - | 316,757 | 373,451 |
| Recoverable taxes..... | 52,852 | 56,306 | 531,456 | 391,891 |
| Deferred income tax..... | - | - | 338,633 | 488,577 |
| Derivatives..... | 466,149 | 569,198 | 468,839 | 577,353 |
| Prepaid expenses..... | 851 | 1,232 | 144,946 | 159,845 |
| Other current assets..... | 46,085 | 46,207 | 99,740 | 184,928 |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 642,419 | 674,604 | 4,744,544 | 4,618,599 |
| | ----- | ----- | ----- | ----- |
| NONCURRENT ASSETS: | | | | |
| Recoverable taxes..... | 191,956 | 184,624 | 174,872 | 274,991 |
| Deferred income tax..... | 419 | 419 | 1,032,746 | 968,980 |
| Derivatives..... | - | 11,504 | 442,521 | 517,626 |
| Prepaid expenses..... | 1,436 | 1,563 | 34,988 | 35,298 |
| Other noncurrent assets..... | 1,946 | 1,946 | 73,243 | 46,896 |
| | ----- | ----- | ----- | ----- |
| Total noncurrent assets..... | 195,757 | 200,056 | 1,758,370 | 1,843,791 |
| | ----- | ----- | ----- | ----- |
| PERMANENT ASSETS: | | | | |
| Investments..... | 7,267,066 | 7,248,799 | 1,645,158 | 1,695,536 |
| Property, plant and equipment, net..... | 640 | 731 | 5,379,797 | 5,204,561 |
| Deferred assets, net..... | - | - | 234,967 | 245,346 |

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| | | | | |
|------------------------------|-----------|-----------|------------|------------|
| Total permanent assets | 7,267,706 | 7,249,530 | 7,259,922 | 7,145,443 |
| Total assets..... | 8,105,882 | 8,124,190 | 13,762,836 | 13,607,833 |

The accompanying notes are an integral part of these consolidated financial statements.

TELESP CELULAR PARTICIPAÇÕES S.A.

BALANCE SHEETS

AS OF SEPTEMBER 30 AND JUNE 30, 2004

(In thousand of Brazilian reais)

LIABILITIES, SHAREHOLDERS' EQUITY AND FUNDS FOR CAPITALIZATION

| | Company | | Consolidated | |
|---|-------------|-------------|--------------|-------------|
| | 09/30/2004 | 06/30/2004 | 09/30/2004 | 06/30/2004 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| CURRENT LIABILITIES: | | | | |
| Payroll and related accruals..... | 964 | 574 | 78,063 | 60,032 |
| Trade accounts payable..... | 1,178 | 1,808 | 1,172,435 | 1,347,092 |
| Taxes payable..... | 381 | 7,360 | 274,617 | 261,831 |
| Loans and financing..... | 3,403,910 | 3,404,129 | 4,520,170 | 4,286,358 |
| Dividends and interest on shareholders' equity. | 4,552 | 4,551 | 104,689 | 104,562 |
| Reserve for contingencies..... | 57,825 | 56,192 | 121,879 | 114,540 |
| Derivatives..... | 234,950 | 46,762 | 271,215 | 314,192 |
| Other liabilities..... | 22,654 | 24,573 | 124,461 | 94,093 |
| Total current liabilities..... | 3,726,414 | 3,545,949 | 6,667,529 | 6,582,700 |
| NONCURRENT LIABILITIES: | | | | |
| Loans and financing..... | 1,176,699 | 1,266,751 | 2,116,277 | 2,068,963 |
| Reserve for contingencies..... | - | - | 204,779 | 196,130 |
| Taxes payable..... | - | - | 187,089 | 191,346 |
| Payables to affiliates..... | 16,904 | 16,833 | - | - |
| Derivatives..... | 48,057 | 3,919 | 78,453 | 6,780 |
| Other liabilities..... | - | - | 548 | 548 |
| Provision for pension plan..... | - | - | 3,224 | 3,212 |
| Total noncurrent liabilities..... | 1,241,660 | 1,287,503 | 2,590,370 | 2,466,979 |
| MINORITY INTEREST..... | - | - | 1,367,003 | 1,267,290 |
| SHAREHOLDERS' EQUITY: | | | | |
| Capital stock..... | 4,373,661 | 4,373,661 | 4,373,661 | 4,373,661 |
| Capital reserve..... | 1,089,879 | 1,089,879 | 1,089,879 | 1,089,879 |
| Accumulated deficit..... | (2,325,885) | (2,172,955) | (2,325,885) | (2,172,955) |
| Total shareholders' equity..... | 3,137,655 | 3,290,585 | 3,137,655 | 3,290,585 |

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| | | | | |
|---|-----------|-----------|------------|------------|
| Funds for capitalization..... | 153 | 153 | 279 | 279 |
| SHAREHOLDERS' EQUITY AND FUNDS FOR CAPITALIZATION | 3,137,808 | 3,290,738 | 3,137,934 | 3,290,864 |
| Total liabilities, shareholders' equity and funds for capitalization..... | 8,105,882 | 8,124,190 | 13,762,836 | 13,607,833 |

The accompanying notes are an integral part of these consolidated financial statements.

TELESP CELULAR PARTICIPAÇÕES S.A.

STATEMENTS OF LOSS FOR THE NINE-MONTH PERIODS ENDED

SEPTEMBER 30, 2004 AND 2003

(In thousands of Brazilian reais - except per share amounts)

| | Company | | Consolidated | |
|--|-------------|-------------|--------------|-------------|
| | 09/30/2004 | 09/30/2003 | 09/30/2004 | 09/30/2003 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| GROSS OPERATING REVENUE | | | | |
| Telecommunications services | - | - | 5,773,520 | 4,425,308 |
| Products sales | - | - | 1,346,040 | 992,976 |
| Deductions | - | - | (1,731,754) | (1,249,248) |
| NET OPERATING REVENUE | - | - | 5,387,806 | 4,169,036 |
| Cost of services provided | - | - | (1,178,297) | (1,338,220) |
| Cost of goods sold | - | - | (1,181,603) | (760,816) |
| GROSS PROFIT..... | - | - | 3,027,906 | 2,070,000 |
| OPERATING EXPENSES: | | | | |
| Selling expenses..... | - | - | (1,309,784) | (860,016) |
| General and administrative expenses..... | (6,024) | (15,424) | (522,101) | (392,871) |
| Other net operating expenses | (144,554) | (56,587) | (268,343) | (158,834) |
| Other net operating income..... | 728 | 5,378 | 130,110 | 110,238 |
| Equity in earnings..... | 400,434 | 43,706 | - | - |
| INCOME(LOSS) FROM OPERATIONS BEFORE FINANCIAL EXPENSES,NET..... | 250,584 | (22,927) | 1,057,788 | 768,517 |
| Financial expenses..... | (972,269) | (1,342,997) | (1,456,985) | (2,978,087) |
| Financial income..... | 462,689 | 903,191 | 705,632 | 2,135,070 |
| INCOME (LOSS) FROM OPERATIONS..... | (258,996) | (462,733) | 306,435 | (74,500) |
| Nonoperating income (expenses), net..... | 3,490 | (44) | 1,411 | (4,908) |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| INCOME (LOSS) BEFORE TAXES..... | (255,506) | (462,777) | 307,846 | (79,408) |
| Income and social contribution taxes..... | - | - | (293,968) | (228,426) |
| Minority interest..... | - | - | (269,384) | (154,943) |
| NET LOSS | (255,506) | (462,777) | (255,506) | (462,777) |
| Shares outstanding at September 30 (millions)..... | 1,171,784 | 1,171,784 | 1,171,784 | 1,171,784 |
| Loss per thousand shares outstanding at the balance sheet date (Brazilian reais)..... | (0,2180) | (1,0096) | (0.) | (0.) |

The accompanying notes are an integral part of these consolidated financial statements.

TELESP CELULAR PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2004

(In thousands of Brazilian reais)

| | Capital stock (unaudited) | Capital reserve (unaudited) | Accumulated Deficit (unaudited) | Total (unaudited) |
|--------------------------------------|------------------------------|--------------------------------|---------------------------------------|----------------------|
| BALANCES AT DECEMBER 31, 2003 | 4,373,661 | 1,089,879 | (2,070,379) | 3,393,161 |
| Net loss | - | - | (255,506) | (255,506) |
| BALANCES AT SEPTEMBER 30, 2004 | 4,373,661 | 1,089,879 | (2,325,885) | 3,137,655 |

The accompanying notes are an integral part of these consolidated financial statements.

TELESP CELULAR PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2004 AND 2003

(Amounts in thousands of Brazilian reais - R\$, unless otherwise indicated)

1. OPERATIONS

Telesp Celular Participações S.A. ("TCP" or the "Company") is a publicly-traded company which, as of September 30, 2004, is owned by Brasilcel N.V. (57.26% of total capital) and Portelcom Participações S.A. (7.86% of total capital), which is a wholly-owned subsidiary of Brasilcel N.V.

Brasilcel N.V. is jointly owned by Telefónica Móviles, S.A. (50% of total capital), PT Móveis, Serviços de Telecomunicações, SGPS, S.A. (49.999% of total capital), and Portugal Telecom, SGPS, S.A. (0.001% of total capital).

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"TCP" is the controlling shareholder of Telesp Celular S.A. ("TC"), Global Telecom S.A. ("GT"), and Tele Centro Oeste Celular Participações S.A ("TCO"), which render mobile telephone services in the States of São Paulo, Paraná and Santa Catarina and Federal District respectively, including activities that are necessary in the performance of such services, in accordance with authorizations granted.

The authorizations granted to TC, to GT and to TCO are in effect until August 5, 2008, April 8, 2013 and July 24, 2006, respectively, and are renewable once for a term of 15 years, through payment of charges equivalent to approximately 1% of the operators' annual revenue.

In addition, TCO is the controlling shareholder of the following operators:

| <u>Operator</u> | <u>"TCO"</u> <u>Shareholding %</u> | <u>Operation area</u> | <u>Authorization</u> <u>term</u> |
|---------------------------------|---------------------------------------|--|-------------------------------------|
| Telegoiás Celular S.A. | 100 | Goiás and Tocantins | 10/29/08 |
| Telemat Celular S.A. | 100 | Mato Grosso | 03/30/09 |
| Telems Celular S.A. | 100 | Mato Grosso do Sul | 09/28/09 |
| Teleron Celular S.A. | 100 | Rondônia | 07/21/09 |
| Teleacre Celular S.A. | 100 | Acre | 07/15/09 |
| Norte Brasil Telecom S.A. (NBT) | 100 | Amazonas, Roraima, Amapá, Pará and Maranhão | 11/29/13 |

TCO also owns TCO IP S.A. ("TCO IP"), which provided telecommunications services, Internet access, development of solutions and other services until 08/16/2004, when Act no. 45,941 of Anatel extinguished its authorization. Such extinction does not discharge TCO IP S.A. from its liabilities with third parties, including those liabilities with Anatel.

The operators implemented the Carrier Selection Code (CSP) on July 6, 2003, through which customers are able to select their long distance and international carriers in accordance with the rules of the Personal Mobile Service (SMP). Subsidiary operators no longer receive long distance and international revenues, and started to receive interconnection revenues for the use of their networks in these calls.

The businesses of the subsidiaries, including the services they provide, are regulated by the Federal regulatory authority, the National Telecommunications Agency ("ANATEL"), as authorized by Law No. 9,472, of July 16, 1997, and the respective regulations, decrees, decisions and plans.

2. PRESENTATION OF FINANCIAL STATEMENTS

In addition to Company balances and transactions, the consolidated financial statements include:

- As of September 30 and June 30, 2004, balances and transactions of the subsidiaries TC, GT and TCO and its subsidiaries, and of the indirect subsidiaries Telesp Celular International Ltd. and Telesp Celular Overseas.
- As of September 30, 2003, balances and transactions of the subsidiaries "TC", "GT" and "TCO" and its subsidiaries and the indirect subsidiaries Telesp Celular International Ltd. and Telesp Celular Overseas. The result of "TCO" and its subsidiaries comprises the period from May to September 2003.

In consolidation, all the above-listed intercompany balances and transactions have been eliminated.

The financial statements as of June 30, 2004 and September 30, 2003 have been reclassified, where applicable, for comparability purposes.

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

The interim financial statements ("ITRs") are expressed in thousands of Brazilian reais ("R\$") and have been prepared in accordance with accounting practices adopted in Brazil and standards established by the Brazilian Securities Commission ("CVM"), which do not provide for the recognition of inflation effects beginning January 1, 1996.

The accompanying interim financial statements (ITRs) have been prepared in accordance with principles, practices and criteria consistent with those used to prepare the financial statements presented at last year-end and should be analyzed together with those financial statements.

4. CASH AND CASH EQUIVALENTS

| | <u>Company</u> | | <u>Consolidated</u> | |
|---------------------------|-----------------|-----------------|---------------------|------------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Cash and banks | 671 | 1,661 | 257,466 | 55,232 |
| Temporary cash investment | <u>75.811</u> | = | <u>1,251,380</u> | <u>1,044,237</u> |
| Total | <u>76.482</u> | <u>1.661</u> | <u>1.508.846</u> | <u>1.099.469</u> |

Temporary cash investments refer principally to fixed-income investments, which are indexed to variations in the CDI (*Certificado de Depósitos Interbancários*, or Certificate of Interbank Deposits) rate.

5. TRADE ACCOUNTS RECEIVABLE, NET

| | <u>Consolidated</u> | |
|---|---------------------|------------------|
| | <u>09.30.04</u> | <u>06.30.04</u> |
| Unbilled amounts from services rendered | 190,925 | 186,788 |
| Billed amounts | 680,582 | 662,875 |
| Interconnection | 373,299 | 362,783 |
| Products sold | 243,506 | 284,253 |
| Allowance for doubtful accounts | <u>(152,985)</u> | <u>(153,614)</u> |
| Total | <u>1,335,327</u> | <u>1,343,085</u> |

Changes in the allowance for doubtful accounts are as follows:

| | <u>Consolidated</u> | |
|----------------------------------|---------------------|-------------|
| | <u>2004</u> | <u>2003</u> |
| Beginning balance | 135,841 | 120,135 |
| Additions in the first quarter | 33,645 | 6,906 |
| Write-offs for the first quarter | (27,891) | (19,977) |
| Balance as of March 31 | 141,595 | 107,064 |
| Additions in the second quarter | 33,106 | 29,719 |
| Write-offs for second quarter | (21,087) | (25,233) |
| Initial consolidation of TCO | - | 29,597 |
| Balance as of June 30 | 153,614 | 141,147 |
| Additions in the third quarter | 50,602 | 35,522 |
| Write-offs for the third quarter | (51,231) | (32,435) |

| | | |
|----------------------------|---------|---------|
| Balance as of September 30 | 152,985 | 144,234 |
| 6. INVENTORIES | | |

| | <u>Consolidated</u> | |
|--------------------------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> |
| Digital handsets | 335,878 | 392,238 |
| Accessories | 21,291 | 20,334 |
| (-) Allowance for obsolescence | <u>(40,412)</u> | <u>(39,121)</u> |
| Total | <u>316,757</u> | <u>373,451</u> |

7. DEFERRED AND RECOVERABLE TAXES

7.1 - Recoverable Taxes

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Prepaid income and social contribution taxes | 183,783 | 186,275 | 277,012 | 281,554 |
| Withholding Income Tax | 50,084 | 53,594 | 156,857 | 156,829 |
| Recoverable ICMS (State VAT) | - | - | 203,791 | 182,762 |
| Recoverable PIS (<i>Programa de Integração Social</i> , or Social Integration Program) and COFINS (<i>Contribuição Para Financiamento de Seguridade Social</i> , or Contribution for the Financing of Social Security) (taxes on revenue) and other | <u>10,941</u> | <u>1,061</u> | <u>56,052</u> | <u>31,688</u> |
| ICMS on deferred sales | = | = | <u>12,616</u> | <u>14,049</u> |
| Total recoverable taxes | <u>244,808</u> | <u>240,930</u> | <u>706,328</u> | <u>666,882</u> |
| Current | 52,852 | 56,306 | 531,456 | 391,891 |
| Long term | 191,956 | 184,624 | 174,872 | 274,991 |

Recoverable ICMS taxes represent the amount paid in the acquisition of equipment and inventories and may be offset against ICMS on telecommunications services. The noncurrent portion of these ICMS taxes are taxes paid on the purchase of property items, which by law are only available for offset over a period of 48 months.

7.2 - Deferred Taxes:

The main components of deferred income and social contribution tax assets are as follows:

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Merged tax credit (corporate restructuring) | - | - | 1,043,245 | 1,101,510 |
| Tax credits for: | | | | |
| Provision for obsolescence | - | - | 11,805 | 8,806 |
| Provision for contingencies | - | - | 75,705 | 66,430 |
| Allowance for doubtful accounts | - | - | 48,029 | 47,960 |

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| | | | | |
|--|------------|------------|------------------|------------------|
| Derivative transactions | - | - | 4,585 | 7,319 |
| Other | - | - | 27,862 | 71,681 |
| Tax loss carryforward and social contribution negative basis | | | | |
| | <u>419</u> | <u>419</u> | <u>160,148</u> | <u>153,851</u> |
| Total deferred taxes | <u>419</u> | <u>419</u> | <u>1,371,379</u> | <u>1,457,557</u> |
| Current | - | - | 338,633 | 488,577 |
| Long term | 419 | 419 | 1,032,746 | 968,980 |

Deferred taxes have been recorded based on the assumption of their future realization, as follows:

- a) Tax loss carryforward and negative basis - principally of the subsidiary TC, will be used to offset taxable income up to a limit of 30% per year of taxable income for each fiscal year. The subsidiary, based on projections of future results, estimates that its tax loss and negative basis will be fully used in two years.
- b) The merged tax credit - represented by the net balance of goodwill and the reserve for maintenance of integrity of shareholders' equity (Note 29) and is realized in proportion to the amortization of the goodwill in "TC" and in "TCO" and its subsidiaries, which will occur in 10 and 5 years, respectively. Outside consultants' studies used in the corporate restructuring process supported the tax credit recovery in these periods.
- c) Temporary differences - will be realized upon payment of the accruals, effective losses on bad debts and realization of inventories.

Technical feasibility studies, approved by the Board of Directors, indicate full recovery of the deferred taxes recognized as determined by CVM Resolution No. 371. Realization of the referred tax credits as of September 30, 2004 is estimated as follows:

| <u>Period</u> | <u>Company</u> | <u>Consolidated</u> |
|---------------------|----------------|---------------------|
| 2004 | - | 74,608 |
| 2005 | - | 401,599 |
| 2006 | 419 | 211,677 |
| 2007 | - | 210,765 |
| 2008 and thereafter | - | <u>472,730</u> |
| Total | <u>419</u> | <u>1,371,379</u> |

CVM Resolution No. 371 states that periodic studies must be carried out to support the maintenance of the amounts recorded. The Company and its subsidiaries GT and TCO IP did not recognize deferred income and social contribution taxes on tax losses and temporary differences, due to the lack of projections of taxable income to be generated in the short term.

8. PREPAID EXPENSES

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| FISTEL taxes | - | - | 121,012 | 144,769 |
| Financial charges | 2,284 | 2,790 | 4,005 | 4,367 |
| Advertising materials to be distributed | - | - | 23,748 | 24,920 |
| Insurance premiums | - | - | 1,904 | 2,787 |
| Rentals | - | - | 13,683 | - |

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| | | | | |
|-----------|--------------|--------------|----------------|----------------|
| Other | <u>3</u> | <u>5</u> | <u>15,582</u> | <u>18,300</u> |
| Total | <u>2,287</u> | <u>2,795</u> | <u>179,934</u> | <u>195,143</u> |
| Current | 851 | 1,232 | 144,946 | 159,845 |
| Long term | 1,436 | 1,563 | 34,988 | 35,298 |

9. OTHER ASSETS

| | <u>Company</u> | | <u>Consolidated</u> | |
|--------------------------------|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Subsidies on the sale of goods | - | - | 28,182 | 48,983 |
| Credits with suppliers | - | - | 30,675 | 41,151 |
| Judicial deposits | - | - | 54,594 | 29,656 |
| Advances to employees | 84 | 6 | 8,005 | 9,250 |
| Related party credit | 45,798 | 45,998 | 26,503 | 66,290 |
| Other assets | <u>2,149</u> | <u>2,149</u> | <u>25,024</u> | <u>36,494</u> |
| Total | <u>48,031</u> | <u>48,153</u> | <u>172,983</u> | <u>231,824</u> |
| Current | 46,085 | 46,207 | 99,740 | 184,928 |
| Long term | 1,946 | 1,946 | 73,243 | 46,896 |

10. INVESTMENTS

a) Investments in subsidiaries:

| <u>Subsidiary</u> | <u>Common stock</u> | <u>Preferred stock</u> | <u>Total</u> |
|--|---------------------|------------------------|--------------|
| Telesp Celular S.A. | 100% | - | 100% |
| Global Telecom S.A. | 100% | 100% | 100% |
| Tele Centro Oeste Celular Participações S.A. | 90.23% | - | 29.30% |

The participation in "TCO" is computed excluding treasury shares.

b) Number of shares held

| <u>Subsidiary</u> | <u>Thousands of shares</u> | | |
|--|----------------------------|------------------------|--------------|
| | <u>Common stock</u> | <u>Preferred stock</u> | <u>Total</u> |
| Telesp Celular S.A. | 83,155,768 | - | 83,155,768 |
| Global Telecom S.A. | 3,810 | 7,621 | 11,431 |
| Tele Centro Oeste Celular Participações S.A. | 111,583,150 | - | 111,583,150 |

c) Information on Subsidiaries

| <u>Subsidiary</u> | <u>Shareholders' equity at 9/30/04</u> | <u>Shareholders' equity at 6/30/04</u> | <u>Net income (loss) for the period ended 9/30/04</u> | <u>Net income (loss) for the period ended 9/30/03</u> |
|-------------------|--|--|---|---|
|-------------------|--|--|---|---|

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| | | | | |
|--|-----------|-----------|-----------|-------------|
| Telesp Celular S.A. | 3,505,521 | 3,449,675 | 439,970 | 374,382 |
| Global Telecom S.A. | 1,334,070 | 1,363,074 | (150,823) | (370,213) |
| Tele Centro Oeste Celular Participações S.A. | 2,444,125 | 2,303,000 | 377,460 | 191,095 (a) |

(a) Refers to net income from May to September 2003.

d) Components and changes

The Company's investments include interests in the equity of the direct subsidiaries, goodwill, advances for future capital increase, reserve for investment losses and other investments, as shown below:

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|------------------|------------------|---------------------|------------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Investments in subsidiaries | 5,206,335 | 5,138,191 | - | - |
| Goodwill paid on investment acquisitions, net | 1,993,095 | 2,043,083 | 2,094,479 | 2,144,857 |
| Advance for future capital increase | 517,148 | 517,037 | - | - |
| Reserve for investment losses (a) | (449,615) | (449,615) | (449,615) | (449,615) |
| Other investments | <u>103</u> | <u>103</u> | <u>294</u> | <u>294</u> |
| Investment balance | <u>7,267,066</u> | <u>7,248,799</u> | <u>1,645,158</u> | <u>1,695,536</u> |

(a) Reserves for investment losses were recorded due to GT's accumulated deficit and indebtedness.

Changes in investment balances as of 09.30.04 and 06.30.04 are as follows:

| | <u>Company</u> | |
|---|-----------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> |
| Beginning balance | 7,248,799 | 6,979,108 |
| Equity in earnings | 68,140 | 171,695 |
| Interest on shareholders' equity and dividends received | - | (351,770) |
| Goodwill paid on investment acquisitions | (11) | 13 |
| Amortization of goodwill on investment acquisitions | (49,976) | (48,091) |
| Advance for future capital increase | - | 496,207 |
| Investments in subsidiaries | - | 10 |
| Gain on changes in ownership percentage | 3 | 1,281 |
| Expired dividends and interest on shareholders' equity (subsidiary) | - | 728 |
| Loss in goodwill reserve participation | 111 | (382) |
| Ending balance of investments | 7,267,066 | 7,248,799 |

The goodwill paid on the acquisition of GT, in the amount of R\$1,077,020, will be amortized over ten years based on expectations of future profitability, to commence when profitable operations commence, which is expected to occur in 2005.

TC has investments in Telesp Celular International Ltd. and Telesp Celular Overseas, companies located abroad for the purpose of obtaining funding through foreign loans.

On May 31, 2004, the tax benefit related to goodwill paid in the acquisition of TCO was transferred to TCO and its subsidiaries. Accordingly, the total amount of R\$511,061 was transferred to advances for future capital increase, since

new shares will be issued in favor of TCP when this tax credit is realized by TCO and its subsidiaries. The total remaining goodwill in the total amount of R\$992,059 is based on expectation of future profitability and will be amortized over 5 years.

On March 30, 2004, TCP increased its investment in TCO using part of the advance for future capital increase. The participation of minority shareholders in this capital increase resulted in a reimbursement of R\$1,132 for TCP.

11. PROPERTY, PLANT AND EQUIPMENT

| | Annual rate - % | Cost | Consolidated | | 06.30.04 Net book value |
|-------------------------------|--------------------|-------------------|---|-------------------|-------------------------------|
| | | | 09.30.04 Accumulated depreciation | Net book value | |
| Transmission equipment | 4 to 20 | 4,148,061 | 2,575,083 | 1,572,978 | 1,555,733 |
| Switching equipment | 10 to 16.67 | 1,594,633 | 765,728 | 828,905 | 736,137 |
| Infrastructure | 2.86 to 20 | 1,272,399 | 512,388 | 760,011 | 747,889 |
| Land | - | 48,253 | - | 48,253 | 48,303 |
| Software use rights | 20 | 1,097,650 | 615,403 | 482,247 | 473,795 |
| Buildings | 2.86 to 4 | 168,021 | 33,645 | 134,376 | 134,197 |
| Terminal equipment | 50 to 66.67 | 320,453 | 213,041 | 107,412 | 81,684 |
| Concession license | 6.67 | 976,477 | 417,667 | 558,810 | 575,170 |
| Other assets | 4 to 20 | 377,598 | 206,458 | 171,140 | 161,306 |
| Construction work in progress | - | <u>715,665</u> | = | <u>715,665</u> | <u>690,347</u> |
| Total | | <u>10,719,210</u> | <u>5,339,413</u> | <u>5,379,797</u> | <u>5,204,561</u> |

During the nine-month period ended September 30, 2004, the Company capitalized financial expenses incurred on loans to finance construction in progress in the amount of R\$4,693 (R\$1,410 in the same period of 2003).

12. DEFERRED CHARGES

| | Annual amortization rate - % | Consolidated | |
|-------------------------------------|------------------------------------|------------------|------------------|
| | | 09.30.04 | 06.30.04 |
| Pre-operating expenses: | | | |
| Amortization of licenses | 10 | 80,496 | 80,496 |
| Financial expenses | 10 | 201,131 | 201,131 |
| General and administrative expenses | 10 | <u>71,624</u> | <u>71,624</u> |
| | | <u>353,251</u> | <u>353,251</u> |
| Goodwill - Ceterp Celular S.A. | 10 | 84,265 | 84,265 |
| Exclusivity rights | (a) | 13,681 | 12,435 |
| Other | | 154 | - |
| | | <u>98,100</u> | <u>96,700</u> |
| Total | | <u>451,351</u> | <u>449,951</u> |
| Accumulated amortization: | | | |
| Pre-operating | | (177,090) | (168,036) |
| Goodwill - Ceterp Celular S.A. | | (32,301) | (30,195) |
| Exclusivity rights | | (6,993) | (6,374) |
| | | <u>(216,384)</u> | <u>(204,605)</u> |

| | | |
|-------|----------------|----------------|
| Total | <u>234,967</u> | <u>245,346</u> |
|-------|----------------|----------------|

(a) Amortization calculated in accordance with contractual terms.

13. SUPPLIERS AND TRADE ACCOUNTS PAYABLE

| | <u>Company</u> | | <u>Consolidated</u> | |
|-------------------------------------|-----------------|-----------------|---------------------|------------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Suppliers | 1,146 | 1,686 | 811,528 | 982,613 |
| Interconnection | - | - | 29,525 | 111,993 |
| Amounts to be transferred - SMP (a) | - | - | 233,028 | 180,844 |
| Technical assistance (See note 30) | - | - | 81,469 | 50,930 |
| Other | <u>32</u> | <u>122</u> | <u>16,885</u> | <u>20,712</u> |
| Total | <u>1,178</u> | <u>1,808</u> | <u>1,172,435</u> | <u>1,347,092</u> |

(a) Refers to long-distance services (VC2 and VC3 calls) to be passed on to the operators due to the change to the Personal Mobile Service (SMP) system (Note 1).

14. TAXES PAYABLE

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| State VAT - ICMS | - | - | 332,142 | 325,324 |
| Income and social contribution taxes | - | - | 31,503 | 51,638 |
| Taxes on revenue (PIS and COFINS) | - | 6,067 | 60,482 | 49,734 |
| FISTEL | - | - | 6,985 | 9,324 |
| FUST and FUNTTEL | - | - | 3,962 | 3,527 |
| Other taxes, charges and contributions | <u>381</u> | <u>1,293</u> | <u>26,632</u> | <u>13,630</u> |
| Total | <u>381</u> | <u>7,360</u> | <u>461,706</u> | <u>453,177</u> |
| Current | 381 | 7,360 | 274,617 | 261,831 |
| Long term | - | - | 187,089 | 191,346 |

Of the long-term portion, R\$169.024 refers to the "ICMS - Programa Paraná Mais Emprego", an agreement made with the Paraná State Government for deferral of ICMS payments. This agreement defers the ICMS payment until the 49th month after the original due date, among other benefits.

15. LOANS AND FINANCING

a) Composition of debt

| <u>Description</u> | <u>Currency</u> | <u>Rates</u> | <u>Maturity date</u> | <u>Company</u> | | <u>Consolidated</u> | |
|-------------------------|-----------------|-------------------------|-----------------------------|----------------|----------------|---------------------|----------------|
| | | | | <u>9/30/04</u> | <u>6/30/04</u> | <u>9/30/04</u> | <u>6/30/04</u> |
| Financial institutions: | | | | | | | |
| Teleproduriz (b) | R\$ | 0.2% p.a. | 9/30/2012 | - | - | 15,159 | 14,092 |
| Compror | US\$ | 0.3% p.a. a 4.9% p.a. | 11/12/2004 to 12/20/2005 | - | - | 181,189 | 173,203 |
| Resolution 2770 | US\$ | 0.5% p.a. a 11.55% p.a. | 12/20/2004 to 4/18/2007 | 1,664,321 | 1,572,920 | 1,882,830 | 1,653,192 |
| Resolution 2770 | ¥ | 1.4% p.a. | 9/19/2005 | - | - | 100,193 | - |

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| | | | | | | | |
|---|-------|-----------------------------------|--------------------------|------------------|------------------|------------------|------------------|
| Resolution 63 | ¥ | 1.3% p.a. a 1.4% p.a. | 2/24/2005 to 8/12/2005 | 348,379 | 383,169 | 348,379 | 383,169 |
| Floating Rate Notes | US\$ | 6.75% p.a. | 12/22/2004 | 428,790 | 466,125 | 428,790 | 466,125 |
| BNDES | R\$ | TJLP + 3.5% p.a. to 3.6% p.a. (a) | 12/15/2005 to 6/15/2011 | - | - | 535,884 | 534,582 |
| BNDES | UMBND | UMBND + 3.5% p.a. a 3.6% p.a. | 10/15/2007 to 7/15/2011 | - | - | 75,739 | 73,572 |
| Extension of settlement of offshore options | US\$ | Libor + 1% p.a. | 10/15/2004 | - | - | 186,080 | - |
| Debentures | R\$ | 104.6% of CDI | 1/08/2008 | 500,000 | 500,000 | 500,000 | 500,000 |
| Export Development Canada-EDC | US\$ | Libor + 3.9% p.a. to 5.0% p.a. | 11/22/2005 to 12/14/2006 | - | - | 100,511 | 109,263 |
| NEC do Brasil | US\$ | 7.3% p.a. | 11/29/2005 | - | - | 11,618 | 12,630 |
| Other | R\$ | Coluna 27FGV | 10/31/2008 | - | - | 1,623 | 1,793 |
| Commercial Paper | US\$ | Libor + 5% p.a. | 7/29/2005 | - | - | 343,033 | 372,900 |
| Floating Rate Notes | € | 7% p.a. + Euribor | 11/29/2004 | 1,480,016 | 1,579,003 | 1,480,016 | 1,579,003 |
| Commercial Paper | US\$ | 13.25% p.a. | 9/27/2007 to 12/30/2007 | - | - | 257,274 | 279,675 |
| Investment acquisition - TCO | R\$ | 110% of CDI | | 53,484 | 56,821 | 53,484 | 56,821 |
| Interest | | | | <u>105,619</u> | <u>112,842</u> | <u>134,645</u> | <u>145,301</u> |
| Total | | | | <u>4,580,609</u> | <u>4,670,880</u> | <u>6,636,447</u> | <u>6,355,321</u> |
| Current | | | | 3,403,910 | 3,404,129 | 4,520,170 | 4,286,358 |
| Long term | | | | 1,176,699 | 1,266,751 | 2,116,277 | 2,068,963 |

TJLP - Brazilian long-term interest rate.

UMBND - BNDES monetary unit based on the average cost of the currency basket of the National Bank for Economic and Social Development (BNDES). The currency basket is based on BNDES's debt obligations in foreign currency.

CDI -Interbank interest rate.

(a) In case the long-term interest rate (TJLP) exceeds 10% per year, the spread will be 6% per year.

(b) Relates to deferred payments of ICMS under the "Teleprodurizir Program", arising from an agreement made with the Goiás State Government. Pursuant to this agreement, the ICMS will be paid in 84 monthly installments, with a grace period of 12 months from the end date of utilization of the benefit, estimated for October 2004.

Loans and financing were obtained to finance the expansion and modernization of cellular telephone network, acquisitions of fixed asset and working capital.

b) Payment schedule

At September 30, 2004, the long-term portion of loans and financing matures as follows:

| | <u>09.30.04</u> | |
|-------|------------------|---------------------|
| | <u>Company</u> | <u>Consolidated</u> |
| 2005 | 112,137 | 383,709 |
| 2006 | 345,069 | 591,014 |
| 2007 | 219,493 | 580,784 |
| 2008 | 500,000 | 518,989 |
| 2009 | - | 15,541 |
| 2010 | - | 15,541 |
| 2011 | = | <u>10,699</u> |
| Total | <u>1,176,699</u> | <u>2,116,277</u> |

c) Restrictive covenants

GT has a loan from the National Bank for Economic and Social Development (BNDES), the balance of which at September 30, 2004 was R\$279,543. As of that date, GT was in compliance with the various financial ratios reflected in the contract.

TCO has loans from BNDES and Export Development Canada (EDC), the balances of which at September 30, 2004 was R\$150.564 and R\$100.511, respectively. As of that date, TCO was in compliance with the various financial ratios reflected in the contracts.

d) Hedges

As of September 30, 2004, the Company and its subsidiaries held hedge contracts in the notional amounts of US\$1,331,341 thousand, ¥17,405,025 thousand and €404,721 thousand to cover all liabilities denominated in foreign currencies. As of September 30, 2004, the Company and its subsidiaries recognized accumulated net temporary gains of R\$561,692 (gain of R\$774,007 at June 30, 2004) on these derivative instruments, represented by a balance of R\$911,360 (R\$1,094,979 at June 30, 2004) in assets, of which R\$468,839 (R\$577,353 at June 30, 2004) was current assets and R\$442,521 (R\$517,626 at June 30, 2004) was non-current assets, and current liability balance of R\$271,215 (R\$314,192 at June 30, 2004) and long-term liability of R\$78,453 (R\$6,780 at June 30, 2004).

e) Guarantees

Loans and financing of TC in local currency amounting to R\$181,516 are guaranteed by accounts receivable.

Loans and financing of GT in local currency amounting to R\$279,543 are guaranteed by pledges of accounts receivable, of which up to 140% of the monthly installments may be held by the bank, and also by TC's guarantee.

TCO's guarantees are as follows:

| <u>Banks</u> | <u>Loans as of September</u> | <u>Guarantees</u> |
|---------------------|----------------------------------|---|
| BNDES TCO Operators | R\$15,554 | In the event of default, 15% of receivables and bank certificates of deposit ("CDBs") in the amount of the next installment payable are pledged. |
| BNDES NBT | R\$135,842 | In the event of default, 100% of receivables and CDBs equivalent to the amount of the next installment payable during the first year of the contract and two installments payable in the remaining years are pledged. |

16. OTHER LIABILITIES

| | <u>Company</u> | | <u>Consolidated</u> | |
|-------------------|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Pre-paid services | - | - | 83,100 | 49,403 |

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| | | | | |
|--|---------------|---------------|----------------|---------------|
| Accrual for customer loyalty program (a) | - | - | 11,944 | 9,857 |
| Other liabilities with related parties | 39,494 | 41,406 | 24,634 | 32,772 |
| Other | <u>64</u> | = | <u>5,331</u> | <u>2,609</u> |
| Total | <u>39,558</u> | <u>41,406</u> | <u>125,009</u> | <u>94,641</u> |

| | | | | |
|-----------|--------|--------|---------|--------|
| Current | 22,654 | 24,573 | 124,461 | 94,093 |
| Long term | 16,904 | 16,833 | 548 | 548 |

(a) TC, GT and TCO have customer loyalty programs whereby the customer makes calls and earns points redeemable for handsets. Accumulated points are accrued when granted, considering historical redemption data, points generated and the average cost of a point. The accrual is reduced when points are redeemed by customers.

17. 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 .

Components of the reserves are as follows:

| | <u>Company</u> | | <u>Consolidated</u> | |
|----------------|-----------------|-----------------|---------------------|-----------------|
| | <u>09.30.04</u> | <u>06.30.04</u> | <u>09.30.04</u> | <u>06.30.04</u> |
| Labor | - | - | 17,162 | 17,004 |
| Tax | 57,825 | 56,192 | 162,540 | 156,743 |
| Civil | - | - | 37,663 | 32,589 |
| TELEBRÁS - TCO | = | = | <u>109,293</u> | <u>104,334</u> |
| Total | <u>57,825</u> | <u>56,192</u> | <u>326,658</u> | <u>310,670</u> |
| Current | 57,825 | 56,192 | 121,879 | 114,540 |
| Long term | - | - | 204,779 | 196,130 |

Changes in the reserves for contingencies for the nine-month period ended September 30, 2004 are as follows:

| | <u>Consolidated</u> |
|---|---------------------|
| | <u>2004</u> |
| Beginning balance | 279,625 |
| Additions to reserves, net of reversals | 26,787 |
| Monetary restatement | 24,700 |
| Payments, net of reclassifications | <u>(4,454)</u> |
| Total | <u>326,658</u> |

17.1. Tax

17.1.1. Probable Loss

During the third quarter, no new material tax lawsuit arose for which the likelihood of an adverse outcome is classified as probable. The changes in the reserve for contingencies corresponds to the monetary restatement of the reserves for the period.

17.1.2. Possible Losses

During the third quarter, no new material tax lawsuit arose for which the likelihood of an adverse outcome is classified as possible. There was no material change in claims with respect to the last fiscal period.

17.2. TELEBRÁS - TCO

During this quarter, the changes in this reserve correspond to monetary restatement of this liability.

17.3. Labor and Civil

Include several labor and civil claims, for which a reserve has been recognized as shown above, in an amount considered to be sufficient to cover probable losses. During the third quarter, there was an increase in the number of civil and labor lawsuits of the same nature from previous periods in the amount of R\$5,232.

In the cases in which the chance of loss is classified as possible, the amount involved is of R\$30,449 for civil lawsuits and of R\$29,040 for labor lawsuits.

18. LEASES

TC and TCO have commercial lease agreements. Expenses recorded up to September 2004 were R\$17,001 (R\$22,931 for the same period in 2003). The outstanding obligation under such agreements, adjusted at the exchange rate prevailing at September 30, 2004, is R\$1,200 (R\$2,201 at June 30, 2004). This balance will be paid in monthly, bimonthly and quarterly installments through June 2005.

19. SHAREHOLDERS' EQUITY

a) Capital

As of September 30 and June 30, 2004, capital is represented by shares without par value, as follows:

| | <u>Thousands of shares</u> |
|------------------|-----------------------------|
| Common shares | 409,383,864 |
| Preferred shares | <u>762,400,488</u> |
| Total | <u>1,171,784,352</u> |
| b) Dividends | |

Preferred shares do not have voting rights, except in the circumstances set forth in articles 9 and 10 of the bylaws. They have priority in the redemption of capital, without premium, are entitled to participate in dividends that are distributed, in the amount of at least 25% of net income for the year, calculated in accordance with Article 202 of corporate law, and have priority in the payment of these minimum non-cumulative dividends based on the greater of the following: (a) 6% of the amount obtained by dividing the subscribed capital by the total number of shares of the Company and (b) 3% of the amount obtained by dividing shareholders' equity by the total number of shares of the Company. The preferred shares also are entitled to receive dividends equivalent to those paid to holders of common shares after common shareholders have received dividends in the same amount as the minimum priority dividend payment made to the preferred shares .

Since the Shareholders' Meeting of March 27, 2004, the preferred shares have voting rights due to the fact that there was no payment of minimum dividends for the past three consecutive fiscal years (Art. 111, paragraph 1o., of Law No. 6,404/76).

Total

c) Special goodwill reserve

This reserve resulted from the corporate restructuring implemented by the Company and will be capitalized in favor of the controlling shareholder when the tax benefit is effectively realized.

20. NET OPERATING REVENUE

| | <u>Consolidated</u> | |
|---|---------------------|------------------|
| | <u>9/30/04</u> | <u>9/30/03</u> |
| Monthly subscription charges | 192,271 | 180,580 |
| Usage charges | 2,860,147 | 2,235,098 |
| Additional call charges | 84,358 | 46,651 |
| Interconnection charges | 2,331,904 | 1,765,632 |
| Data revenues | 141,360 | 5,925 |
| Other services | <u>163,480</u> | <u>191,422</u> |
| Total gross revenue from services | 5,773,520 | 4,425,308 |
| Value-added tax on sales and services - ICMS | (864,053) | (620,182) |
| PIS/ COFINS | (209,116) | (157,488) |
| Service tax -ISS | (1,802) | (470) |
| Discounts granted | <u>(129,870)</u> | <u>(118,634)</u> |
| Net operating revenues from services | <u>4,568,679</u> | <u>3,528,534</u> |
| Sales of handsets and accessories | 1,346,040 | 992,976 |
| Value-added tax on sales and services - ICMS | (129,022) | (98,704) |
| PIS/ COFINS | (92,632) | (36,263) |
| Discounts granted | (62,171) | (176,879) |
| Return of goods sold | <u>(243,088)</u> | <u>(40,628)</u> |
| Net operating revenues from sales of handsets and accessories | <u>819,127</u> | <u>640,502</u> |
| Total net operating revenues (services + sales of handsets and accessories) | <u>5,387,806</u> | <u>4,169,036</u> |

21. COST OF SERVICES PROVIDED AND PRODUCTS SOLD

| | <u>Consolidated</u> | |
|--|---------------------|----------------|
| | <u>9/30/04</u> | <u>9/30/03</u> |
| Personnel | 42,843 | 32,978 |
| Materials | 5,119 | 8,771 |
| Outside services | 130,624 | 128,585 |
| Connections | 89,225 | 78,885 |
| Rental, insurance and condominium fees | 69,753 | 66,504 |
| Interconnection | 155,902 | 246,742 |
| Fistel and other taxes | 139,745 | 134,413 |
| Depreciation and amortization | 538,217 | 641,310 |
| Cost of goods sold | 1,181,603 | 760,816 |
| Other | <u>6,869</u> | <u>32</u> |

Total

| | | |
|-------|------------------|------------------|
| Total | <u>2,359,900</u> | <u>2,099,036</u> |
|-------|------------------|------------------|

22. SELLING EXPENSES

| | <u>Consolidated</u> | |
|--|-------------------------|-----------------------|
| | <u>9/30/04</u> | <u>9/30/03</u> |
| Personnel | 135,361 | 98,712 |
| Materials | 23,195 | 10,584 |
| Outside services (a) | 856,095 | 489,079 |
| Rental, insurance and condominium fees | 26,263 | 21,879 |
| Taxes and contributions | 1,225 | 477 |
| Depreciation and amortization | 109,175 | 81,469 |
| Allowance for doubtful accounts | 117,353 | 72,150 |
| Other | <u>41,117</u> | <u>85,666</u> |
| Total | <u>1,309,784</u> | <u>860,016</u> |

(a) Outsides services include advertising costs of R\$226,225 (R\$139,296 at September 30, 2003).

23. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|---------------------|----------------------|-----------------------|-----------------------|
| | <u>9/30/04</u> | <u>9/30/03</u> | <u>9/30/04</u> | <u>9/30/03</u> |
| Personnel | 3,085 | 3,772 | 103,122 | 76,149 |
| Materials | 10 | 21 | 4,886 | 4,097 |
| Outside services | 2,524 | 10,961 | 272,247 | 199,848 |
| Rental, insurance and condominium fees | 88 | 77 | 32,362 | 27,270 |
| Taxes and contributions | 227 | 379 | 9,445 | 3,704 |
| Depreciation and amortization | 69 | 35 | 96,601 | 75,047 |
| Other | <u>21</u> | <u>179</u> | <u>3,438</u> | <u>6,756</u> |
| Total | <u>6,024</u> | <u>15,424</u> | <u>522,101</u> | <u>392,871</u> |

24. OTHER OPERATING REVENUES (EXPENSES), NET

| | <u>Company</u> | | <u>Consolidated</u> | |
|------------------------|-------------------|---------------------|-----------------------|-----------------------|
| | <u>9/30/04</u> | <u>9/30/03</u> | <u>9/30/04</u> | <u>9/30/03</u> |
| Revenues: | | | | |
| Fines | - | - | 55,211 | 24,468 |
| Recovered expenses | - | 1,422 | 20,580 | 2,494 |
| Reversal of provisions | - | - | 3,812 | 74,893 |
| Shared infrastructure | - | - | 7,755 | - |
| Other | <u>728</u> | <u>3,956</u> | <u>42,752</u> | <u>8,383</u> |
| Total revenues | <u>728</u> | <u>5,378</u> | <u>130,110</u> | <u>110,238</u> |
| Expenses: | | | | |
| Contingency reserve | (2,002) | - | (28,580) | (26,483) |
| Goodwill amortization | (141,833) | (56,380) | (149,324) | (63,350) |

Total

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| | | | | |
|----------------------------------|-----------|----------|-----------|-----------|
| FUST | - | - | (21,918) | (17,843) |
| FUNTTTEL | - | - | (10,838) | (8,922) |
| ICMS on other expenses | - | - | (1,167) | (4,758) |
| PIS and COFINS on other revenues | (65) | - | (13,863) | (3,168) |
| Amortization of deferred charges | - | - | (25,554) | (23,747) |
| Other | (654) | (207) | (17,099) | (10,563) |
| Total expenses | (144,554) | (56,587) | (268,343) | (158,834) |
| Total | (143,826) | (51,209) | (138,233) | (48,596) |

25. FINANCIAL INCOME (EXPENSES), NET

| | <u>Company</u> | | <u>Consolidated</u> | |
|--------------------------------------|------------------|--------------------|---------------------|--------------------|
| | <u>9/30/04</u> | <u>9/30/03</u> | <u>9/30/04</u> | <u>9/30/03</u> |
| Income: | | | | |
| Income from financial transactions | 63,662 | 125,222 | 210,392 | 208,285 |
| Monetary/exchange variations | 448,454 | 784,737 | 570,258 | 1,935,597 |
| PIS and COFINS on financial revenues | (49,427) | (6,768) | (75,018) | (8,812) |
| Total | <u>462,689</u> | <u>903,191</u> | <u>705,632</u> | <u>2,135,070</u> |
| Expenses: | | | | |
| Financial transactions | (276,519) | (384,995) | (478,784) | (638,497) |
| Monetary/exchange variations | (372,841) | (780,562) | (501,747) | (1,923,482) |
| Derivative operations, net | (322,909) | (177,440) | (476,454) | (416,108) |
| Total | <u>(972,269)</u> | <u>(1,342,997)</u> | <u>(1,456,985)</u> | <u>(2,978,087)</u> |
| Total | <u>(509,580)</u> | <u>(439,806)</u> | <u>(751,353)</u> | <u>(843,017)</u> |

26. INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries estimate monthly the amounts for income and social contribution taxes, and record those amounts on an accrual basis. Deferred taxes are provided on temporary differences as shown in Note 7. Income and social contribution taxes charged to income consist of the following:

| | <u>Consolidated</u> | |
|------------------------------|---------------------|----------------|
| | <u>9/30/04</u> | <u>9/30/03</u> |
| Income tax | 132,134 | 94,471 |
| Social contribution | 47,882 | 34,235 |
| Deferred income tax | 83,266 | 75,087 |
| Deferred social contribution | <u>30,686</u> | <u>24,633</u> |
| Total | <u>293,968</u> | <u>228,426</u> |

A reconciliation of the taxes on income reported and the amounts calculated at the combined statutory rate of 34% is as follows:

| | <u>Company</u> | | <u>Consolidated</u> | |
|----------------------------|----------------|----------------|---------------------|----------------|
| | <u>9/30/04</u> | <u>9/30/03</u> | <u>9/30/04</u> | <u>9/30/03</u> |
| Income (loss) before taxes | (255,506) | (462,777) | 307,846 | (79,408) |

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Tax revenue (expense) at the combined statutory rate | 86,872 | 157,344 | (104,668) | 26,998 |
| Permanent additions: | | | | |
| Non-deductible expenses | (1) | (14) | (11,675) | (8,011) |
| Other additions | - | - | - | (143,006) |
| Permanent exclusions- | | | | |
| Equity in earnings (loss) | 42,964 | (48,639) | - | - |
| Unrecognized tax losses and temporary differences | <u>(129,835)</u> | <u>(108,691)</u> | <u>(177,625)</u> | <u>(104,407)</u> |
| Tax expense | = | = | <u>(293,968)</u> | <u>(228,426)</u> |

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONSOLIDATED)

a) Risk considerations

TCP is the controlling shareholder of TC, GT and TCO and its subsidiaries, which provide mobile telephone services in accordance with the terms of licenses granted by the Federal Government and are also engaged in the purchase and sale of handsets through their own sales networks and distribution channels, thus fostering their core activities.

The major market risks to which TCP, TC, GT and TCO are exposed in the conduct of their businesses include:

- Credit risk - arising from any difficulty in collecting the value of telecommunication services provided to customers and revenues from the sale of handsets to 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.

TC, GT and TCO actively manage the various risks to which they are subject through a broad variety of operating initiatives, procedures and policies to mitigate the risks inherent to their operations .

Credit risk

Credit risk from providing telecommunication services is minimized by strictly monitoring the customer portfolio and actively addressing delinquent receivables by means of clear policies relating to the concession of postpaid services.

Prepaid customers represent 82.16%, 87.51% and 82.28% of the customer bases of TC, GT and TCO, respectively. These customers must prepay for services and therefore do not represent a credit risk.

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, a system for the automatic control of the release of products has been implemented that is integrated with the ERP software-based distribution module .

Interest rate risk

The Company is exposed to interest rate risk, especially associated with the cost of CDI rates, due to its exchange rate derivative transactions and short-term borrowings in Brazilian reais. As of September 30, 2004, these operations amounted to R\$5,294,586.

The Company entered into swap operations to convert the floating interest risk related to CDI into fixed interest rates in the total notional amount of R\$1,510 million.

The Company is also exposed to fluctuations in the TJLP on financings from BNDES. As of September 30, 2004, these financings amounted to R\$535,884. The Company has not entered into derivative operations for protection against this risk.

Foreign currency-denominated loans are also exposed to interest rate (LIBOR) risk associated with foreign loans. As of September 30, 2004, these loans amounted to US\$155,161 thousand and €416,050 thousand.

Currency risk

TC, GT and TCO contracted derivative instruments to protect against the currency risk on foreign currency-denominated loans. Such instruments usually include swaps, options and forward contracts.

The Company's net exposure to currency risk as of September 30, 2004 is shown in the table below.

| | <u>US\$</u> | <u>In thousands</u> € | ¥ |
|---|------------------|--------------------------|--------------|
| Loans and financing | 1,215,239 | 419,769 | 17,405,025 |
| Hedge instruments | (1,331,341) | (404,721) | (17,405,025) |
| Suppliers - technical assistance | = | <u>22,902</u> | = |
| Net exposure | <u>(116,102)</u> | <u>37,950</u> | = |

During 2004, the Company and its subsidiaries contracted derivative instruments to hedge other foreign-currency commitments against exchange variations (such as relating to the BNDES basket of currencies, leases, long-term hedging inefficiency, and suppliers).

b) Derivative instruments

The Company and its subsidiaries record derivative gains and losses as a component of net financial expenses.

Historical values and an estimate of the market values as of September 30, 2004 of loans and financing and derivative instruments are as follows:

| | Historical value | Market value | Unrealized loss |
|------------------------|---------------------|------------------|--------------------|
| Other liabilities | 81,469 | 81,469 | - |
| Loans and financing | 6,636,447 | 6,788,001 | (151,554) |
| Derivative instruments | <u>(561,692)</u> | <u>(569,346)</u> | <u>(7,654)</u> |
| Total | <u>6,156,224</u> | <u>6,300,124</u> | <u>(159,208)</u> |

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.

Estimated market values of the Company's financial assets and liabilities have been determined at a specific date 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.

28. POST-RETIREMENT BENEFIT PLANS

TCP and its subsidiaries TC and TCO, together with other companies of the former Telebrás System, sponsor private pension plans and health care plan for retired employees, managed by Fundação Sistel de Seguridade Social - Sistel, as follows:

- (a) PBS - A - A multi-employer defined benefit plan provided to retired participants which were in such position at January 31, 2000.
- (b) PBS - Telesp Celular and PBS - TCO - Defined benefit retirement plans sponsored individually by the companies.
- (c) PAMA - Multi-employer health care plan provided to retired employees and their dependents, at shared costs.

Contributions to the PBS - Telesp Celular and PBS-TCO plans are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. Costs are determined using the capitalization method and the contribution due by the sponsor is equivalent to 13.5% of the payroll for employees covered by the plan, of which 12% is allocated to fund the PBS - Telesp Celular and PBS-TCO plans and 1.5% for the PAMA plan. In the nine-month period ended September 30, 2004, contributions to such plans amounted to R\$6 (R\$5 at September 30, 2003).

(d) TCP Prev and TCO Prev - Individual defined contribution plans were established by SISTEL in August 2000. The sponsors' contributions to the TCP Prev and TCO Prev are equivalent to those made by the participants, varying from 1% to 8% of the contribution salary, according to the percentage selected by the participant. In the nine-month period ended September 30, 2004, contributions to such plans amounted to R\$10,926 (R\$3,860 at September 30, 2003).

Until September 2004, TCP and its subsidiaries TC and TCO proportionally recognized the estimated actuarial cost for 2004 in the amount of R\$37, charged to administrative expenses.

29. CORPORATE RESTRUCTURING

On January 14, 2000, a corporate restructuring plan was concluded, in which the goodwill paid on the privatization process of the Company was transferred to TC.

The accounting records maintained for corporate and tax purposes of the companies include specific accounts related to merged goodwill and the related reserve, and the respective amortization, reversal and tax credit, whose balances at September 30 and June 30, 2004 were as follows:

| | Balances on Date of <u>Merger</u> | Telesp Celular <u>Spin-off</u> | <u>Consolidated</u> | |
|-------------------|---|--------------------------------------|---------------------|--------------------|
| | | | <u>9/30/04</u> | <u>6/30/04</u> |
| Balance sheet: | | | | |
| Goodwill - merged | 3,192,738 | 3,166,132 | 1,649,581 | 1,729,400 |
| Merged reserve | <u>(2,127,694)</u> | <u>(2,088,849)</u> | <u>(1,088,724)</u> | <u>(1,141,404)</u> |

Suppliers - technical assistance

| | | | | |
|---------|------------------|------------------|----------------|----------------|
| Balance | <u>1,065,044</u> | <u>1,077,283</u> | <u>560,857</u> | <u>587,996</u> |
| | | | <u>9/30/04</u> | <u>9/30/03</u> |

Statement of income:

| | | | |
|-----------------------|--|---------------|---------------|
| Goodwill amortization | | (239,455) | (239,455) |
| Reserve reversal | | 158,041 | 160,435 |
| Tax credit | | <u>81,414</u> | <u>79,020</u> |
| Impact on income | | = | = |

On May 13, 2004, the Board of Directors of TCP and TCO approved a corporate restructuring to transfer to TCO and its subsidiaries the goodwill paid on the acquisition of control of TCO by TCP, whose value at May 31, 2004 was R\$1,503,121.

A reserve for the maintenance of the integrity of shareholders' equity, in the amount of R\$992,060, was recorded before the goodwill was merged into TCO. Thus, the net merged assets were R\$511,061 representing the tax benefit resulting from tax deductibility of the amortization of the goodwill merged into TCO and its subsidiaries.

The net merged assets will be amortized in the estimated period of 5 years, and there is a related special goodwill reserve that will be transferred to capital in favor of TCP when the related tax benefit is realized. All of TCO's shareholders have preemptive rights to subscribe for additional shares in these capital increases, in which case the proceeds from such subscription will be paid to TCP.

At June 30, 2004 the transfer of a portion of the net merged goodwill to TCO's subsidiaries was approved, based on appraisal reports prepared by independent specialists, as follows:

| <u>Company</u> | <u>Goodwill</u> | <u>Reserve for maintenance of integrity of shareholder's equity</u> | <u>Net Value</u> |
|-----------------|------------------|---|------------------|
| Telemat | 248,558 | 164,048 | 84,510 |
| Telegoiás | 352,025 | 232,336 | 119,689 |
| Telems | 144,078 | 95,092 | 48,986 |
| Teleron | 68,775 | 45,392 | 23,383 |
| Teleacre | 29,353 | 19,373 | 9,980 |
| Sum of spin-off | 842,789 | 556,241 | 286,548 |
| TCO balance | <u>660,332</u> | <u>435,819</u> | <u>224,513</u> |
| Total | <u>1,503,121</u> | <u>992,060</u> | <u>511,061</u> |

Concurrently with the transfer of this portion of the net goodwill, a proposal for the incorporation of the shares of minority shareholders of the subsidiaries of TCO into TCO was approved, which shareholders received TCO shares. The exchange ratios were established by appraisal reports prepared by independent specialists. The transfer to the subsidiaries of TCO resulted in a capital increase of TCO in the amount of R\$28,554 .

The detailed accounting records for corporate and tax purposes of the companies include specific accounts related to merged goodwill and the related reserve, and respective amortization, reversals and tax credits. The detailed balances as of September 30, 2004 and June 30, 2004 are as follows:

| | |
|--|-------------------------------|
| | <u>Consolidated</u> |
| | <u>9/30/04</u> <u>6/30/04</u> |

Balance sheet:

| | | |
|-----------------|------------------|------------------|
| Merged goodwill | 1,419,047 | 1,510,337 |
| Merged reserve | <u>(936,660)</u> | <u>(996,823)</u> |
| Balance | <u>482,387</u> | <u>513,514</u> |
| | <u>9/30/04</u> | <u>9/30/03</u> |

Statement of income:

| | | |
|-----------------------|---------------|---------------|
| Goodwill amortization | (148,877) | (48,404) |
| Reserve reversal | 98,259 | 31,947 |
| Tax credit | <u>50,618</u> | <u>16,457</u> |
| Impact on income | = | = |

As shown above, the amortization of goodwill, net of the reversal of the reserve and of the corresponding tax credit, results in no impact on income and, consequently, on the basis for calculating the minimum mandatory dividend. For a better presentation of the financial position of the companies in the financial statements, the net amount which, in essence, represents the balance of the merged tax credit, was classified in the balance sheet as deferred taxes (Note 7).

30. 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. Some of these transactions were established based on contracts between Telebrás and the operating concessionaires before privatization under the terms established by ANATEL. Also includes call center services to Telecomunicações Móveis Nacionais - TMN customers regarding roaming services in the Company's network.

As of September 30, 2004, TC had recorded transactions relating principally to interconnection and long distance services subject to commercial disputes in the approximate amount of R\$53 million, net of taxes. Management expects that these differences will be settled in the fourth quarter of 2004.

b) Technical assistance - Represents payables in connection with corporate management advisory services provided by PT SGPS, calculated based on a percentage of net revenues from services restated based on currency fluctuations.

c) Loans and financing - Represents intercompany loans with companies of the Portugal Telecom group, as mentioned in Note 15.

d) Corporate services - Recorded by the subsidiaries at the cost effectively incurred for these services.

e) Call center services - Provided by Dedic to users of telecommunication services of TC and GT, contracted for a period of 12 months and renewable for the same period.

f) System development and maintenance services - Provided by PT Inovação.

A summary of balances and transactions with unconsolidated related parties is as follows:

| <u>Company</u> | | <u>Consolidated</u> | |
|----------------|----------------|---------------------|----------------|
| <u>9/30/04</u> | <u>6/30/04</u> | <u>9/30/04</u> | <u>6/30/04</u> |

Assets:

Suppliers - technical assistance

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| | | | | |
|---|-----------------|-----------------|---------------------|-----------------|
| Accounts receivable for services | - | - | 165,963 | 177,130 |
| Other assets | 13,523 | 13,606 | 26,723 | 66,695 |
| Liabilities: | | | | |
| Suppliers and accounts payable | - | - | 183,846 | 340,362 |
| Other liabilities | 1,516,252 | 1,618,586 | 2,200,996 | 2,300,886 |
| | <u>Company</u> | | <u>Consolidated</u> | |
| | <u>09.30.04</u> | <u>09.30.03</u> | <u>09.30.04</u> | <u>09.30.03</u> |
| Statement of operations: | | | | |
| Revenues from telecommunications services | - | - | 1,280,562 | 1,071,902 |
| Cost of services provided | - | - | (169,725) | (136,414) |
| Selling expenses | (84,874) | - | (102,536) | (58,270) |
| General and administrative expenses | (87,008) | - | (106,725) | (79,009) |
| Financial income (expenses), net | 22,194 | 82,865 | (102,159) | 80,215 |

31. INSURANCE

The Company monitors the risks inherent to its activities. Accordingly, as of September 30, 2004, the Company had insurance to cover operating risks, civil liability, health, etc. Company management considers that the amounts are sufficient to cover possible losses. The principal assets, liabilities or interests covered by insurance are as follows:

| <u>Type</u> | <u>Insured amounts</u> |
|-------------------------------------|---------------------------------|
| Operating risks | 857,580 |
| General civil liability | 5,822 |
| Vehicle fleet (executive vehicles) | Fipe Chart and R\$200 for DC/DM |
| Vehicle fleet (operations vehicles) | R\$200 para DC/DM |

32. AMERICAN DEPOSITARY RECEIPTS (ADRs) PROGRAM

On November 16, 1998, trading of ADRs representing shares of the Company began on the New York Stock Exchange (NYSE), with the following characteristics:

- Type of shares: preferred.
- Each ADR represents 2,500 preferred shares.
- Shares are traded in the form of ADRs under the ticker symbol "TCP" on the New York Stock Exchange.
- Foreign depository bank: The Bank of New York.
- Custodian bank in Brazil: Banco Itaú S.A.

33. SUBSEQUENT EVENTS

On October 8, 2004 the Voluntary Public Tender Offer ("OPA") for the acquisition of TCO preferred shares by TCP was completed as follows:

Considering (i) according to Relevant Fact published August 25, 2004, the Company commenced a voluntary public tender offer to holders of TCO preferred shares for the acquisition of up to 84,252,534,000 preferred shares and (ii) the number of shares tendered in the auction for the OPA exceeded the maximum number to be acquired by the Company, each holder that tendered shares in the OPA had, for each share tendered, due to a pro rata allocation, 0.5547 TCO preferred shares acquired by the Company.

The total OPA represented 32.76% of the total preferred shares, corresponding to an increase in the Company's share in TCO's capital from 28.86% to 50.65%.

The Board of Directors approved a proposal from Management to increase the Company's capital, within the authorized capital limit, based on the following justifications:

- The Company desires to reduce its level of net debt and its financial costs, as well as to provide financial flexibility and flexibility for its investment program; and
- The settlement of the OPA increased the Company's total indebtedness by up to R\$902.0 million.

The capital increase will be carried out in accordance with the following terms and conditions:

- The value of the capital increase will be of up to R\$2,053,895,871.47, of which up to R\$2,000,000,000.00 will be paid in cash and a portion equal to R\$53,895,871.47, corresponding to the tax benefit from goodwill effectively realized in 2003, will be subscribed for with credits by Portelcom Participações S.A., a shareholder of the Company.
- New common and preferred shares for private subscription will be issued in a proportion to be defined.