

vivo

Financial  
Statements  
2005



- 1** Telesp Celular Participações S.A.
- 2** Tele Centro-Oeste Celular Participações S.A.
- 3** Tele Leste Celular Participações S.A.
- 4** Tele Sudeste Celular Participações S.A.
- 5** Celular CRT Participações S.A.

**TELESP CELULAR PARTICIPAÇÕES S.A.**  
**VIVO PARTICIPAÇÕES S.A. SINCE FEBRUARY 22, 2006**  
**BALANCE SHEETS**  
**As of December 31, 2005 and 2004**  
(in thousands of Brazilian Reais)

ASSETS	Holding Company		Consolidated		LIABILITIES	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04		12.31.05	12.31.04	12.31.05	12.31.04
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents	326	1.231	117.993	111.326	Payroll and related accruals	1.032	1.136	105.106	104.327
Financial investments	-	93.191	904.153	1.069.532	Suppliers and trade accounts payable	24.934	16.418	1.536.277	1.692.532
Trade accounts receivable, net	-	-	1.775.409	1.483.819	Taxes payable	7.690	5.471	403.210	343.367
Inventory	-	-	258.755	455.312	Loans and financing	1.066.051	1.909.640	1.546.935	2.896.102
Advances to suppliers	-	-	18.273	52.878	Interest on shareholders' equity and dividends	-	-	51.771	82.281
Interest on shareholders' equity and dividends	64.148	532.834	-	-	Provision for contingencies	66.946	58.987	170.988	124.296
Deferred and recoverable taxes	13.400	118.824	949.115	871.281	Derivatives	211.456	169.118	321.686	266.200
Prepaid expenses	807	1.301	187.276	157.235	Other liabilities	22.774	20.997	215.285	134.695
Derivatives	2.777	-	300.662	7.804		<b>1.400.883</b>	<b>2.181.767</b>	<b>4.351.258</b>	<b>5.643.800</b>
Other current assets	14.706	18.052	116.466	154.164					
	<b>96.164</b>	<b>765.433</b>	<b>4.628.102</b>	<b>4.363.351</b>	<b>Long-term liabilities:</b>				
<b>Noncurrent assets:</b>					Loans and financing	2.065.778	1.293.647	3.646.102	2.067.071
Deferred and recoverable taxes	370.026	211.481	1.352.773	1.397.161	Provision for contingencies	260	-	207.637	195.434
Derivatives	1.115	-	5.354	385.296	Taxes payable	-	-	169.578	189.341
Prepaid expenses	3.337	1.308	25.030	36.119	Derivatives	130.632	122.611	294.416	153.835
Other noncurrent assets	1.945	1.947	54.554	74.177	Other liabilities	-	-	44.086	39.393
	<b>376.423</b>	<b>214.736</b>	<b>1.437.711</b>	<b>1.892.753</b>		<b>2.196.670</b>	<b>1.416.258</b>	<b>4.361.819</b>	<b>2.645.074</b>
<b>Permanent assets:</b>					<b>Advance for future capital increase</b>	-	<b>1.999.942</b>	-	<b>1.999.942</b>
Investments	7.140.076	7.524.778	1.550.211	2.056.427	<b>Minority interest</b>	-	-	<b>1.058.189</b>	<b>942.924</b>
Property, plant and equipment, net	231	553	5.993.409	5.603.003	<b>Shareholders' equity:</b>				
Deferred assets, net	-	-	177.300	223.865	Capital stock	6.670.152	4.373.661	6.670.152	4.373.661
	<b>7.140.307</b>	<b>7.525.331</b>	<b>7.720.920</b>	<b>7.883.295</b>	Capital reserves	793.396	1.089.879	793.396	1.089.879
					Accumulated deficit	(3.448.359)	(2.556.159)	(3.448.359)	(2.556.159)
						<b>4.015.189</b>	<b>2.907.381</b>	<b>4.015.189</b>	<b>2.907.381</b>
					<b>Funds for capitalization</b>	<b>152</b>	<b>152</b>	<b>278</b>	<b>278</b>
<b>Total assets</b>	<b>7.612.894</b>	<b>8.505.500</b>	<b>13.786.733</b>	<b>14.139.399</b>	<b>Total liabilities</b>	<b>7.612.894</b>	<b>8.505.500</b>	<b>13.786.733</b>	<b>14.139.399</b>

# TELESP CELULAR PARTICIPAÇÕES S.A.

VIVO PARTICIPAÇÕES S.A. SINCE FEBRUARY 22, 2006

## STATEMENTS OF INCOME

For the years ended December 31, 2005 and 2004

(in thousand of Brazilian Reais, except per thousand shares)

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Telecommunication services	-	-	8.269.362	7.802.257
Sales of goods	-	-	1.985.514	1.953.366
<b>Gross operating revenue</b>	-	-	<b>10.254.876</b>	<b>9.755.623</b>
Deductions from gross revenue	-	-	(2.781.810)	(2.414.596)
<b>Net operating revenue</b>	-	-	<b>7.473.066</b>	<b>7.341.027</b>
Cost of services rendered	-	-	(1.770.477)	(1.591.757)
Cost of goods sold	-	-	(1.587.028)	(1.734.445)
<b>Gross profit</b>	-	-	<b>4.115.561</b>	<b>4.014.825</b>
Selling expenses	-	-	(2.626.546)	(1.909.311)
General and administrative expenses	(8.454)	(8.165)	(659.355)	(620.591)
Other operating expenses	(340.288)	(218.882)	(625.228)	(410.809)
Other operating income	9.631	5.031	282.204	240.910
Equity pick-up	49.526	460.077	-	-
Operating income (expenses)	<b>(289.585)</b>	<b>238.061</b>	<b>(3.628.925)</b>	<b>(2.699.801)</b>
<b>Income (loss) from operations before financial expenses</b>	<b>(289.585)</b>	<b>238.061</b>	<b>486.636</b>	<b>1.315.024</b>
Financial expenses	(804.286)	(1.062.151)	(1.630.232)	(1.716.367)
Paid interest on shareholders' equity	-	-	(24.281)	(39.838)
Financial income	218.884	330.457	712.618	620.965
Received interest on shareholders' equity	75.468	316.230	-	-
<b>Income (loss) from operations</b>	<b>(799.519)</b>	<b>(177.403)</b>	<b>(455.259)</b>	<b>179.784</b>
Nonoperating income (expenses), net	(17.213)	3.489	(65.318)	(51.184)
<b>Income (loss) before taxes and minority interest</b>	<b>(816.732)</b>	<b>(173.914)</b>	<b>(520.577)</b>	<b>128.600</b>
Income and social contribution taxes	-	-	(246.066)	(327.060)
Minority interest	-	-	(166.884)	(331.522)
<b>Loss before reversal of interest on shareholders' equity</b>	<b>(816.732)</b>	<b>(173.914)</b>	<b>(933.527)</b>	<b>(529.982)</b>
Reversal of interest on shareholders' equity	(75.468)	(316.230)	24.281	39.838
<b>Loss for the year</b>	<b>(892.200)</b>	<b>(490.144)</b>	<b>(909.246)</b>	<b>(490.144)</b>
<b>Loss per thousand shares - R\$</b>	(1.347,07)	(0,42)		

**TELESP CELULAR PARTICIPAÇÕES S.A.**  
**VIVO PARTICIPAÇÕES S.A. SINCE FEBRUARY 22, 2006**  
**Statement of Changes in Shareholders' Equity (Holding Company)**  
**For the years ended December 31, 2005 and 2004**  
(in thousands of Brazilian Reais)

	Capital Reserves			Accumulated deficit	Total shareholders' equity
	Capital stock paid-up	Special goodwill reserve	Goodwill		
<b>Balances at December 31, 2003</b>	<b>4.373.661</b>	<b>990.169</b>	<b>99.710</b>	<b>(2.070.379)</b>	<b>3.393.161</b>
Dividends determined - 2000	-	-	-	4.364	4.364
Loss for the year	-	-	-	(490.144)	(490.144)
<b>Balances at December 31, 2004</b>	<b>4.373.661</b>	<b>990.169</b>	<b>99.710</b>	<b>(2.556.159)</b>	<b>2.907.381</b>
Capital increase - meeting of 01/07/05	2.053.896	(53.896)	-	-	2.000.000
Capital increase - meeting of 07/31/05	242.595	(242.595)	-	-	-
Balance adjustment	-	-	8	-	8
Loss for the year	-	-	-	(892.200)	(892.200)
<b>Balances at December 31, 2005</b>	<b>6.670.152</b>	<b>693.678</b>	<b>99.718</b>	<b>(3.448.359)</b>	<b>4.015.189</b>

**TELESP CELULAR PARTICIPAÇÕES S.A.**  
**VIVO PARTICIPAÇÕES S.A. SINCE FEBRUARY 22, 2006**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**For the years ended December 31, 2005 and 2004**  
(In thousands of Brazilian Reais)

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
<b>SOURCES OF FUNDS:</b>				
<b>From operations (see below)</b>	-	-	971.625	1.308.567
<b>From shareholders:</b>				
Capital increase	58	-	58	-
Advance for future capital increase	-	1.999.942	-	1.999.942
Reserves	8	-	8	-
<b>From third parties:</b>				
Loans and financing	1.384.038	894.094	2.288.542	1.240.563
Transfer of noncurrent to current assets	-	-	307.348	219.873
Dividends determined	-	4.364	-	4.364
Transfer of property, plant and equipment to current assets	-	-	5.276	1.282
Received interest on shareholders' equity and dividends	99.824	980.928	-	-
Capital increase - minority interest	2.904	1.132	-	-
Long-term intercompany liabilities	-	499.033	-	-
Decrease in deferred and recoverable taxes	-	-	66.017	-
Decrease in noncurrent assets	3.103	-	21.506	-
Transfer of derivatives to current assets	-	-	311.395	-
<b>Total Sources</b>	<b>1.489.935</b>	<b>4.379.493</b>	<b>3.971.775</b>	<b>4.774.591</b>
<b>USES OF FUNDS:</b>				
<b>In operations (see below)</b>	<b>664.906</b>	<b>683.293</b>	-	-
Additions to property, plant and equipment	-	-	1.546.065	1.392.048
Transfer of long-term to current liabilities	-	1.063.407	122	1.397.831
Interest on shareholders' equity and dividends	-	-	-	509.304
Additions to deferred assets	-	-	580	3.137
Investment in subsidiary and affiliated companies	-	909.838	-	-
Goodwill paid in acquisition of subsidiaries	-	487.881	12.100	487.881
Other investments	-	-	8.771	6.873
Incoming deferred taxes	-	-	-	126.902
Increase in noncurrent assets	2.708	-	34.536	61.720
Decrease in long-term liabilities	-	-	20.539	-
Transfer of loans, financing and derivatives to current liabilities	694.027	-	738.210	-
Transfer of current to noncurrent assets	16.679	6.661	-	-
Proposed dividends to minority shareholders	-	-	46.345	-
Loss on subscription of minority interest shares	-	-	7.214	-
Other uses	-	-	-	3.303
<b>Total uses</b>	<b>1.378.320</b>	<b>3.151.080</b>	<b>2.414.482</b>	<b>3.988.999</b>
<b>Increase (decrease) in net working capital</b>	<b>111.615</b>	<b>1.228.413</b>	<b>1.557.293</b>	<b>785.592</b>
<b>Represented by:</b>				
Current assets	(669.269)	208.205	264.751	(24.233)
Beginning of the year	765.433	557.228	4.363.351	4.387.584
End of the year	96.164	765.433	4.628.102	4.363.351
Current liabilities	(780.884)	(1.020.208)	(1.292.542)	(809.825)
Beginning of the year	2.181.767	3.201.975	5.643.800	6.453.625
End of the year	1.400.883	2.181.767	4.351.258	5.643.800
<b>Increase (decrease) in net working capital</b>	<b>111.615</b>	<b>1.228.413</b>	<b>1.557.293</b>	<b>785.592</b>

**Composition of funds from (used in) operations**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Loss for the year	(892.200)	(490.144)	(909.246)	(490.144)
Depreciation and amortization	107	90	1.166.172	1.048.142
Minority interest	-	-	166.884	331.522
Monetary and exchange variation of long-term liabilities	(204.429)	(785)	(253.207)	39.467
Sales of permanent assets	105	254	38.136	58.030
Provision (reversal of provision) for contingencies	260	-	3.251	16.034
Reserve for pension fund and other post-retirement benefits	-	-	125	(2.831)
Discounts on advanced payment of liabilities	-	-	(7.425)	-
Deferred and recoverable taxes	-	(3.874)	-	(10.283)
Equity pick-up	(49.526)	(460.077)	-	-
Loss on the merger of holdings	(6.647)	(2.647)	15.830	1.271
Income and social contribution taxes	-	-	-	2.743
Gains in forward and swap contracts	149.167	102.541	363.712	88.883
Goodwill amortization	338.149	215.745	386.313	225.733
Determination of dividends at subsidiaries	-	(368)	-	-
Interest on long-term loan transactions	-	(44.028)	-	-
Apportionment of depreciation of shared systems	108	-	1.080	-
Items that do not affect the working capital	(664.906)	(683.293)	971.625	1.308.567
<b>Total</b>	<b>(1.557.106)</b>	<b>(1.173.437)</b>	<b>62.379</b>	<b>818.423</b>

**TELESP CELULAR PARTICIPAÇÕES S.A.**  
**VIVO PARTICIPAÇÕES S.A. SINCE FEBRUARY 22, 2006**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2005 and 2004**  
(in thousands of Brazilian Reais)

	<b>Consolidated</b>	
	<b>12.31.05</b>	<b>12.31.04</b>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Loss for the year	(909.246)	(490.144)
<i>Adjustments to reconcile net income with cash provided by operating activities:</i>		
Minority shareholders	166.884	331.522
Depreciation and amortization	1.166.172	1.048.142
Apportionment of depreciation of shared systems	1.080	-
Discount on advanced payment of liabilities	(7.425)	-
Goodwill amortization	386.313	225.733
Loss in the sale of property, plant and equipment	34.481	45.865
Loss (gain) in forward and swap contracts	941.142	913.819
Increase in interest on loans payable	32.051	18.131
Monetary and exchange variation of loans and financing	(388.440)	(319.745)
Loss in acquisition of corporate interest	15.830	1.271
Loss (gain) with other nonoperating revenues	-	5.319
Provision for doubtful accounts	569.847	269.075
Provision (reversal) for pension fund	125	(2.831)
Increase in financial investments granted as guarantee	(166.395)	-
Increase in trade accounts receivable	(861.437)	(540.420)
Decrease (increase) in inventory	196.557	(299.214)
Decrease (increase) in deferred and recoverable taxes	99.924	(267.678)
Decrease (increase) in income and social contribution taxes	3.502	-
Decrease (increase) in other current and noncurrent assets	73.181	(132.735)
Increase (decrease) in payroll and related accruals	779	15.071
Increase (decrease) in supplies and trade accounts payable	(155.832)	371.085
Decrease in other taxes payable	36.578	105.488
Increase in provision for contingencies	58.894	40.103
Decrease (increase) in other current and long-term liabilities	8.839	(30.567)
<b>Net cash provided by operating activities</b>	<b>1.303.404</b>	<b>1.307.290</b>
<b>INVESTING ACTIVITIES:</b>		
Additions to property, plant and equipment	(1.546.065)	(1.392.048)
Additions to deferred assets	(580)	(3.137)
Acquisition of TCO	-	(901.502)
Cash provided by sale of property, plant and equipment	3.655	12.165
Other investments	(8.771)	(6.873)
<b>Net cash used in investing activities</b>	<b>(1.551.761)</b>	<b>(2.291.395)</b>
<b>FINANCING ACTIVITIES:</b>		
Loans and financing:		
Funding	3.592.689	3.836.116
Settlements	(2.999.002)	(4.858.543)
Settlements of derivative transactions	(657.993)	113.943
Dividends and interest on shareholders' equity paid	(76.854)	(85.344)
Cash provided by stock grouping	64.344	-
Increase (Decrease) in capital stock	58	-
Premium paid on acquisition of fractionary shares	8	-
Advance for future capital increase	-	1.999.942
<b>Net cash used in financing activities</b>	<b>(76.750)</b>	<b>(1.006.114)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(325.107)</b>	<b>(1.990.219)</b>
At beginning of the year	1.180.858	1.158.849
At end of the year	855.751	1.180.858
<b>SUPPLEMENTARY INFORMATION TO CASH FLOW</b>		
Income and social contribution taxes paid	406.567	504.812
Interest paid	447.694	516.598
<b>NON-CASH TRANSACTIONS</b>		
TCO restructuring goodwill	133.370	511.061
Cost for disassembling towers and equipment in leased properties	4.853	39.199
Transfer for advance to suppliers	5.276	9.096
Determined dividends	-	4.364

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#### 04.01 - NOTES TO THE FINANCIAL STATEMENTS

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##### 1. OPERATING CONTEXT

Telesp Celular Participações S.A. ("TCP" or "Company") is a publicly held company whose controlling shareholders, on December 31, 2005, are Brasilcel N.V. (57.23% of the total capital) and Portelcom Participações S.A. (8.86% of the total capital), which is a wholly-owned subsidiary of Brasilcel N.V.

The controlling shareholders of Brasilcel N.V. are Telefónica Móviles S.A. (50.00% of the total capital stock), PT Móveis, Serviços de Telecomunicações, SGPS S.A. (49.999% of the total capital stock) and Portugal Telecom, SGPS S.A. (0.001% of the total capital stock).

"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 provide cellular telecommunication services in the States of São Paulo, Paraná and Santa Catarina and Federal District, respectively, including the exercise of activities necessary or useful to perform such services, in accordance with the authorizations granted to them.

The authorizations granted to "TC", "GT" and "TCO" shall be in force up to August 05, 2008, April 08, 2013 and July 24, 2006, respectively, and may be renewed once for a 15-year term by means of the payment of rates of approximately 1% of operators' annual revenues.

Additionally, "TCO" fully controls the following operators

<u>Operator</u>	<u>% of TCO's interest</u>	<u>Operation Area</u>	<u>Authorization Expiration</u>
Telegoiás Celular S.A.	100	Góias 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
		Amazonas,	
		Roraima, Amapá,	
Norte Brasil Telecom S.A. (NBT)	100	Pará and Maranhão	11.29.13

The subsidiaries' business, including services they may provide, are ruled by the National Telecommunications Agency (Agência Nacional de Telecomunicações), or ANATEL, the telecommunications service regulator, in accordance with Law No. 9,472 of July 16, 1997, and relevant regulations, decrees, decisions and complementary plans.

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#### 04.01 - NOTES TO THE FINANCIAL STATEMENTS

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### 2. PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the Holding Company and Consolidated companies are presented in thousands of Brazilian Reais (except as otherwise mentioned) and have been prepared pursuant to accounting practices established by the Brazilian corporate law, rules applicable to telecommunications service providers, and accounting rules and procedures set forth by the Securities Commission (Comissão de Valores Mobiliários), or CVM.

The consolidated financial statements have been prepared in accordance with the rules established by CVM instruction 247/96 and include the balances and transactions of "TC", "GT" and "TCO" and of indirect subsidiaries Telesp Celular International Ltd. and Telesp Celular Overseas Ltd.

The subsidiaries are fully consolidated. All balances of assets and liabilities, revenues and expenses arising out of transactions among the consolidated companies have been eliminated for consolidation purposes.

The conciliation between the Holding Company's and the consolidated profit for fiscal years ended December 31, 2005 and 2004 is as follows:

	2005
Holding company's loss	(892,200)
Tax incentives in subsidiaries	(7,887)
Donations of direct subsidiaries	(9,147)
Donations of indirect subsidiaries	(12)
Consolidated loss	<u>(909,246)</u>

The financial statements as of December 31, 2004 have been reclassified, as applicable, for comparability.

### 3. SUMMARY OF ACCOUNTING PRACTICES

#### a) Cash and cash equivalents

Represent the balances existing in cash and banks and financial investments with immediate liquidity, showed at cost, added by earned gains until balance sheet date.

#### b) Accounts receivable

Billed amounts are stated at charge value on the date the service is rendered. Unbilled services rendered to customers until balance sheet date, and receivables related to handsets and accessories sales are also included.

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#### 04.01 - NOTES TO THE FINANCIAL STATEMENTS

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c) Provision for doubtful accounts

It is booked for credits the chances of recovery of which are deemed to be remote.

d) Conversion of transactions in foreign currency

Transactions in foreign currency are recorded using the exchange rate on transaction date and the relevant balances are adjusted until balance sheet date, with the exchange variation being recorded as income. The exchange variation and gains on foreign currency derivative contracts are determined and recorded monthly, irrespective of the settlement expiration dates.

e) Inventories

They are represented by cellular handsets and accessories stated at average purchase cost. A provision has been booked to adjust the realization amount over costs of those cellular handsets considered obsolete or the amount of which exceeds that usually traded by the Company within a reasonable period of time.

f) Prepaid expenses

They are stated at the amounts actually disbursed but not yet incurred.

g) Other assets

The subsidies granted on sales of terminals to accredited agents are deferred and recognized as income as those terminals are enabled.

h) Investments

The permanent corporate interest in subsidiaries is recorded by the equity method. The financial statements of companies indirectly owned located abroad are adjusted by the exchange rate on the date of balance sheet closing. The accounting practices of companies directly and indirectly owned are consistent with those adopted by the holding company. All other investments are recorded at the historical cost.

i) Property, plant and equipment

It is stated at acquisition or construction cost less accrued depreciation, calculated on straight-line basis, which relevant rates are in accordance with the estimated useful lives of the assets (see note 11). The expenses incurred for repair and maintenance representing improvement, increase of capacity or useful life, are capitalized while others are recorded in the income for the year. The cost estimated to be incurred for disassembling towers and equipment in leased property is capitalized and depreciated over the equipment useful life, which shall not exceed the lease term.

j) Deferred expenses

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#### 04.01 - NOTES TO THE FINANCIAL STATEMENTS

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Pre-operating expenses were recorded at the organization cost of "GT", "NBT" and "TCO IP", and amortized by the straight line method, in a period of five years (GT and TCO IP) and ten years (NBT).

The goodwill ascertained in the acquisition, on November 27, 2000, of Ceterp Celular S.A. by TC, which was subsequently merged, is being amortized over ten years

The goodwill concerning own stores, which are amortized over the lease agreement term, was recorded as deferred assets.

##### k) Income and social contribution taxes

They are calculated and recorded based on tax rates in force on the date the financial statements are prepared, on an accrual basis. Deferred taxes ascribable to temporary differences, tax loss and social contribution carryforwards are recorded by "TC" and "TCO" in the assets, assuming their future realization.

##### l) Loans and financing

They are adjusted by the monetary and/or exchange variation and interest incurred until balance sheet date.

##### m) Fistel rate

The amount of FISTEL (Fundo de Fiscalização das Telecomunicações) rate paid on validation service of new customers, generated monthly over the year, is deferred for amortization over the estimated period of customer loyalty, equal to 24 months.

##### n) Provision for contingencies

It is determined based on legal counsels' and Management opinions as to the probable outcome of pending issues and is adjusted until balance sheet date at probable loss value, with due regard to the nature of each contingency.

##### o) Provision for pension plan

The actuarial liabilities are calculated based on the projected unit credit cost method, and relevant assets are presented at their fair market value. Actuarial gains and losses are recorded immediately in the income for the year. Eventual deficits (excess of actuarial liabilities over the relevant assets) are recognized by the end of each fiscal year. In the absence of expected reduction of future contributions, superavits are not recognized (Note 27).

##### p) Recognition of revenues

Services revenues are recognized as services are rendered, with billing being made on a monthly basis. Unbilled revenue is calculated and recognized as income in the month the

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service is actually rendered. The revenues referring to recharge of prepaid cellular minutes are deferred and recognized as such services are actually rendered.

q) Financial income and expenses

They represent interest and monetary and exchange variations resulting from financial investment, loan and financing obtained or granted.

r) Derivatives

The Company and its subsidiaries have some derivative instruments in foreign currency with the purpose of managing the exposure of their cash flow in foreign currency to interest and exchange rates fluctuation. Those derivatives are recorded based on the agreed terms, exchange rates and interest in force on balance sheet date. Paid or received goodwill is deferred for amortization over the term of the relevant contracts, and gains and losses, whether realized or not, calculated exclusively on the basis of the agreed terms, are recorded as net financial income and/or expenses.

s) Employees' profit sharing

Provisions are booked for recognizing expense regarding employees' profit sharing program.

t) Loss per thousand shares

It is calculated based on the number of outstanding shares on the date the balance sheet is prepared.

u) Use of estimate

The preparation of the financial statements requires the Management to make estimates and adopt assumptions at its reasonable discretion that affect the amounts presented as assets and liabilities, as well as revenue, costs and expenses amounts. Actual amounts may differ from those estimated.

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**4. FINANCIAL INVESTMENTS**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Financial investments	-	93,191	904,153	1,069,532

The investments refer, mostly, to fixed income transactions, indexed at CDI (Certificado de Depósitos Interbancários, a Brazilian interbank market rate) variation, with immediate liquidity.

On December 31, 2005, subsidiary TCO's investments granted as guarantee of lawsuits totaled R\$166,395.

**5. TRADE ACCOUNTS RECEIVABLE, NET**

	Consolidated	
	12.31.05	12.31.04
Unbilled amounts for services rendered	247,379	177,214
Billed amounts	990,412	701,938
Interconnection	541,525	389,021
Goods sold	245,492	360,267
(-) Provision for doubtful accounts	(249,399)	(144,621)
Total	1,775,409	1,483,819

There are no customers who account for more than 10% of accounts receivables, net at December 31, 2005 and 2004, except for amounts receivable from Telecomunicações de São Paulo S.A. - TELESP, which represent approximately 11% and 11%, respectively, and Brasil Telecom S.A. - BrT, which represent approximately 13% and 11%, respectively, of trade accounts receivable, net at such dates.

Changes in the provision for doubtful accounts are as follows:

	Consolidated	
	2005	2004
Beginning balance	144,621	135,841
Complementary provision	569,847	269,075
Write-off	(465,069)	(260,295)
Balance on December 31	249,399	144,621

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**6. INVENTORIES**

	Consolidated	
	12.31.05	12.31.04
Cellular handsets	298,573	459,791
Accessories and other	5,273	26,252
(-) Provision for obsolescence	(45,091)	(30,731)
<b>Total</b>	<b>258,755</b>	<b>455,312</b>

**7. DEFERRED AND RECOVERABLE TAXES**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Prepaid income and social contribution taxes	344,296	188,743	433,496	303,543
Withholding income tax	1,690	101,162	78,389	220,945
Recoverable ICMS (State VAT)	-	-	227,712	245,447
Recoverable PIS (Employees' Profit Sharing Program) and COFINS (Social Contribution on Billing)	37,021	39,981	167,371	136,950
Other recoverable	-	-	3,126	3,221
<b>Total recoverable taxes</b>	<b>383,007</b>	<b>329,886</b>	<b>910,094</b>	<b>910,106</b>
Deferred income and social contribution taxes	419	419	1,346,555	1,337,281
ICMS on deferred sales	-	-	45,239	21,055
<b>Total</b>	<b>383,426</b>	<b>330,305</b>	<b>2,301,888</b>	<b>2,268,442</b>
Current	13,400	118,824	949,115	871,281
Noncurrent	370,026	211,481	1,352,773	1,397,161

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

	Consolidated	
	12.31.05	12.31.04
Merged tax credit – corporate restructuring	898,717	985,155
Tax credits on provisions for:		
Obsolescence	12,143	8,388
Contingencies	86,418	74,842
Doubtful accounts credits	66,255	42,722
Loyalty program	6,357	1,243
Employees' profit sharing	12,365	8,232
Suppliers	58,319	43,136
Other	58,107	15,026
Tax loss carryforwards	147,874	158,537
Total deferred taxes	<u>1,346,555</u>	<u>1,337,281</u>
Current	477,987	237,924
Noncurrent	868,568	1,099,357

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

- a) Tax loss carryforwards: tax loss carryforwards will be offset up to a limit of 30% per year on future taxable income.
- b) Merged tax credit: consists of net balance of goodwill and provision to maintain the integrity of the shareholders' equity (see Note 28). Realization occurs proportionally to the amortization of the goodwill in its subsidiaries, for a period between 5 and 10 years. Studies conducted by independent consultants retained for the corporate restructuring process support the recovery of said value within the above mentioned term.
- c) Temporary differences: will be realized upon payment of accruals, effective losses on bad debts or realization of inventories.

Technical studies of feasibility prepared by the Company and approved by the Board of Directors, indicate the full recovery of recognized deferred tax amounts, in accordance with the definition in CVM Instruction 371.

The estimated schedule for realization of deferred taxes is as follows:

<u>Year:</u>	Consolidated
	12.31.05
2006	477,987
2007	238,311
2008	243,561
2009 and forward	386,696

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Total 1,346,555

The Company and its subsidiaries "GT" and "TCO IP" did not recognize deferred income tax and social contribution on tax losses, tax carryforwards and temporary differences, due to the absence of estimated short-term taxable profits.

**8. PREPAID EXPENSES**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
FISTEL rate	-	-	80,556	103,422
Rentals	-	-	9,840	9,323
Advertising	-	-	101,826	63,085
Financial charges	4,144	2,609	4,670	4,034
Trade discounts	-	-	3,521	8,689
Other	-	-	11,893	4,801
<b>Total</b>	<u>4,144</u>	<u>2,609</u>	<u>212,306</u>	<u>193,354</u>
Current	807	1,301	187,276	157,235
Noncurrent	3,337	1,308	25,030	36,119

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

**9. OTHER ASSETS**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Deposit in court	-	-	87,783	76,501
Advance for acquisition of shares	-	-	-	15,584
Advance to employees	73	71	4,161	4,865
Credit with suppliers	-	-	16,911	33,040
Intercompany credits	14,339	13,612	32,761	33,162
Subsidy on terminal sales	-	-	22,461	55,596
Other assets	2,239	6,316	6,943	9,593
<b>Total</b>	<b>16,651</b>	<b>19,999</b>	<b>171,020</b>	<b>228,341</b>
Current	14,706	18,052	116,466	154,164
Noncurrent	1,945	1,947	54,554	74,177

**10. INVESTMENTS**

a) Interest in subsidiaries

Subsidiaries	Common Interest %	Preferred Interest %	Total Interest %
Telesp Celular S.A.	100.00	-	100.00
Global Telecom S.A.	100.00	100.00	100.00
Tele Centro Oeste Celular Participações S.A.	90.59	32.76	52.47

b) Number of shares owned

Subsidiaries	(in thousands)		
	Common Shares	Preferred Shares	Total Shares
Telesp Celular S.A.	83,155	-	83,155
Global Telecom S.A.	3,810	7,621	11,431
Tele Centro Oeste Celular Participações S.A.	40,161	28,084	68,245

c) Subsidiaries information

Subsidiaries	Shareholders' equity on		Net Profit (Loss) on	
	12.31.05	12.31.04	12.31.05	12.31.04
Telesp Celular S.A.	3,052,193	2,966,517	130,853	461,685
Global Telecom S.A.	844,201	1,111,313	(270,635)	(180,348)
Tele Centro Oeste Celular Participações S.A.	2,812,921	2,441,502	339,146	507,051

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

d) Composition and changes

The Holding Company's investment balances include interest in the shareholders' equity of directly controlled subsidiaries, goodwill, advance for future capital increase and provision for investment loss, as well as other investments as shown below:

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Investment in subsidiaries	5,064,501	5,059,262	-	-
Goodwill in investment acquisition, net	1,869,387	2,397,880	1,999,716	2,498,874
Advance for future capital increase	586,625	517,148	12,908	5,704
Provision for investment loss (a)	(380,541)	(449,615)	(462,523)	(449,615)
Other investments	104	103	110	1,464
Investment balance	<u>7,140,076</u>	<u>7,524,778</u>	<u>1,550,211</u>	<u>2,056,427</u>

(a) Due to the GT's accrued loss and debt, provisions were booked for goodwill loss resulting from investment acquisitions on December 31, 2001 and 2002.

Changes in investments of the holding company for the years ended on December 31, 2005 and 2004 are as follows:

Investment in subsidiaries	2005				2004
	TC	GT	TCO	Total	Total
Beginning balance	2,966,517	1,111,313	981,432	5,059,262	4,647,772
Increase in interest	-	-	48,890	48,890	927,784
Donations and subsidies	3,488	3,523	2,136	9,147	-
Equity pick-up (a)	130,853	(270,635)	180,161	40,379	460,077
Distribution of JSCP	(48,665)	-	(26,803)	(75,468)	(316,230)
Gain in interest	-	-	6,647	6,647	4,189
Determined dividends and JSCP in subsidiaries	-	-	-	-	368
Dividend distribution	-	-	(24,356)	(24,356)	(664,698)
Balance on December 31	<u>3,052,193</u>	<u>844,201</u>	<u>1,168,107</u>	<u>5,064,501</u>	<u>5,059,262</u>

(a) The equity pick-up in the year comprises: (i) subsidiaries' income of R\$40,379; and (ii) donations of R\$9,147.

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	2005		2004	
	GT	TCO	Total	Total
Goodwill in acquisition of investments, net				
Beginning balance	1,077,020	1,320,860	2,397,880	2,638,076
Goodwill increase re. interest acquisition	-	12,100	12,100	487,881
Transfer of goodwill to TCO	-	(133,370)	(133,370)	-
Goodwill amortization	(125,925)	(281,298)	(407,223)	(215,745)
Transfer to special goodwill reserve	-	-	-	(511,061)
Goodwill write-off	-	-	-	(1,271)
Balance on December 31	<u>951,095</u>	<u>918,292</u>	<u>1,869,387</u>	<u>2,397,880</u>
Advance for future capital increase - TCO		2005	2004	
Beginning balance		517,148	25,436	
TCO capital increase by the realized tax benefit		(63,893)	(19,077)	
AFAC originated by tax benefit - TCP restructuring		133,370	511,061	
Tax effect		-	(272)	
Balance on December 31		<u>586,625</u>	<u>517,148</u>	
Provision for Losses - GT		2005	2004	
Beginning balance		(449,615)	(449,615)	
Loss amortization		69,074	-	
Balance on December 31		<u>(380,541)</u>	<u>(449,615)</u>	

As from January 01, 2005, goodwill paid on "GT" acquisition, based on the estimated future profitability, in the total amount of R\$1,077,020, started being amortized for a term of 10 years, counted from the acquisition date.

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

TC holds interest in Telesp Celular International Ltd. and Telesp Celular Overseas, located abroad, in order to obtain and onlend funds by means of international loans. These subsidiaries are currently dormant companies.

On May 31, 2004, the tax benefit resulting from the goodwill paid for acquisition of additional interest in TCO was transferred to that Company and to its subsidiaries. Consequently, R\$511,061 have been transferred as advance for future capital increase, provided that shares will be issued on behalf of TCP upon realization of such benefit by TCO and its subsidiaries. The remaining goodwill, in the amount of R\$992,060, was recorded as future earnings and will be amortized over five years.

On August 31, 2005, the tax benefit resulting from the goodwill paid for acquisition of TCO was transferred to that Company. Consequently, R\$133,370 have been transferred as advance for future capital increase, provided that shares will be issued on behalf of TCP upon realization of such benefit by TCO. The remaining goodwill, in the amount of R\$392,265, was recorded as future earnings and will be amortized over five years.

**11. PROPERTY, PLANT AND EQUIPMENT, NET**

	Annual depreciation rates %	Consolidated			
		Cost	Accrued depreciation	Property, plant and equipment, net	Property, plant and equipment, net
		12.31.05	12.31.05	12.31.04	12.31.04
Transmission equipment	10.00 to 20.00	4,150,245	(2,394,115)	1,756,130	1,530,834
Switching equipment	10.00 a 20.00	2,022,145	(941,615)	1,080,530	892,914
Infrastructure	4.00 a 20.00	1,396,830	(621,741)	775,089	771,076
Lands	-	47,492	-	47,492	48,264
Software rights to use	20.00	1,786,287	(922,820)	863,467	539,667
Buildings	2.86 to 4.00	195,123	(40,382)	154,741	136,315
Terminal equipment	66.67	512,807	(386,098)	126,709	120,228
Concession license	6.67	976,476	(496,724)	479,752	588,252
Other assets	6.00 to 20.00	675,559	(309,393)	366,166	184,418
Properties and work in progress	-	343,333	-	343,333	791,035
<b>Total</b>		<b>12,106,297</b>	<b>(6,112,888)</b>	<b>5,993,409</b>	<b>5,603,003</b>

In fiscal year ended December 31, 2005, subsidiary GT capitalized financial expenses incurred on loans that are financing works in progress in the amount of R\$6,967 (R\$6,761 on December 31, 2004).

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

**12. DEFERRED**

	Annual amortization rates %	Consolidated	
		12.31.05	12.31.04
Pre-operating expenses:			
License amortization	10	80,496	80,496
Financial expenses	10	201,131	201,131
General and administrative expenses	10	69,960	71,624
		<u>351,587</u>	<u>353,251</u>
Goodwill – Ceterp Celular S.A.	10	84,265	84,265
Goodwill	(a)	16,231	15,247
		<u>452,083</u>	<u>452,763</u>
Accrued amortization:			
Pre-operating expenses		(221,012)	(186,804)
Goodwill – Ceterp Celular S.A.		(42,834)	(34,408)
Goodwill		(10,937)	(7,686)
		<u>(274,783)</u>	<u>(228,898)</u>
Total		<u>177,300</u>	<u>223,865</u>

(a) Pursuant to contractual terms.

**13. SUPPLIERS AND ACCOUNTS PAYABLE**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Suppliers	24,803	16,305	1,094,558	1,331,526
Interconnection / connection	-	-	102,668	98,573
Amounts to be transferred SMP (a)	-	-	283,126	200,458
Technical assistance (note 29)	-	-	25,978	33,709
Other	131	113	29,947	28,266
Total	<u>24,934</u>	<u>16,418</u>	<u>1,536,277</u>	<u>1,692,532</u>

(a) Amounts to be transferred SMP refer to VC2 and VC3 calls billed to our customers and transferred to long distance operators.

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

**14. TAXES, RATES AND CONTRIBUTIONS**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
ICMS	-	-	416,507	368,593
Income tax and social contribution	-	-	33,218	29,716
PIS and COFINS	7,474	5,090	68,853	78,412
FISTEL	-	-	13,930	20,081
FUST and FUNTTEL	-	-	4,460	4,470
CIDE	-	-	4,021	4,021
Other taxes, rates and contributions	216	381	31,799	27,415
<b>Total</b>	<b>7,690</b>	<b>5,471</b>	<b>572,788</b>	<b>532,708</b>
Current	7,690	5,471	403,210	343,367
Noncurrent	-	-	169,578	189,341

In the noncurrent portion the amount of R\$165,175 refers to ICMS (State VAT) - "Programa Paraná Mais Emprego" resulting from the covenant with the Government of Paraná State concerning the postponement for payment of the ICMS. This covenant sets forth that the ICMS maturity date will occur always in the 49<sup>th</sup> month following that in which the ICMS was determined.

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

15. LOANS AND FINANCING

a) Debt composition

Description	Currency	Interest	Maturity	Holding Company		Consolidated	
				12.31.05	12.31.04	12.31.05	12.31.04
<u>Financial Institutions:</u>							
Resolution 2770	US\$	1% p.a. a 9.8% p.a. 0% to 2.98%	02/03/06 a 01/20/08 04/18/06 a	1,173,390	1,455,484	1,940,082	1,738,126
Resolution 2770	¥	a.a 103.3% of CDI to	12/14/07	204,537	77,110	352,575	177,068
Debentures	R\$	104.4% of CDI	08/01/08 a 05/01/15	1,500,000	500,000	1,500,000	500,000
Compror	US\$	1% to 6.25%p.a.	02/03/06 a 01/30/08	-	-	168,749	103,841
Compror	¥	0.7% p.a. to 2.75%p.a.	01/24/06 a 12/07/07	-	-	91,875	-
BNDES	URTJLP	URTJLP + 3.6%p.a. to 4.6%p.a. (a)	01/15/06 a 06/15/11	-	-	267,714	366,537
BNDES	UMBNDES	3.5%p.a. to 4.6%p.a.	10/15/07 a 07/15/11	-	-	48,327	74,981
BNDES	R\$	100% Selic Libor +	12/15/05	-	-	-	152,377
Commercial Paper	US\$	1.75%a.a to 6.30%p.a. to 6.55%p.a.	07/29/07 a 12/30/07	-	-	491,547	238,896
Promissory Notes	R\$	101.6% of CDI	05/22/05	-	1,000,000	-	1,000,000
Unibanco IGP-M Export Development Canada - EDC	R\$	IGP-M + 9%p.a. to 9.45%p.a.	09/13/07 a 11/01/07	110,441	-	115,264	-
Teleproduzir (b)	US\$	Libor + 5% p.a.	12/14/06	-	-	23,643	71,158
Other	R\$	0.02% p.a. FGV	10/12/12	-	-	-	15,159
Other	R\$	Column 27	10/31/08	-	-	1,292	1,523
<u>Suppliers:</u>							
NEC do Brasil	US\$	7.3% p.a.	11/20/05	-	-	-	7,192

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

a) Debt composition

Description	Curren cy	Interest	Maturity	Holding Company		Consolidated	
				12.31.05	12.31.04	12.31.05	12.31.04
<u>Related parties:</u>							
Commercial Paper	US\$	Libor + 5% p.a.	07/29/05	-	-	-	318,528
Investment acquisition - "TCO"	R\$	CDI + 1% p.a.	-	10,696	53,484	10,697	53,484
Interest				132,765	117,209	181,272	144,303
Total				<u>3,131,829</u>	<u>3,203,287</u>	<u>5,193,037</u>	<u>4,963,173</u>
Current				1,066,051	1,909,640	1,546,935	2,896,102
Noncurrent				2,065,778	1,293,647	3,646,102	2,067,071

(a) In case TJLP is higher than 10% p.a., the spread will be 6% p.a.

(b) In August 2005, the Company effected the advanced payment with negative goodwill of the benefit of Teleproduzir Program, arising out of the agreement with Goiás State government relating to the implementation of the Call Center.

b) Repayment schedule

Maturities of the long-term portion of loans and financing are as follows:

Year	12.31.05	
	Holding Company	Consolidated
2007	548,334	2,032,079
2008	517,444	558,091
2009	-	22,253
2010	-	22,253
2011	-	11,426
After 2011	1,000,000	1,000,000
Total	<u>2,065,778</u>	<u>3,646,102</u>

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c) Restrictive covenants

GT entered into loan and financing agreements with Banco Nacional de Desenvolvimento Econômico e Social - BNDES, whose balance of principal on December 31, 2005 was R\$232,536 (R\$304,305 on December 31, 2004). In accordance with the agreements, there are several economic and financial indexes which must be met annually. Subsidiary GT did not meet the "Total Net Debt / EBITDA" index in the calculation prepared on December 31, 2005. The bank has already waived the non-compliance with such obligation until December 31, 2006.

TCO and its subsidiaries entered into loan and financing agreements with Banco Nacional de Desenvolvimento Econômico e Social - BNDES and Export Development Canada - EDC, whose balances of principal on December 31, 2005 were R\$83,505 and R\$23,643 (R\$137,213 and R\$71,158 on December 31, 2004), respectively. On this same date, the Company met several economical and financial indexes established in agreements with the EDC. However, in the calculation prepared on December 31, 2005, it has been determined that the "EBITDA Margin" rate (EBITDA on net operating revenue) was not met by NBT in its agreements with the BNDES. Said bank has already waived the non-compliance with such obligation until December 31, 2006.

d) Hedge

On December 31, 2005, the Company and its subsidiaries had exchange contracts with notional amounts of US\$1,189,046, ¥22,508,949 thousand and €2,482 thousand (US\$1,078,180 thousand, ¥6,879,947 thousand and €25,247 thousand on December 31, 2004) to cover all their obligations against exchange fluctuation. On December 31, 2005, the Company and its subsidiaries recorded an accrued loss of R\$310,086 (R\$26,935 on December 31, 2004) on these hedge transactions stated in the balance sheet as follows:

Description	12.31.05	12.31.04
Current assets	300,662	7,804
Noncurrent assets	5,354	385,296
Total assets	306,016	393,100
Current liabilities	(321,686)	(266,200)
Long-term liabilities	(294,416)	(153,835)
Total liabilities	(616,102)	(420,035)
Accrued loss	(310,086)	(26,935)

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##### e) Guarantees

GT's loans and financing, in local currency, in the amount of R\$232,535 represent financing guaranteed by pledge of accounts receivable, which may be optionally withheld up to the limit of 300% of the monthly installment.

TCO's guarantees are as follows:

<u>Banks</u>	<u>Guarantees</u>
BNDES - TCO Operators	15% of receivables and CDB as pledge of the amount equivalent to the next installment payable.
BNDES - NBT	100% of receivables and CDB as pledge of the amount equivalent to the next two installments payable.

##### f) Debentures

The 1st public issue of debentures, comprising five thousand (5,000) unsecured, non-convertible simple debentures, in the face value of one hundred Brazilian reais (R\$100) each, with maturity date on August 01, 2008, was rescheduled on August 01, 2004. The rescheduling was negotiated for the whole original issue dated August 01, 2003, at the rate of 104.6% of the CDI, with extension of term (new rescheduling for August 01, 2007) concomitantly with the reduction of the rate to 104.4% of the CDI.

Within the scope of the First Securities Distribution Program in the amount of two billion Brazilian Reais (R\$2,000,000,000.00) announced on August 20, 2004, the Company issued debentures in the amount of one billion Brazilian Reais (R\$1,000,000,000.00) on May 01, 2004, with 10-year tenor, counted from the issuance date May 01, 2005.

The Offering consisted of the issue of 100,000 unsecured, non-convertible simple debentures, in the face value of ten thousand Brazilian Reais (R\$10,000.00) each, totaling the amount of one billion Brazilian Reais (R\$1,000,000,000.00) in two series, two hundred million Brazilian Reais (R\$200,000,000.00) in the first series and eight hundred million Brazilian Reais (R\$800,000,000.00) with final maturity date on May 01, 2015. The debentures yield semiannual interest corresponding to 103.3% (first series) and 104.2% (second series) of the average accrued rates of one-day, extra-group DI - Interfinancial Deposits rates (DI rates), calculated and disclosed by the Custody and Settlement Agency - CETIP.

The yield of the debentures is estimated to be rescheduled on May 01, 2009 (first series) and May 01, 2010 (second series). On a conservative basis, the Company included in the above mentioned long-term maturity consolidated schedule the principal amount of the debentures for years 2009 and 2010, which are the rescheduling dates of payment of the two series.

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#### 16. OTHER LIABILITIES

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Prepaid services	-	-	121,865	102,158
Provision for loyalty program (a)	-	-	21,311	8,393
Intercompany liabilities	164	20,997	6,007	23,902
Provision for pension fund	-	-	483	358
Stock grouping (b)	22,513	-	64,344	-
Other	97	-	45,361	39,277
<b>Total</b>	<b>22,774</b>	<b>20,997</b>	<b>259,371</b>	<b>174,088</b>
Current	22,774	20,997	215,285	134,695
Noncurrent	-	-	44,086	39,393

(a) The subsidiaries have loyalty programs in which the calls are transformed into points for future exchange for handsets. Accumulated points are reserved as they are obtained considering redemption historical data, accumulated points and point average cost.

(b) Refers to credit made available to shareholders benefiting from unsold shares resulting from grouping of shares of the capital stock of the Company and of its subsidiaries (note 18).

#### 17. PROVISION FOR CONTINGENCIES

The holding company and its subsidiaries have administrative and judicial contingencies including labor, tax and civil claims, which relevant accounting provision was made in relation to claims considered as probable losses.

The components of the provision balance are as follows:

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
TELEBRÁS - "TCO"	-	-	147,856	139,465
Labor	260	-	22,288	17,982
Civil	-	-	40,807	13,434
Tax	66,946	58,987	167,674	148,849
<b>Total</b>	<b>67,206</b>	<b>58,987</b>	<b>378,625</b>	<b>319,730</b>
Current	66,946	58,987	170,988	124,296
Noncurrent	260	-	207,637	195,434

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Changes in the provision for contingencies at year ended on December 31, 2005 are as follows:

	2005	
	Holding Company	Consolidated
Balance at the beginning of the year	58,987	319,730
Additional provisions, net of reversal	260	45,519
Monetary variation	7,959	23,575
Payments	-	(10,199)
Balance on December 31	<u>67,206</u>	<u>378,625</u>

#### 17.1. Telebrás - "TCO"

They are related to original loans entered into with Telecomunicações Brasileiras S.A. - TELEBRÁS, which, pursuant to exhibit II of the Spin-off Report of February 28, 1998, approved by the General Meeting held in May 1998, should be assigned to the relevant holding company of Telegoiás Celular S.A. and of Telebrasília Celular S.A.

Taking into account the failure in the allocation of the respective loans upon the spin-off, the Company suspended the payments and started adjusting the debt by the General Market Price Index (IGP-M) variation, added by interest of 6% per year.

In June 1999, the Company filed an action claiming that the assets relating to those liabilities are owned by it, as well as their respective accessories, in addition to claiming damages for installments paid.

On August 1, 2001, a decision was rendered finding the Company's claims in the declaratory action to be groundless. On October 8, 2001, however, the Company filed an appeal and the appellate courts considered the appeal groundless and upheld the decision rendered by lower court. The Company filed a new appeal before the Superior Court of Justice - STJ, which decision is pending.

#### 17.2. Tax Claims

##### 17.2.1. Probable Loss

###### a) COFINS

Subsidiary Telesp Celular S.A. received a tax delinquency notice (proceedings no. 19515.000.700/2003-97) for having deducted COFINS tax payable, in January and February 2000, against credits arising out of the excess to 1/3 of COFINS paid in 1999, after deduction against the CSLL. The amount booked as a reserve on December 31, 2005 is R\$24,671 (R\$24,671 on December 31, 2004).

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The Company's management posted a provision of R\$2,684 on December 31, 2005, referring to several tax claims based on the opinion of its legal consultants.

##### **17.2.2. Possible Loss**

Based on the opinion of its legal counsels and tax consultants, the Management believes that settlement of the following issues shall not produce a relevant adverse effect on its financial condition and, except for PIS and Cofins (item "b" below), it did not book any provisions in the financial statements as of December 31, 2005.

##### **a) ICMS**

Subsidiaries Global Telecom S.A., TCO and indirect subsidiaries Teleacre, Telems, Telemat and Telegoiás received tax delinquency notices amounting to R\$57,362, due to the following reasons: i) ICMS on eventual or supplementary services unrelated to telecommunication services; ii) ICMS on international calls, originated in Brazil; iii) lack of proportional reversal of ICMS credit concerning acquisition of permanent assets used to provide communication services and/or outflow of exempted or nontaxable goods; iv) ICMS on gratuitous provision of telecommunication services, characterized by credit gifts to be used in prepaid service plan; v) non-inclusion in ICMS tax basis of the fine and delay interest charged to defaulting customers; vi) alleged noncompliance with accessory obligations; and vii) others related to goods sold.

##### **b) PIS and COFINS**

##### **b.1) Law nº 9.718/98**

On November 27, 1998, Law No. 9,718 changed the calculation of PIS and COFINS, as follows: i) it increased COFINS rate from 2% to 3%; ii) it authorized the deduction of up to 1/3 of the amount of COFINS from the amount of the Social Contribution on Net Income - CSLL, and also; iii) it indirectly increased COFINS and PIS payable by subsidiaries, establishing the inclusion of surplus revenue in COFINS and PIS tax basis.

On November 09, 2005, the Full Bench of the Federal Supreme Court rendered a decision declaring the changes introduced by Law no. 9,718/98 to the calculation basis of PIS and COFINS taxes, which were the subject matter of several demands filed by taxpayers in general and by the Company, to be unconstitutional. Upon hearing Special Appeals numbers 357.950, 390.840, 358.273 and 346.084, the court ruled that paragraph 1, article 3 of the referred Law was unconstitutional, which paragraph had determined that such contributions would be taxed not only on the Company's invoicing, but also on "any and all revenues earned by the legal entity, regardless of the type of activity exercised by it and the accounting classification adopted for the revenues".

As a result of the decision rendered by the Federal Supreme Court, the law firm that defends the Company's interests in this court demand changed the classification of the chance of loss from possible loss to remote loss, due to the widening of the PIS and COFINS tax calculation basis.

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The classification of the chance of loss in the court demand related to the increase of COFINS rate has remained as being possible loss. On a conservative decision, the management upheld the provision for the other companies, which on December 31, 2005 amounted to R\$140,319 and will wait for the judgment of these claims.

In view of the changes introduced by laws 10,637/02 and 10,833/03, the Company and its direct and indirect Subsidiaries now include the surplus revenue in PIS and COFINS tax basis.

##### b.2) Increase in Tax Basis

The subsidiary Telesp Celular S.A. received delinquency notices (cases No. 19515.000701/2003-28 and No. 19515.000699/2003-97) in the amount of R\$2,365 (PIS - R\$421, and COFINS - R\$1,944), due to the increase in PIS and COFINS tax calculation basis introduced by Law No. 9,718/98. The mentioned delinquency notices have been challenged by the subsidiary at administrative level.

##### b.3) CIDE

This refers to a claim filed for the purpose of removing the taxation of CIDE rate on remittances of funds abroad, arising out of transfer of technology, trademark and software license, etc. The amount involved in such demand corresponds to R\$27,992.

##### c) IRPJ

The indirect subsidiaries Telems and Telemat received delinquency notices in the amount of R\$46,924, in which the amount paid to FINOR throughout calendar year 1998 was not recognized as utilization of tax payable in tax incentive, but rather as utilization in own resources and/or voluntary subscription, which, therefore, became liability as for tax income purposes, pursuant to article 4 of Law No. 9,532/97. The lawfulness of such tax delinquency notice has been challenged by the subsidiaries.

#### 17.3. Civil and Labor Claims

Include several labor and civil claims, for which a reserve has been provided as shown above, in an amount considered to be sufficient to cover probable losses.

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In the cases in which the chance of loss is classified as possible, the aggregate amount involved is R\$84,728 for civil claims and R\$39,995 for labor claims:

	2005	
	Civil	Labor
Telesp Celular Participações S.A.	14,915	58
Telesp Celular S.A.	33,240	29,747
Global Telecom S.A.	12,143	5,013
Tele Centro Oeste Celular Participações S.A.	24,430	5,177
<b>Total</b>	<b>84,728</b>	<b>39,995</b>

#### 18. SHAREHOLDERS' EQUITY

##### a) Capital Stock

On January 07, 2005, the Company increased its capital stock by R\$2,053,896 thousand, of which R\$53,896 referred to a special goodwill reserve realized in previous fiscal years, upon issue of 410,779,174 thousand new shares, of which 143,513,066 are common shares and 267,266.108 thousand are preferred shares.

At a General and Special Meeting held on April 01, 2005, the shareholders approved the grouping of 1,582,563,526,803 registered, book-entry type shares with no face value, of which 552,896,931,154 are common shares and 1,029,666,595,649 are preferred shares, representing the Capital Stock of the Company, in the proportion of two thousand and five hundred (2,500) shares for one (1) share of the same kind, whereby the Capital Stock is now represented by 633,025,410 registered, book-entry type shares with no face value, of which 221,158,772 are common shares and 411,866,638 are preferred shares.

On July 29, 2005, the Company communicated to the shareholders the increase in the Capital Stock by R\$242,595,157, corresponding to the tax benefit of the merged goodwill, actually carried out in fiscal year 2004. The Capital Stock increased from R\$6,427,557,341 to R\$6,670,152,498, upon issuance of 29,298,932 new common shares, with due regard to the preemptive right set forth in article 171 of Law 6,404/76. The proceeds arising out of eventual exercise of preemptive rights must be credited to Portelcom Participações S.A.

The capital stock at December 31, 2005 and 2004 comprises shares with no face value, as follows:

	Per thousand shares	
	12.31.05	12.31.04
Common shares	250,458	409,383,864
Preferred shares	411,867	762,400,488
<b>Total</b>	<b>662,325</b>	<b>1,171,784,352</b>

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##### **b) Dividends and Interest on Shareholders' Equity**

Unless as otherwise provided for in articles 9 and 10 of the Bylaws, preferred shares have no voting right. Preferred shares are entitled to priority upon reimbursement of the capital stock, without premium, right to receive dividends to be distributed, corresponding to at least 25% of the net income for the year, calculated in accordance with article 202 of the corporate law, with priority upon receipt of non-cumulative minimum dividends equal to whichever is higher between:

b.1) six per cent (6%) per year of the value resulting from the division of the subscribed capital by the total number of shares of the Company, or

b.2) 3% per year on the amount resulting from the division of the shareholders' equity by the aggregate amount of the Company's shares, as well as the right to profit sharing paid in conditions equal to common shares, after being assured to them a dividend equal to the preferred minimum established to preferred shares.

Since the Annual Meeting held on March 27, 2004, the preferred shares have full voting right, taking into account the nonpayment of the minimum dividend to preferred shares during the last three consecutive years, pursuant to article 111, paragraph 1, of Law No. 6,404/76.

##### **c) Special Goodwill Reserve**

This provision refers to booking of a special reserve of the goodwill resulting from the corporate restructuring of the Company, which will be capitalized on behalf of the holding company, upon actual realization of the tax benefit.

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**19. NET OPERATING REVENUE**

	Consolidated	
	12.31.05	12.31.04
Subscription	173,795	242,588
Usage	4,294,935	3,755,598
Additional call charges	161,572	113,320
Interconnection	2,960,179	3,142,070
Data services	501,135	369,416
Other services	177,746	179,265
<b>Gross revenue from services</b>	<b>8,269,362</b>	<b>7,802,257</b>
ICMS	(1,352,615)	(1,170,662)
PIS and COFINS	(297,095)	(280,896)
ISS	(2,695)	(2,416)
Discounts granted	(256,004)	(182,653)
<b>Net operating revenue from services</b>	<b>6,360,953</b>	<b>6,165,630</b>
<b>Gross revenue from sales of handsets and accessories</b>	<b>1,985,514</b>	<b>1,953,366</b>
ICMS	(161,009)	(186,742)
PIS and COFINS	(129,768)	(135,749)
Discounts granted	(496,043)	(349,081)
Return of goods	(86,581)	(106,397)
<b>Net operating revenue from sales of handsets and accessories</b>	<b>1,112,113</b>	<b>1,175,397</b>
<b>Total net operating revenue</b>	<b>7,473,066</b>	<b>7,341,027</b>

There are no customers who contributed more than 10% of the gross operating revenue during fiscal years 2005 and 2004, except for Telecomunicações de São Paulo S.A. - TELESP, a fixed telephone service provider in the State of São Paulo, which contributed approximately 15% and 18% of the total gross revenue, and for Brasil Telecom S.A. - BrT, a fixed telephone service provider, which contributed approximately 10% and 11%, respectively, mainly in relation to interconnection.

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

**20. COST OF GOODS SOLD AND SERVICE RENDERED**

	Consolidated	
	12.31.05	12.31.04
Personnel	(63,242)	(59,308)
Supplies	(7,447)	(6,591)
Third party services	(198,598)	(173,128)
Connection means	(133,984)	(119,684)
Rental, insurance and condominium fees	(96,981)	(90,362)
Interconnection	(158,673)	(222,582)
Taxes, rates and contributions	(334,176)	(190,479)
Depreciation and amortization	(776,397)	(728,907)
Other input	(979)	(716)
Cost of services rendered	(1,770,477)	(1,591,757)
Cost of goods sold	(1,587,028)	(1,734,445)
Total	<u>(3,357,505)</u>	<u>(3,326,202)</u>

**21. SELLING EXPENSES**

	Consolidated	
	12.31.05	12.31.04
Personnel	(205,543)	(187,814)
Supplies	(34,565)	(44,579)
Third party services	(1,179,114)	(898,969)
Publicity and advertising	(318,329)	(308,940)
Rental, insurance, condominium fees	(42,287)	(34,519)
Taxes, rates and contribution	(1,470)	(1,534)
Depreciation and amortization	(201,136)	(148,545)
Provision for doubtful accounts	(569,847)	(269,075)
Other input	(74,255)	(15,336)
Total	<u>(2,626,546)</u>	<u>(1,909,311)</u>

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Personnel	(2,933)	(4,034)	(139,506)	(138,502)
Supplies	(6)	(10)	(7,924)	(6,768)
Third party services	(4,647)	(3,779)	(289,319)	(266,956)
Rental, insurance, condominium fees	(272)	(83)	(47,454)	(40,885)
Taxes, rates and contributions	(333)	(146)	(5,392)	(12,194)
Depreciation and amortization	(107)	(90)	(149,517)	(131,321)
Other input	(156)	(23)	(20,243)	(23,965)
<b>Total</b>	<b>(8,454)</b>	<b>(8,165)</b>	<b>(659,355)</b>	<b>(620,591)</b>

**23. OTHER OPERATING INCOME (EXPENSES)**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
<b>Income:</b>				
Fines	-	-	68,683	72,417
Recovered expenses	9,545	137	67,016	51,615
Reversal of provisions	-	-	15,847	16,975
Shared infrastructure / EILD	-	-	24,538	17,680
Trade discounts	-	-	89,675	64,353
Other	86	4,894	16,445	17,870
<b>Total</b>	<b>9,631</b>	<b>5,031</b>	<b>282,204</b>	<b>240,910</b>
<b>Expenses:</b>				
FUST	-	-	(33,553)	(29,973)
FUNTTEL	-	-	(16,776)	(14,854)
ICMS on other expenses	-	-	(31,615)	(3,804)
CIDE	(198)	-	(3,939)	(1,176)
PIS and COFINS on other revenues	(311)	(770)	(34,561)	(30,664)
Other taxes, rates and contributions	(818)	(365)	(16,761)	(25,513)
Provision for contingencies	(260)	(2,002)	(45,891)	(29,462)
Deferred assets amortization	-	-	(39,122)	(39,369)
Goodwill amortization	(338,149)	(215,745)	(386,313)	(225,733)
Other	(552)	-	(16,697)	(10,261)
<b>Total</b>	<b>(340,288)</b>	<b>(218,882)</b>	<b>(625,228)</b>	<b>(410,809)</b>

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**04.01 - NOTES TO THE FINANCIAL STATEMENTS**

**24. FINANCIAL INCOME (EXPENSES)**

	Holding Company		Consolidated	
	12.31.05	12.31.04	12.31.05	12.31.04
Financial income:				
Interest income	44,806	70,541	281,055	252,497
Monetary/exchange variations on assets	179,399	264,135	451,512	397,715
Pis and Cofins on financial income	(5,321)	(4,219)	(19,949)	(29,247)
<b>Total</b>	<b>218,884</b>	<b>330,457</b>	<b>712,618</b>	<b>620,965</b>
Financial expenses:				
Interest expense	(362,621)	(435,134)	(615,483)	(708,024)
Monetary/exchange variations on liabilities	(19,803)	(29,295)	(73,607)	(94,524)
Hedge transactions, net	(421,862)	(597,722)	(941,142)	(913,819)
<b>Total</b>	<b>(804,286)</b>	<b>(1,062,151)</b>	<b>(1,630,232)</b>	<b>(1,716,367)</b>

**25. INCOME AND SOCIAL CONTRIBUTION TAXES**

The Company and its subsidiaries estimate and pay monthly the installments of income and social contribution taxes on an accrual basis. Deferred taxes are recognized on temporary differences pursuant to note 7. The composition of the expenses of income and social contribution taxes is the following:

	Consolidated	
	12.31.05	12.31.04
Income tax	(250,815)	(256,502)
Social contribution	(90,963)	(93,572)
Deferred income tax	70,321	16,922
Deferred social contribution	25,391	6,092
<b>Total</b>	<b>(246,066)</b>	<b>(327,060)</b>





























































































































































































































































































































































































