

***Celular CRT  
Participações S.A.***

*Financial Statements for the Years Ended  
December 31, 2004 and 2003 and  
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

## MANAGEMENT'S REPORT

The management of **Celular CRT Participações S.A.**, a company resulting from the joint venture between Telefónica Móviles S.A. and Portugal Telecom, SGPS, S.A., operating under the brand name VIVO, is submitting Management's Report and the Company's financial statements, together with the independent auditors and audit committee reports for fiscal year ended December 31, 2004, in compliance with the provisions in the law and bylaws.

### **1. POLITICAL AND ECONOMIC ENVIRONMENT**

2004 was marked by the strong growth in Brazil's economy. Not only did preliminary projections point to an increase in GDP ("Produto Interno Bruto") of around 5%, its best performance since 1994, but there was also rise in the levels of employment, consumption and industrial output. But despite the drop in the inflation rate as compared to the year before, it was higher than the goal targeted by the Brazilian Government, albeit still within the 2.5% margin of error established by National Monetary Council. The Consumer Price Index (IPCA) closed the year at 7.6%, as against the targeted 5.5%. In response to the pressure of inflation, Brazilian Central Bank created a very stringent monetary policy characterized by successive increases in the effective basic interest rate (SELIC) throughout the second half of the year, reverting the downward trend of the first half, to 17.74% at year's end, up 1.42% on the 2003 figure.

Main highlights on the international scenario were the devaluation of the U.S. dollar against the euro and main worldwide currencies, the record increase in oil prices, with a slight end-of-year drop, the reelection of the U.S. president and the onset of the proclaimed escalation of U.S. interest rates.

The U.S. dollar rate fell 8% in relation to the Brazilian real, to R\$2.6544 to US\$1.00, this being the second year this appreciation has occurred. The appreciation of the real against the U.S. dollar was due not only to the dollar devaluation on the international market, but also to the entry of new foreign investments into Brazil, and especially to a record surplus trade balance.

The foreign market continued to rate Brazil positively. Brazil's risk dropped by almost 20% in the year, to 379 points, the lowest score since October 1997. The C-Bond closed the year at a trading value of 102% of its face value, and Global 40 at 119%.

Taking full advantage of the rekindling of the domestic economy and consolidation of mobile phone operators on the Brazilian market and consequent rising competition, the Brazilian mobile phone market grew by a significant 41.5%, boasting over 65.6 million customers.

### **THE WORLDWIDE MOBILE TELEPHONY BUSINESS**

The world mobile telephony market expanded 18.6% and 20.3%, respectively in 2002 and 2003. Growth in 2004 is expected to be about the same, to the tune of 20%. Following the same trend of the year before, Nigeria, Russia and India are expected to be the markets posting the highest growth rates - 130%, 91% and 69%, respectively.

In 2004, worldwide mobile penetration is expected to reach 33%, up 5% on the 2003 figure. In the third quarter of 2004 worldwide mobile penetration was 32%, which is more than the 23% penetration registered by fixed telephones around the world. In some countries mobile penetration has exceeded 100%, such as in Sweden, Italy and Israel, which have been reported 108%, 106% and 105% mobile penetration, respectively.

## THE MOBILE TELEPHONY BUSINESS IN BRAZIL

2004 registered a strong expansion in the Brazilian mobile business triggered principally by the strong competition pressure among operators, which broke down the barriers to new services and toppled service prices. The year closed with a total 65.6 million lines, reporting 41.5% growth in the year.

Expectations point to a slight slowdown in the growth of the mobile business in 2005, due mainly to the already high mobile penetration and operator concern in stepping up business profitability.

VIVO maintained its leadership position on the Brazilian mobile market, with a 40.5% market share at the end of the year.

Net additions in 2004 totaled 19.2 million, up 67% on net additions registered in 2003. The last quarter of the year reported the highest volume of net additions in the year, totaling 7.4 million new lines, up 35% from the last quarter in 2003.

Due to the mobile industry's strong growth in 2004, mobile penetration reached 36.6%, which is higher than in 2003 by 10%. Consequently, mobile penetration was 14% higher than that registered by fixed telephones in Brazil, of 22% at the end of 2004.

Data services usage also rose in Brazil in 2004. Revenues produced in Brazil from data transmission accounted for 2% of ARPU in the third quarter of 2003, but had reached 4% in the third quarter of 2004. As was the case in developed markets like Europe and some Asian countries, demand for data services is expected to continue to grow significantly during 2005. This growth may be spurred by the diversity of solutions and service applications provided by mobile phone access to data.

## REGULATORY ENVIRONMENT

No significant changes occurred in the regulatory environment in 2004 other than the alteration in the negotiating system of the SMP operator network usage value (VU-M), introduced in July 2004.

In addition, in order to enhance competition among companies that exploit telecommunication services and promote the diversification of quality services at reasonable prices to the public, the Brazilian Telecommunication Authority (ANATEL) took steps to fix interconnection rates and the prices of products offered based on the cost model. One of the steps taken by ANATEL in June and July 2004 was to submit proposed changes in the regulations governing interconnections, account separation and allocation and industrial dedicated line exploitation to "public consultation". The deadline for accepting suggestions was October 18, 2004, and the Company sent a broad range of discussions on the proposals submitted by ANATEL.

## 2. MARKETING STRATEGY

The Company's strategy in 2004 was based on two fundamental principles:

- Maintenance of its market leadership.
- Growth while striving for profitability with a view to a maximization of EBITDA (earnings before interest, taxes, depreciation and amortization) and its margin.

These principles were translated into a marketing strategy that aimed at:

- To maintain VIVO's lead position in product and service quality and coverage, and an ongoing focus on capturing new customers and securing high-value customer loyalty.
- To reduce the churn rate (number of disconnected customers from the customer base in relation to the average number of active subscribers) through structured and focused actions especially targeted at the corporate, youth and high-potential customer segments, which are continually being targeted by our competitors.
- To introduce innovative products and services nationwide and worldwide in order to leverage its institutional image and cause VIVO to become the best known brand on the domestic mobile telecommunication market.
- To implement actions that encourage use of services through publicity and promotional campaigns, particularly those aimed at prepaid card recharging.
- To streamline the structure and enhancing the quality of call center and local store customer services.
- To exploit its competitive edge in coverage by reinforcing actions such as CDMA technology innovation, with migration from TDMA to CDMA, and adoption of CDMA 1xRTT in several capital cities and municipalities within its geographical operations area.

### PLANS AND CAMPAIGNS

The Company developed a strong customer capturing policy based on aggressive mass-oriented promotions and actions targeting specific business segments. Most promotions sought to lure prepaid and postpaid plan customers through combined efforts that stimulate intranet traffic, data services usage, selective handset price rebates (postpaid plan promotions offering rebates pegged to service plan value) and a choice of favorite numbers at discount rates.

During the course of the year several incentives were created to pitch battle against the competition and increase VIVO's market share, the most relevant among which were "*Seja Vivo Agora*" (Be VIVO Now) and "*Mude pra Vivo*" (Change to VIVO), in which progressive discounts on handsets were offered to competitors postpaid plan subscribers.

Simultaneously with the acquisition campaigns, VIVO worked on price perception of the market in general and also of its customer base. There was a complete repositioning of the plan portfolio in view of new players arriving in its area of operations, which offered tariff discounts and aggressive subsidies as a key sales leverage.

2004 started with a summer promotion entitled “*Seu VIVO Pode Sair de Graça*” (You Could Get Your VIVO for Free), whose underlying concept was a handset that would be free since its cost would be refunded in the form of on-net free-call bonus. In March, the campaign “*Te Considero Pra Caramba*” (I Really Dig You) proposed to create an on-net calling habit by offering a free-call bonus and special rates, and stepped up use of SMS, MMS and voice mail services (with a strong impact on the youth segment).

In May, the promotion “*Dia das Mães VIVO*” (Mother’s Day VIVO) was designed to create a customer habit of making daily cell phone calls (daily free-call bonus), including to fixed phones in order to stimulate incoming traffic. The Company also launched a postpaid minute plan, “*Atração Irresistível*” (Irresistible Attraction), also in May, designed to attract and capture the loyalty of high-value customers that had been targeted by the competition throughout the year. In mid-June, the campaign “*Te Quero Muito*” (I Want You So Much) has been initiated in an attempt to encourage intranet calls, in line with the “VIVO Community” concept.

As from July, several promotions offering escalating handset rebates pegged to postpaid minute plans (“*Promoção Sonho de Consumo*” - Consumer Dream Promotion) were launched resulting in the acquisition of high-potential customers. This segment was leveraged as a result of the launching of a new portfolio of postpaid plans. “*VIVO Família*” (VIVO Family), launched in July, allows users to share minute-plan and include family dependents, many of which had previously been prepaid plan subscribers. The purpose of this campaign was to take advantage of opportunities offered by the customer base, foster the community concept and capture high-value customer loyalty.

In the prepaid business, “*VIVO Boa Hora*” (VIVO Good Time) has been initiated in August, a plan which provides better rates in periods in which the customers use the phone more often, and also allows customers to choose a day in the week when they can call at reduced rates and also to select five favorite numbers they can call at reduced rates.

Father’s Day was also celebrated with a promotion “*Dia dos Pais*” featuring several draws, including a car and on-net free-call bonuses, as well as the offer of services such as SMS, MMS and voice mail. In September, “*500 Minutos por R\$1*” (500 Minutes for R\$1) campaign was launched (every month for one year) mainly targeting postpaid subscribers, to buttress the launching of the “family plan”.

In October it was the time to support the launching of the “*VIVO Boa Hora*” and its attributes with a “*5 Amigos*” (5 Mates) campaign (local calls with a 50% abatement). In November a customer acquisition campaign was organized featuring special discounts for service-compatible handsets to urge the use of the service “*Vivo Encontra*” (VIVO Locates). The target publics of this action were A/B classes (young adult and high potential user segments). Also in November VIVO made a special long-distance call offer to postpaid subscribers in partnership with Telefônica. This promotion enabled customers subscribing to postpaid plans or exchanging their handsets for new ones to make VIVO-to-VIVO long-distance calls at local rates for one year.

The last campaign of the year was “*Natal VIVO*” (Christmas VIVO), which worked on price perception and the VIVO Community concept (reduced two-way rate and free-call bonus to be given as gifts to VIVO friends), and encouraged on-net calls (bonus). The Christmas campaign was boosted due to the launching of two other plans, “*VIVO Pós-Turbinado*” (Boosted Post VIVO), a mass market oriented minute plan, and “*VIVO Pós-Top*” (Top Post VIVO), in which handsets were provided at escalating discounts according to the plans elected by high-value customers, with the “additional 500-minutes for R\$1.00” promotion included.

In 2004, VIVO centered its efforts on establishing and enhancing its technological competitive edge by launching innovative services. Its portfolio of personal and corporate solutions has expanded significantly. Two of these programs were exclusive worldwide launchings: the alternative reality game “*VIVO em Ação*” (VIVO in Action) and “*VIVO Agenda*” (VIVO Agenda) service.

***VIVO em Ação*** (VIVO in Action): This was the first multimedia alternative reality game (ARG) to be organized on a worldwide scale and lasted 50 days. Approximately 1.5 million subscribers took part in the game as detectives searching for stolen cell prototypes. To find the clues, subscribers accessed VIVO services such as “*Portal de Voz*”, “*Chat Wap*”, “*Cupido SMS*” and “*Quiz SMS*”, as well as the Internet and e-mails.

***VIVO Agenda*** (VIVO Agenda): Enables customers to save their phone book entries with a VIVO server. Thus, if their handsets are lost, stolen or changed they can retrieve the information. Users can also add, exclude or alter phone book entries via the VIVO site and opt for automatic or manual synchronization. The first allows users to configure phone book synchronization intervals without their interference and the other provides for programmed phone book synchronization. Information inputted to the VIVO Agenda are encrypted so that only owners have access to it.

***VIVO Encontra*** (VIVO Finds): Provides high precision locating services through combined use of GPS satellites and VIVO’s CDMA 1x network cell stations. This solution comprises three optional services: **a) VIVO Localiza** (VIVO Locates) - provides the exact location of any user on a map, provided the user authorizes the search. **b) VIVO Aqui Perto** (VIVO Nearby) - enables subscribers to locate commercial establishments such as bars, restaurants and movie theaters that are shown on the map. The search can be made by category, name, address or how near the user is to the desired establishment. **c) VIVO Onde Estou?** (VIVO Where Am I?) - locates the user’s own handset, giving the street, number, district and city where the handset is located and a map.

***Olho VIVO***: Provides real time image viewing from certain user-selected web cams. This was the first time videostreaming was applied in Latin America.

***VIVO Zap 3G***: A step up from the ZAP service, that provides broadband Internet access. It was initially launched in São Paulo, Rio de Janeiro and Curitiba, where the first network sections having Evolution-Data Optimized - EV-DO technology are located, and provides data transmission at a speed of 2.4 megabits per second in laptops or PDAs.

***VIVO Avisá*** (VIVO Informs): This service provides call identification if your phone were disconnected, as well as number of attempted calls, call dates and times.

***Mobile Booking & Check-In***: This is a service that enables customers to purchase air tickets and check in for Gol Linhas Aéreas from their cell phones.

## CORPORATE SERVICES

The principal new services added in 2004 to the portfolio of applications catering especially to corporate customer needs were the following:

**VIVO Direto** (VIVO Direct): A quick connection service over the cell phone that is similar to radio communications, but has the benefit of a wider coverage, better prices and enhanced voice and signal quality.

**VIVO Ordens de Serviço** (VIVO Service Orders): This is the Company’s permanent means of contact with its field team members and of sending, updating and following up on service orders.

**VIVO Entregas** (VIVO Delivery): Designed to automate ordering, sending, updating and management processes at companies engaged in delivery services. It provides delivery routes and enables the Company to follow up on deliveries, change routes and issue new orders.

**VIVO Segurança** (VIVO Security): A similar service to Olho VIVO but aimed at providing better corporate security, showing the security video images on cell phones.

**VIVO Vendas** (VIVO Sales): A service whereby salesmen transmit orders to companies from outside Company premises, as well as consult information on customers, products, inventory, etc., from mobile devices such as PDAs.

**VIVO Pesquisa** (VIVO Research): Enables researchers to automate data collection and processing and to follow up on results on-line.

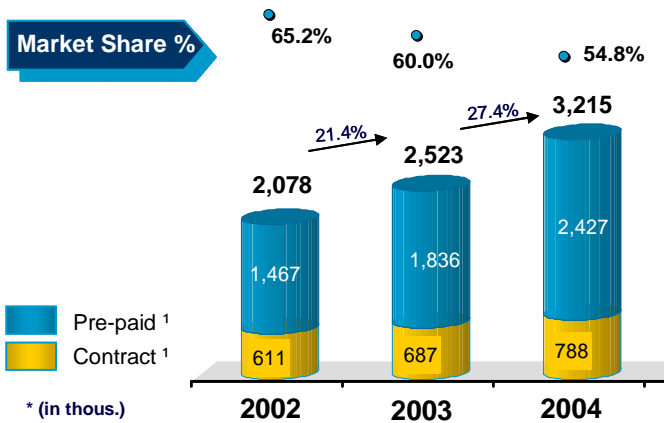
**3. BUSINESS PERFORMANCE**

Celular CRT Participações is the holding company that controls 100% of Celular CRT S.A., an operator authorized to provide personal mobile services in the State of Rio Grande do Sul.

**OPERATING PERFORMANCE**

At the end of 2004, Celular CRT Participações reported a 27.4% increase in its customer base, totaling 3,215 thousand customers, and a 54.8% market share, thus maintaining its lead position and proving the effectiveness of its strategy, which was to invest in coverage, innovation, service quality with a view to guaranteeing customers’ high cost-benefit ratio in a market marked by high competition.

The figures below show Celular CRT Participações’ operating performance:



The ARPU (average revenue per user) posted in 2004 of R\$29.1 was lower than that registered in 2003 due to the expansion of the total customer base and increase in prepaid customers to total customer base ratio (MIX), as well as a drop in MOU (average monthly minutes of usage per subscriber) of incoming prepaid customers. Total MOU in 2004 was reported at 79.5.

SAC (subscriber acquisition cost) reached R\$135.3 in 2004, with the increase in relation to 2003 due to stronger competition, customized campaigns targeting postpaid subscribers, and technology migration. It is important to mention that in the fourth quarter of the year, the Company registered an increase in the “entry barrier”.

The registered penetration level in 2004 was 55.2%, indicating that there is still potential growth in the market.

## INFRASTRUCTURE - NETWORK

Great progress was made in 1xRTT technology coverage in 2004. This technology was made available by Celular CRT Participações in 195 municipalities in the State of Rio Grande do Sul, such as Bagé, Passo Fundo, Santa Maria, Rio Grande, Uruguaiana, Lajeado, Erechin, and others.

On December 31, 2004, Celular CRT Participações' mobile phone network, which operates on TDMA, CDMA and 1xRTT digital technology and analog technology, covered 67.1% of the municipalities, or 95.7% of the population in its geographical area. Its network included 15 switch centers, 1,563 cell stations and 11 pieces of other equipment.

## DISTRIBUTION NETWORK

On December 31, 2004, Celular CRT Participações owned 30 purchase points, in addition to an efficient network of authorized dealers, both exclusive and nonexclusive, comprised of around 965 storefronts that can handle sales of services and handsets.

Its own points of purchase represent 3% of Celular CRT Participações' total capillarity, and its authorized dealers, made up of retailers and wholesalers, account for the remaining 97%. Authorized dealers that work exclusively for Celular CRT Participações make up 100% of the points of purchase.

There are almost 20,000 points of purchase where users can recharge prepaid cards. These include operator stores, authorized dealers, lottery shops, sundry physical and virtual card distributors such as small shops, drugstores, newspaper stands, bookstores, bakeries, gas stations, bars and restaurants. Electronic recharging is also made by a number of banks. The advantage in this type of recharging lies in the fact that it is easier and more convenient, with less cost to the Company.

## ROAMING

To provide roaming in Europe, VIVO offers a set of new rates that are lower and simpler than those of its competitors.

Today, VIVO subscribers have free access to over 100 countries, where, despite being required to use another handset, they retain their own phone numbers and make the borrowed handset an extension of their own cell phones.

For domestic roaming, VIVO extended its roaming agreements with companies that operate in other Brazilian states to provide customers with nationwide coverage.

## INFORMATION SYSTEMS

In 2004, Information Systems area focused on projects aimed at reinforcing information systems, developing products and services for personal and corporate markets, and enhancing infrastructure.

All major applications are either currently being consolidated as in the case of billing, front-office, prepaid, data warehouse, accounting and management, among others, or have already been concluded as in the case of mediation, interconnection and co-billing. We have also finished our new Data Processing Center, where the new systems are installed and where some of the unconsolidated applications migrated to, offering a modern, safe and efficient technological environment.

## QUALITY PROGRAM

One of the strategic goals established by the Company was to implement a process management system that would be awarded ISO 9001:2000 certification. The model implemented has the following features:

- A process management base that uses the ISO 9001:2000 benchmark with a stress on performance measurement.
- Development of a corporate culture that drives for process improvement as a means of increasing customer satisfaction.
- Skills upgrading of more than 13% of the employees through courses such as Quality Coordinator, Internal Quality Auditor and Problem Analysis and Solution Method.

Our Quality Policy is in line with our Mission statement, and serves as a guideline for initiatives related to Quality Program, Process and Improvement Management. As put by the CEO, its content is the main focal point for all collaborators: *“To satisfy and capture the loyalty of customers through the quality and innovation of products and services offered by dedicated and skilled professionals. To maintain a leadership position with increasing profitability, while generating shareholder value and driving for an ongoing improvement in processes and results. To strengthen the image of a Company that contributes towards the development of the society”*.

On November 30, 2004, the Company was recommended by Bureau Veritas Quality International - BVQI for ISO 9001:2000 certification, and is certified by Brazilian INMETRO and internationally by UKAS in England for “Planning, Product and Service Development and Mobile Communications Customer Services, involving: Customer Capturing and Service, Revenue Management, Network Implementation, Management and Maintenance, Finance, Budget and Management Control”.

Quality management adopted a system whereby it undergoes internal and external quality audits every six months.

In addition, we also managed to retain the quality certification for the collection, consolidation and sending of personal communications services quality indicators (PGMQ SMP) awarded in August 2003 by BVQI. This certificate complies with the requirements for migration to SMP, the basic guidelines of which are found in the Regulations on Personal Communications Service Quality Indicators provided for under the ANATEL Resolution.

#### **4. CUSTOMER SERVICES**

Generally, 2004 was marked by increasing competition on the mobile telephony market, which was felt by the customer services department due to the significant increase in the number of calls made to the call centers as a result of intensified promotions and actions designed to capture customer loyalty, retention and profitability. In 2004 the average monthly number of calls made to the Celular CRT Participações customer relations center was 3.9 million.

To meet this growing demand, the Company created new forms of optimizing services. The Voice Answering Unit (URA), which was implemented to provide information on prepaid plan credits and balances, received an average 15.3 million inquiries every month, with a 100% electronic retention rate. The promotional URA was introduced in 2004, having registered 1.1 million calls in December, when demand was very high.

As part of its strategy to standardize VIVO operators' customer relations, 100% of our customer services was outsourced, although we still have full control and manage these service so as to ensure the quality of services provided around 24 hours per day by call centers.

The National VIVO Portal on the Internet, which was created in 2004, received an average of 1 million visitors a month at the Celular CRT Participações page, lending greater agility and facility to customer relations with VIVO.

In 2004, VIVO's customer services were a mark of distinction because of the prizes this department was awarded: "Best Internet System" and "Best Own and Outsourced Active/Receiving Call Center Operation", by the Brazilian Telemarketing Association (ABT); "B2B Quality Standard", by B2B magazine; and "Modern Consumer Prize for Customer Service Excellence", by Consumidor Moderno magazine.

To measure its customers' level of satisfaction with VIVO's customer services, the Company hired a specialized company, Indicator GFK, to conduct a broad study on the Company. Celular CRT Participações scored 8.6, which is more than the average 7.98 points registered by the mobile telephony market.

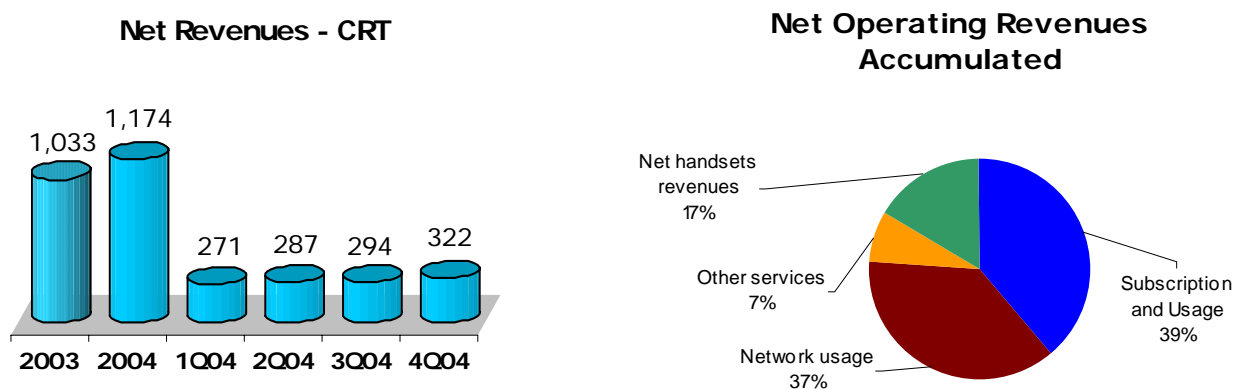
## 5. ECONOMIC AND FINANCIAL PERFORMANCE

The financial statements referring to December 31, 2003 were reclassified, as applicable, for comparison purposes.

In R\$ million	2004	2003	Var. (%)
Net operating revenue	1,174.3	1,032.7	13.7
Operating costs	953.7	790.7	20.6
EBITDA	426.2	439.2	(3.0)
Income for the current year	182.0	189.4	(3.9)
Loans and financing	268.0	393.6	(31.9)

### OPERATING REVENUE

The net operating revenue of Celular CRT Participações was R\$1,174.3 million in 2004, against R\$1,032.7 million in 2003, a 13.7% increase due to the 27.4% growth in the total customer base and increased usage of telecommunication services.

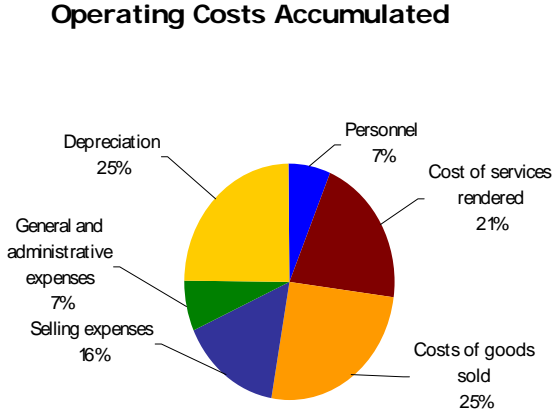
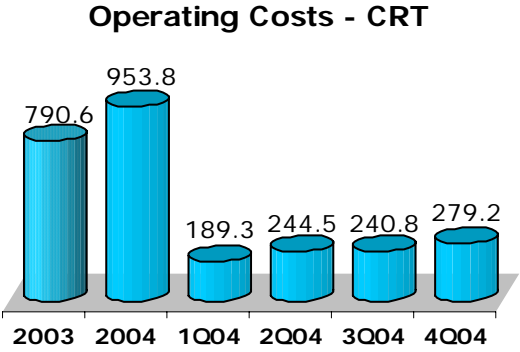


The net operating revenue from services increased by 12.2% in 2004 in relation to 2003, from R\$871.5 million to R\$977.8 million, although still impacted by the SMP (B&K and CSP) effect. Such increase reflects growth in the average customer base and in the usage of higher value-added services (including data), partially offset by the change in the customer mix, with increased market share of prepaid customers.

The net operating revenue from sales of products increased by 21.9% in 2004 in relation to 2003, from R\$161.2 million to R\$196.5 million, due to intense commercial activity.

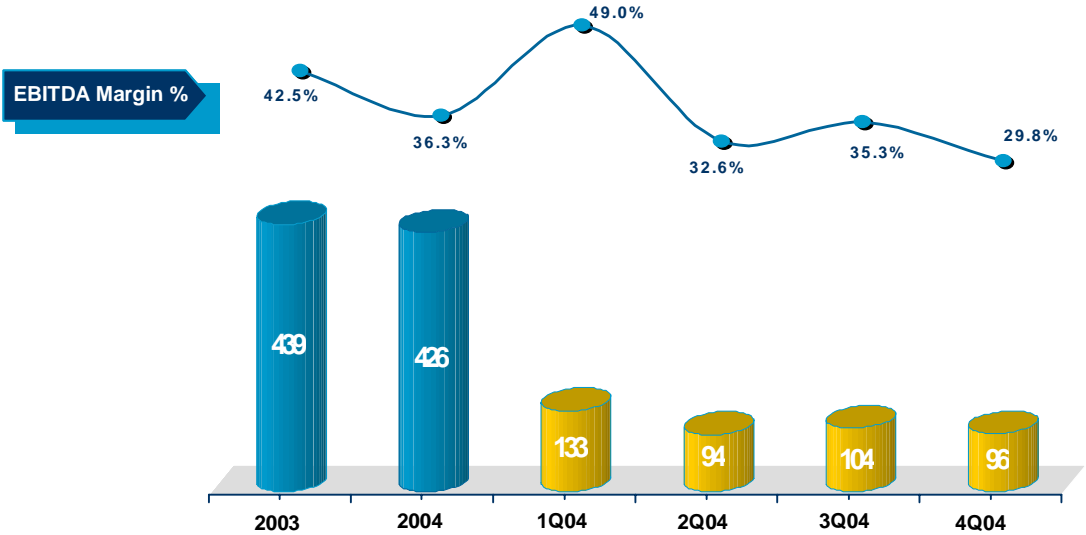
**OPERATING COSTS**

The operating costs increased by 20.6%, totaling R\$953.7 million in 2004, in relation to 2003, which occurred mainly in commercial expenses and in the cost of products sold, respectively due to the intense commercial activity and to the increase in the volume of handsets sold.



**EBITDA**

The EBITDA of Celular CRT Participações was R\$426.2 million in 2004, equivalent to 36.3% of the total net operating revenue. In relation to 2003, when the EBITDA was R\$439.2 million, there was a 3.0% reduction, due to the strong commercial activity recorded in the period.



EBITDA is calculated as follows:

	<u>R\$ thousand</u>
Operating income (*)	171,132
Financial income (*)	49,471
Depreciation and amortization (**)	<u>205,582</u>
	<u>426,185</u>

(\*) See statement of income.

(\*\*) See statement of changes in financial position.

## INCOME FOR THE CURRENT YEAR

The net income of Celular CRT Participações was R\$182.0 million in 2004, against R\$189.4 million in 2003, a 3.9% reduction due to the increase in costs, as a result of enhanced commercial activity in consequence of intensified competition.

<b>VALUE-ADDED STATEMENT</b>		
Fiscal year ended on December 31, 2004		
	<b>CONSOLIDATED</b>	
<b>1. REVENUE</b>	<u>1,432.2</u>	
<b>2. OUTSOURCED RAW MATERIALS</b>	<u>(593.9)</u>	
<b>3. GROSS VALUE ADDED (1-2)</b>	<b>838.3</b>	
<b>4. WITHHOLDINGS</b>		
Depreciation and amortization	(205.6)	
<b>5. NET VALUE ADDED PRODUCED (3-4)</b>	<b>632.7</b>	
<b>6. VALUE ADDED RECEIVED BY TRANSFER</b>		
Financial revenue	<u>106.4</u>	
<b>7. TOTAL VALUE ADDED TO BE DISTRIBUTED (5+6)</b>	<b>739.1</b>	
<b>VALUE-ADDED DISTRIBUTION</b>		
. Labor, payroll charges and benefits (-INSS)	59.4	8.0%
. Taxes, charges and contributions (+INSS)	391.8	53.0%
. Interests and rental	106.0	14.3%
. Distribution to shareholders	75.3	10.2%
. Retained profits	106.6	14.4%

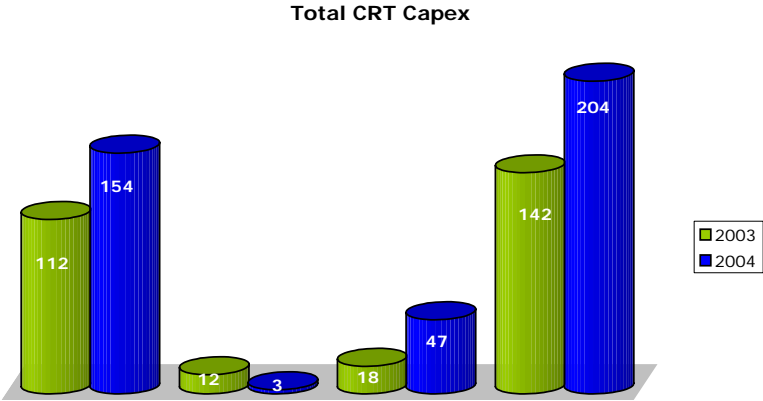
## LOANS AND FINANCING

By the end of 2004, the Company's debt was R\$268.0 million, of which 100% were denominated in foreign currency and protected by hedge transactions, while in the end of 2003 it recorded R\$393.6 million. The reduction in the Company's debt was mainly due to the settlement of financial liabilities out of the surplus cash available.

The indebtedness recorded on December 31, 2004 was offset by cash and financial investments (R\$492.7 million) and by derivative assets and liabilities (R\$12.5 million in net assets), resulting in a net cash position of R\$237.2 million.

**6. INVESTMENTS - CAPEX (CAPITAL EXPENDITURES)**

The Company continued with its projects for improvement and expansion of the capacity of services rendered, increase of the CDMA 1xRTT network in substitution for the TDMA network, expansion of own transmission routes, systems centralization and integration (invoicing, collection and CRM, among others), development of new data transmission services and opening and renovation of sales points, recording a total investment of R\$204.0 million.

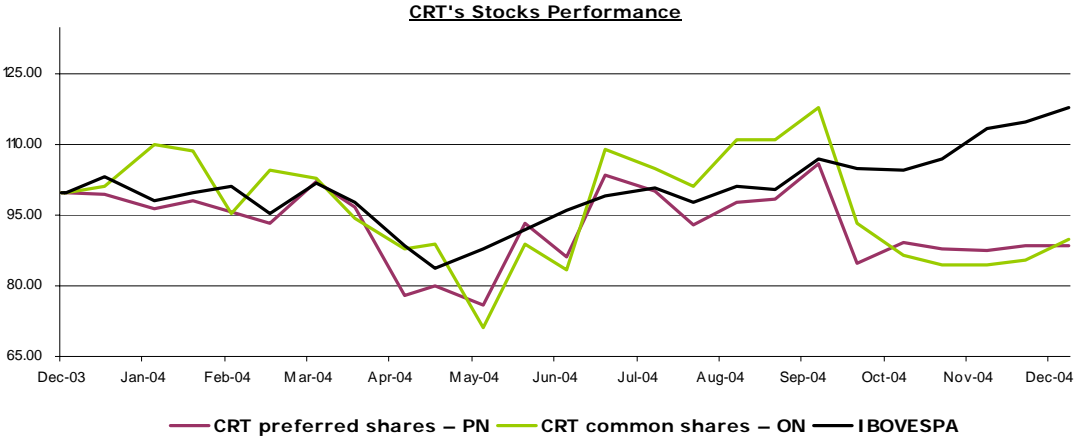


**7. CAPITAL MARKET**

The São Paulo Stock Exchange index (IBOVESPA) posted 26,196 points at the year end. In 2004, the IBOVESPA increased by 17.8%, while the Dow Jones Industrial Average (DJIA) increased by 3.2%. The average daily volume of transactions traded at São Paulo Stock Exchange (BOVESPA) in 2004 was R\$1,221.3 million, recording a 49.3% increase in relation to 2003.

Celular CRT Participações shares are traded at BOVESPA under the codes CRTP3 (common shares) and CRTP5 (preferred shares).

In 2004, the trading of Celular CRT Participações shares recorded a daily average of R\$318.5 thousand for common shares and R\$6.5 million for preferred shares at BOVESPA. On December 30, 2004, the market value of the registered common shares and of the registered preferred shares was, respectively, R\$404.94 and R\$535.00 per lot of one thousand shares.



<b>Per thousand shares</b>	<b>2004</b>	<b>2003</b>
Profit	56.40	58.53
Equity value	563.42	301.72
Preferred shares prices*	535.00	604.00
Common shares prices*	404.94	450.00

(\*) Closing price in the last trading session of the year at BOVESPA.

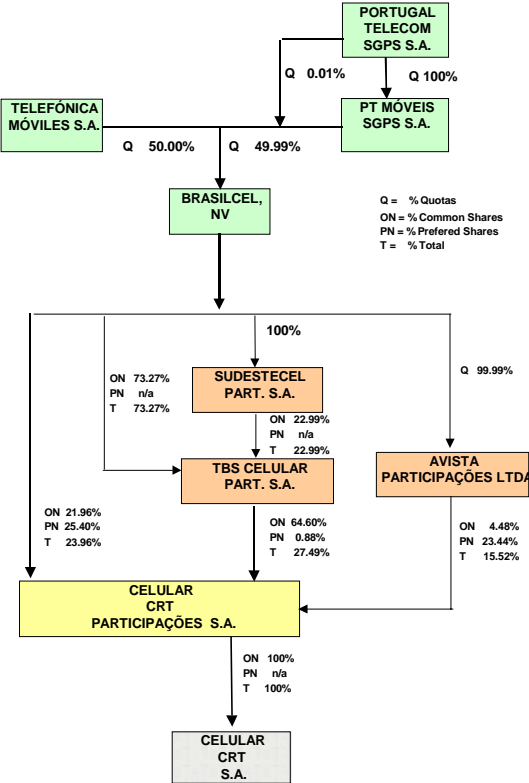
The Company's capital stock in December 2004 was R\$257,923.46, represented by 1,350,917,074 common shares and 1,884,178,154 preferred shares.

The Company's Board of Directors, in conformity with Law No. 9,249/95 of the Brazilian Securities and Exchange Commission (CVM), approved the crediting of interests on own capital in the total amount of R\$75.3 million (R\$22.456334 per lot of one thousand common shares and R\$24.701967 per lot of one thousand preferred shares), with 15% withheld income tax, resulting in total net interests of R\$64.0 million (R\$19.087884 per lot of one thousand common shares and R\$20.996672 per lot of one thousand preferred shares, except for shareholders able to evidence their immune or tax-exempted status). The corresponding credit was posted in the Company's accounting records on December 31, 2004.

#### **PUBLIC OFFERING OF SHARES**

The Voluntary Public Offering of Shares (OPA) for acquisition of common (ON) and preferred (PN) shares in Celular CRT Participações by Brasilcel N.V. was completed on October 8, 2004. The number of preferred shares offered in the OPA auction exceeded the maximum number to be acquired by Brasilcel N.V. (60,529,000 common shares and 441,690,000 preferred shares). Considering this fact, each shareholder who adhered to the OPA received, by reason of the apportionment, for each share being offered, 0.5376 common share and 0.5531 preferred share issued by Celular CRT Participações and acquired by Brasilcel N.V. After the OPA, Brasilcel N.V. and the parties affiliated thereto, either directly or indirectly, held 91.04% of all common shares and 49.72% of the preferred shares of Celular CRT Participações, representing 66.98% interest in the capital stock of Celular CRT Participações.

**OWNERSHIP STRUCTURE**



**8. CORPORATE GOVERNANCE**

**INVESTOR RELATIONS**

Celular CRT Participações has been working with the constant purpose of improving its corporate governance practices, upon promoting a professional management and awarding equal treatment to all its shareholders.

In order to keep the capital market informed about the Company’s operations, meetings were conducted along the year 2004 with analysts and investors, as well as several events have been accomplished. Further, Celular CRT Participações keeps information and communication channels available by telephone, e-mail and website ([www.vivo.com.br/ri](http://www.vivo.com.br/ri)), which was reformulated, containing updated information about the Company’s operations.

**SARBANES-OXLEY**

This law applies to companies that trade securities on the U.S. market. To this effect, the Company has been taking the necessary actions in order to comply with its requirements, despite the fact that it does not operate in such market.

## CODE OF ETHICS

Upon adopting the Code of Ethics for Financial Officers, the Company aims at enforcing the compliance with laws, regulations and other applicable rules, on an honest, accurate and ethical basis. Said code applies only to the Executive Vice-President of Finance, Planning and Control, the Chief Financial Officer, the Accounting Officer, the Controller, and/or persons exercising similar duties in the Company (collectively referred to as “Financial Officers”).

## POLICY FOR DISCLOSURE OF RELEVANT ACT OR FACT AND DISCLOSURE COMMITTEE

The Policy for Disclosure of Relevant Act or Fact was set up by the Board of Directors of Celular CRT Participações in compliance with article 16 of CVM Instruction No. 358, of January 3, 2002.

The ultimate responsibility for the disclosure of relevant information, act or fact is incumbent upon the CEO, the CFO and the Investor Relations Officer, the first two of them being responsible for authorizing the information to be disclosed, while the Investor Relations Officer is responsible for the communication itself of the relevant information, under the terms of the provisions in the Relevant Act or Fact Policy and in CVM Instructions No. 358/02 and No. 369/02.

Said disclosures are reviewed by the Disclosure Committee in support to the CEO and CFO. The Disclosure Committee is responsible for processing the disclosure of information, Relevant Acts and Facts of the Company, ensuring quality disclosure of information, as well as for the implementation of the Disclosure Procedures and Controls.

The Disclosure Committee reports directly to the CEO and to the CFO and comprises one coordinator and ten members (representing the Investor Relations, Controls, Corporate Communication, Accounting, Financial, Mergers and Acquisitions, Communication and Publicity and Compliance Officers, as well as the General Secretary and the Legal Officer), and has the duty of evaluating the need to outsource services (such as auditors, legal counsels and other independent consultants), in order to warrant adequate support to the disclosure process.

## AUDIT AND CONTROL COMMITTEE

The Audit and Control Committee is a collegiate body, subordinated to the Board of Directors of the Company, made up of four of its effective members and being governed by the rules set forth in its bylaws, in conformity with the resolutions made by the Board of Directors, and under the terms and limits of the applicable laws and of the articles of incorporation of the Company.

## BOARD OF DIRECTORS

The Board of Directors of Celular CRT Participações is made up of ten members. The directors are elected for three-year terms of office by the General Meeting of Shareholders, which is also empowered to dismiss them. Reelection is permitted.

Meetings of the Board of Directors are regularly held once in every quarter period and specially held whenever necessary. None of its members occupies an executive position and one of its members is an independent director.

## STATUTORY AUDIT COUNCIL

The Statutory Audit Council comprises three members elected by the General Meeting of Shareholders for a one-year term of office.

The Statutory Audit Council has a nonpermanent nature, being installed upon request from the shareholders, holds regular meetings once in every quarter period and special meetings whenever called by the chairman of the Board of Directors or by two members of the Statutory Audit Council.

## EXECUTIVE OFFICERS' COMMITTEE

The Company has eight Executive Officers, who may or may not be shareholders, all Brazilian residents elected by the Board of Directors, for the positions of Chief Executive Officer, Executive Vice-President of Operations, Executive Vice-President of Finance, Planning and Control, Executive Vice-President of Marketing and Innovation, Vice-President of Technology and Networks, Vice-President of Compliance and Corporate Relations, Vice-President of IT, Product and Services Engineering, and Vice-President of Customers. One same executive officer may hold more than one position, but no executive officer may be a member of the Board of Directors.

## 9. RESEARCH AND DEVELOPMENT

VIVO has entered into agreements with the CEFET-RS university and with the Federal University of Rio Grande do Sul State (UFRGS). Such agreements allow VIVO laboratories to be created at the university premises, wherein new technology research and development projects are performed, providing support/stimulation to the Company's technological innovation processes. In addition, said agreements make the relationship between VIVO and the Brazilian society closer.

Another agreement was entered into in the end of 2004 with the Research and Development Center (CPqD), for evaluation and studies of new technologies.

## 10. HUMAN RESOURCES

The Company believes that personal realization is the basis for the development of its strategies and for achieving differentiated results.

As a result of a co-participation process, which involved all the leaderships, the Company managed to conclude the review of its Corporate Guidelines in August 2004.

## TALENT ATTRACTION AND RETENTION

Marked by a significant attraction appeal, the Company is holding its 3<sup>rd</sup> Trainees Program, which allows potential young workers to become acquainted with the main areas of activity of the Company. In order to retain talents, actions have been carried out such as the Coaching Program, which is implemented with a group of executives/key position employees of the organization towards developing organizational and personnel management competences, programs for international training of key workers of the Company made possible by the technical-cultural integration between the two shareholder groups - Portugal Telecom and Telefónica Móviles. The achievement of new performance levels is shared by means of variable compensation and profit-sharing programs, which totaled about R\$50 million in 2004, for all the companies operating under “VIVO” brand, for fiscal year 2003.

## PROFESSIONAL QUALIFICATION AND DEVELOPMENT

The highly competitive market and the need to keep leadership have continued to demand efforts and investments from the Company in continuously developing its professionals, with some R\$6.5 million being invested by all “VIVO” companies in 2004. This was one of the most significant factors that contributed to the increased competitiveness of “VIVO” companies.

## IN-COMPANY ENVIRONMENT

Special attention has been devoted to the organizational environment, as it became evident with the creation of the Endomarketing area, which has the mission of strategically unifying and consolidating internal communication and internal marketing actions. Due to the diversity of workers, the Company focused its efforts on finding a “North” for the communication, based on carefully and specially prepared diagnosis.

Actions towards reinforcing corporate culture are designed to consolidate the Company’s image as a large plural community. Internal integration is a key factor for achieving such goal and, therefore, several events have been held involving workers of different hierarchic levels.

Essential for establishing a good internal environment, health and life quality have continued to deserve special attention, since the Company believes that its workers’ welfare is a critical factor for the Company’s success, for which reason investments are effected with the purpose of making all employees aware of prevention practices. The Company’s health management policy was awarded the ADVB 2004 Top RH prize, thus evidencing the effectiveness of said policy with the Company’s workers and their families, not only due to the quality of the health plans made available to the workers but also to the assistance based on pro-activity and personal care through preventive actions and campaigns.

Workers are also asked to answer questions in connection with a climate research, which is a powerful communication tool in which they freely voice their opinion about labor relations and in-company environment. The action plan arising out of the research started being gradually applied throughout 2004, as an advance in the purpose of joint work between the top management and the labor staff in the search for excellence and leadership.

## LABOR STAFF

The total labor count in the end of 2004 was 538, against 602 in December 2003, representing an 11.9% decrease.

The distribution per activity is as follows:

Area of activity	2004	2003	Var. (%)
Technical and Operations	151	115	31.3
Marketing and Sales	259	263	(1.5)
Customer Assistance	56	107	(47.7)
Financial and Administrative Support	72	117	(38.5)
<b>TOTAL</b>	<b>538</b>	<b>602</b>	<b>(10.6)</b>

Adhesion to the Private Pension Plans represented 46.3% of the total labor count, which means 249 workers.

## 11. SOCIAL RESPONSIBILITY

VIVO Institute is an association made up by VIVO operators. Having succeeded to the projects that were developed through former Telefônica Foundation's Instituto Brasil Digital, VIVO Institute was born in July 2004, with the purpose of being aligned with and extend VIVO's social responsibility work to all the States in which the Company operates.

After VIVO Institute was created, the focus of VIVO's actions in the social area was redefined; as a result, education and environment became priority areas. Today, there are some 50 projects in progress and more than 200 thousand people directly assisted by them.

### 2004 SUMMARY

- Launching of VIVO Institute.
- Publication of the first VIVO Corporate Responsibility Report (in a summary version, distributed to all VIVO workers).
- About 40 projects have been supported and more than 200 thousand people assisted. Among them, the following are worthy of mention: "*SuperAção Jovem*" (Young Super Action) in partnership with Ayrton Senna Institute (SP, SC, PA, MS and DF); "*Pastoral da Criança*" (Children's Pastoral Program) (MA, PA, GO, RO, AM, TO, MT and MS); "*Eco-Vídeo Biblioteca*" (Eco-Video Library) (GO); "*Cooperativa de Mulheres Costureiras de São Bartolomeu*" (Co-operative Society of Sewing Women of São Bartolomeu) (BA); "*Acelera Goiás*" (Speed-up Goiás), "*Acelera Tocantins*" (Speed-up Tocantins) and "*Se Liga Tocantins*" (Wake-up Tocantins), all of them in partnership with Ayrton Senna Institute; "*Banco da Providência*" (Providence Bank) (RJ); "*Projeto Água Viva*" (Live Water Project) (RJ); "*Jovens Talentos*" (Young Talent) (ES); "*Projeto de Esporte na Ilha Criança*" (Sports Program in Children's Island) (SC); and "*Projeto Guri*" (Guri Project) (SP).
- Launching of VIVO Voluntary Program, with its action focused on visual deficiency and performance of Vaccination, Clothing, Children's Day and Christmas campaigns.

- Support and participation of VIVO Institute in the industry events, among them the 10<sup>th</sup> National Forum of Entrepreneurial Citizenship (RJ), Environment Quality Symposium (RS), II Environment Education Exhibition and Workshop (PR), Unesco 2004 Prize (DF), II Companies' Social Responsibility Workshop (MS), and I Social Responsibility Workshop (RJ).

## 12. PRIZES

The Company was awarded several prizes in 2004, among which the following are worthy of mention:

- **Exame's 2004 Largest and Best Companies Prize** - VIVO RS won the prize of best mobile telephony company in the South of Brazil granted by Exame magazine.
- **FGV 2004 Business Excellence Prize** - VIVO RS was among the 12 companies that achieved outstanding results in terms of profitability, indebtedness, liquidity and management.
- **Modern Consumer Prize 2004** - VIVO was awarded a prize for the quality of its customer assistance in the cellular telephone industry.
- **Top of Marketing ADVB 2004** - VIVO was awarded prizes for four success "cases" ("*São Paulo Fashion Week*", "*VIVO Open Air*", "*Recarga Premiada*" (Rewarded Reload) and "*VIVO ao VIVO*" (Live VIVO)) by ADVB.
- **Top of Mind 2004 Prize** - VIVO is the mostly remembered brand in its branch of activity pursuant to Folha de São Paulo newspaper.
- **August 2004 Reliable Brands Prize** - VIVO was elected the most reliable brand in the cellular phone industry by the readers of Seleções magazine.

## 13. INDEPENDENT AUDIT

The policy of Celular CRT Participações S.A. towards its independent auditors as regards respect to the rendering of services not related to external audit is substantiated on principles that protect auditor's independence. Such principles are based on the fact that the auditor should not audit his own work, nor exercise management functions or act as a legal counsel for his customer.

In compliance with CVM Instruction No. 381/03, Company's management informs that our independent auditor - Deloitte Touche Tohmatsu Auditores Independentes - did not provide any services in fiscal year 2004 other than independent audit to Celular CRT Participações S.A. and its controlled company.

## POLICIES AND PROCEDURES

The Company's and its subsidiary policies prohibit their independent auditors to be retained for rendering services that entail conflict of interest or loss of objectiveness thereof. Additionally, any relationship between the Company (or its Directors/Officers) and the independent auditors causing loss of independence is forbidden.

## **14. OUTLOOKS AND FUTURE PLANS**

From a macroeconomic viewpoint, it is anticipated that Brazilian economy in 2005 will keep the upward trend of growth started in 2004, stimulated by the increase in employment level and internal demand and by the world economy growth.

As far as cellular telephony is concerned, it is estimated that the growth will, once again, exceed by far the average growth of the economy. A strong competition scenario is expected for 2005, as a consequence of consolidation of the current competitors, continuance of the focus on the data business, aiming at increasing the ARPU, search for synergies and scale economies and customer retention and fidelity campaigns and actions.

Within this context, the Company intends to keep a leadership position on the Brazilian market, stimulating its growth, attempting to provide differentiated services through the constant development of new technologies and integrated solutions and minimize the strong competition effects through excellence of services and leadership in price, coverage area and innovation, in addition to offering high quality services and products designed to meet and exceed our customers' expectations.

## **15. ACKNOWLEDGMENTS**

The management of Celular CRT Participações S.A. wishes to thank our shareholders, customers, suppliers and financial institutions for their cooperation and faith in us, and the employees, in particular, to whose devotion to the job and efforts we owe the results we have presented above.

Management

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of  
Celular CRT Participações S.A.  
Porto Alegre - RS

1. We have audited the accompanying individual (holding company) and consolidated balance sheets of Celular CRT Participações S.A. and subsidiary as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity (holding company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiary; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by Company's management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial position of Celular CRT Participações S.A. and its subsidiary as of December 31, 2004 and 2003, the results of their operations, the changes in shareholders' equity (holding company) and the changes in financial position for the years then ended, in conformity with the accounting practices adopted in Brazil.
4. The additional information for the years ended December 31, 2004 and 2003 in respect to the statements of cash flows are presented to allow additional analyses and are not required as a part of the basic financial statements. We have audited such information according to the auditing procedures mentioned in paragraph 2 and, in our opinion, they are properly presented, in all material respects, with regard to the financial statements taken as a whole.
5. The accompanying financial statements are an adaptation and a translation of the financial statements originally issued in Portuguese and have been prepared into English for the convenience of readers outside Brazil.

São Paulo, February 16, 2005

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

José Domingos do Prado  
Engagement Partner

CELULAR CRT PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais)

<u>ASSETS</u>	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	4,709	44	492,732	486,119
Trade accounts receivable, net	-	-	262,482	176,746
Inventory	-	-	105,432	51,368
Advances to suppliers	-	-	3,351	2,360
Deferred and recoverable taxes	19,945	2,590	186,404	129,476
Derivatives	-	-	6,123	12,521
Prepaid expenses	-	-	21,656	15,877
Interest on shareholders' equity and dividends receivable	70,889	55,642	-	-
Other current assets	121	143	27,106	8,086
	<u>95,664</u>	<u>58,419</u>	<u>1,105,286</u>	<u>882,553</u>
<b>NONCURRENT ASSETS</b>				
Deferred and recoverable taxes	-	5,239	45,600	53,795
Derivatives	-	-	11,707	54,334
Prepaid expenses	-	-	5,917	3,662
Other noncurrent assets	-	-	9,355	9,315
	<u>-</u>	<u>5,239</u>	<u>72,579</u>	<u>121,106</u>
<b>PERMANENT ASSETS</b>				
Investments	1,051,166	943,546	597	262
Property, plant and equipment, net	-	-	743,141	734,861
Deferred assets, net	-	-	506	683
	<u>1,051,166</u>	<u>943,546</u>	<u>744,244</u>	<u>735,806</u>
<b>TOTAL ASSETS</b>	<u><u>1,146,830</u></u>	<u><u>1,007,204</u></u>	<u><u>1,922,109</u></u>	<u><u>1,739,465</u></u>

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

CELULAR CRT PARTICIPAÇÕES S.A.

## BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais)

<u>LIABILITIES</u>	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
<b>CURRENT LIABILITIES</b>				
Payroll and related accruals	298	53	8,864	7,752
Suppliers and trade accounts payable	324	481	347,689	207,371
Taxes payable	16,201	2,561	78,359	76,340
Loans and financing	-	-	108,702	105,105
Interest on shareholders' equity and dividends payable	68,377	49,208	68,377	49,208
Provision for contingencies	-	-	4,718	-
Derivatives	-	-	4,126	-
Other liabilities	53	4	69,321	46,000
	<u>85,253</u>	<u>52,307</u>	<u>690,156</u>	<u>491,776</u>
<b>LONG-TERM LIABILITIES</b>				
Loans and financing	-	-	159,264	288,478
Provision for contingencies	-	-	2,026	4,314
Derivatives	-	-	1,233	-
Other liabilities	-	-	7,853	-
	<u>-</u>	<u>-</u>	<u>170,376</u>	<u>292,792</u>
<b>SHAREHOLDERS' EQUITY</b>				
Capital stock	257,294	157,885	257,294	157,885
Treasury stock	(11,070)	(11,070)	(11,070)	(11,070)
Capital reserves	473,600	506,890	473,600	506,890
Surplus reserves	341,753	301,192	341,753	301,192
	<u>1,061,577</u>	<u>954,897</u>	<u>1,061,577</u>	<u>954,897</u>
<b>TOTAL LIABILITIES</b>	<u>1,146,830</u>	<u>1,007,204</u>	<u>1,922,109</u>	<u>1,739,465</u>

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

CELULAR CRT PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais, except net income per thousand shares)

	Holding Company		Consolidated	
	2004	2003	2004	2003
<b>GROSS OPERATING REVENUE</b>				
Telecommunication services	-	-	1,260,413	1,177,533
Sales of goods	-	-	291,737	221,196
	-	-	1,552,150	1,398,729
<b>DEDUCTIONS FROM GROSS REVENUE</b>	-	-	(377,821)	(366,029)
<b>NET OPERATING REVENUE</b>	-	-	1,174,329	1,032,700
Cost of services rendered	-	-	(316,229)	(327,721)
Cost of goods sold	-	-	(304,314)	(198,452)
<b>GROSS PROFIT</b>	-	-	553,786	506,527
<b>OPERATIONG INCOME (EXPENSES)</b>				
Selling expenses	-	-	(264,897)	(171,257)
General and administrative expenses	(3,059)	(2,881)	(95,622)	(89,350)
Other operating expenses	(43)	-	(22,817)	(14,037)
Other operating income	22	-	50,153	10,106
Equity pick-up	190,620	194,631	-	-
	187,540	191,750	(333,183)	(264,538)
<b>OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)</b>	187,540	191,750	220,603	241,989
Financial expenses	(7,889)	(2,640)	(80,602)	(182,277)
Payable interest on shareholders' equity	(75,300)	(46,750)	(75,300)	(55,000)
Financial income	1,905	1,894	106,431	199,941
Receivable interest on shareholders' equity	83,000	46,750	-	-
<b>OPERATING INCOME</b>	189,256	191,004	171,132	204,653
Nonoperating expenses	-	-	(7,775)	(1,207)
<b>INCOME BEFORE TAXES</b>	189,256	191,004	163,357	203,446
Income and social contribution taxes	424	1,180	(56,677)	(69,081)
<b>INCOME BEFORE REVERSAL OF INTEREST ON SHAREHOLDERS' EQUITY</b>	189,680	192,184	106,680	134,365
Reversal of interest on shareholders' equity	(7,700)	-	75,300	55,000
<b>NET INCOME FOR THE YEAR</b>	181,980	192,184	181,980	189,365
<b>NET INCOME PER THOUSAND SHARES - R\$</b>	0.05739	0.06198		

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

CELULAR CRT PARTICIPAÇÕES S.A.

STATEMENTS OF SHAREHOLDERS' EQUITY (HOLDING COMPANY)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais)

			Capital reserves	Surplus reserve			Retained earnings	Total shareholders' equity
	Capital stock paid-up	Treasury stock	Subscribed goodwill	Statutory reserve	Provision for contingencies	Surplus reserve for expansion		
BALANCES AT DECEMBER 31, 2002	134,534	(11,070)	512,241	11,731	11,070	159,207	-	817,713
Increase of capital stock	23,351	-	(5,351)	-	-	(18,000)	-	-
Net income for the year	-	-	-	-	-	-	192,184	192,184
Creation of statutory reserve	-	-	-	9,609	-	-	(9,609)	-
Interest on shareholders' equity	-	-	-	-	-	-	(55,000)	(55,000)
Creation of reserve for expansion	-	-	-	-	-	127,575	(127,575)	-
BALANCES AT DECEMBER 31, 2003	157,885	(11,070)	506,890	21,340	11,070	268,782	-	954,897
Increase of capital stock	99,409	-	(33,290)	-	-	(66,119)	-	-
Net income for the year	-	-	-	-	-	-	181,980	181,980
Creation of statutory reserve	-	-	-	9,099	-	-	(9,099)	-
Interest on shareholders' equity	-	-	-	-	-	-	(75,300)	(75,300)
Creation of reserve for expansion	-	-	-	-	-	97,581	(97,581)	-
BALANCES AT DECEMBER 31, 2004	257,294	(11,070)	473,600	30,439	11,070	300,244	-	1,061,577

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

CELULAR CRT PARTICIPAÇÕES S.A

STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In thousands of Brazilian reais)

	Holding Company		Consolidated	
	2004	2003	2004	2003
<b>SOURCES OF FUNDS</b>				
From operations (see below)	-	-	384,264	478,317
From shareholders:				
Interest on shareholders' equity and dividends received	83,000	55,000	-	-
Reserves	-	-	-	2,819
	<u>83,000</u>	<u>55,000</u>	<u>-</u>	<u>2,819</u>
From third parties:				
Entry in loyalty program	-	-	23,474	-
Decrease in noncurrent assets	-	-	-	936
Incoming derivatives	-	-	9,673	-
Transfer of prepaid expenses to current assets	-	-	9,399	-
Decrease in deferred and recoverable taxes	5,239	-	8,194	-
	<u>5,239</u>	<u>-</u>	<u>50,740</u>	<u>936</u>
Total sources	<u>88,239</u>	<u>55,000</u>	<u>435,004</u>	<u>482,072</u>
<b>USES OF FUNDS</b>				
In operations (see below)	8,640	3,627	-	-
Transfer of long-term to current liabilities	-	-	-	38
Addition to property, plant and equipment	-	-	204,271	142,732
Transfer of loans and derivatives to current liabilities	-	-	119,051	105,525
Decrease in long-term liabilities	-	-	-	1,643
Incoming deferred liabilities	-	-	335	230
Incoming deposits in court	-	-	40	-
Incoming prepaid expenses	-	-	11,654	1,544
Provision for interest on shareholders' equity and dividends made	75,300	55,000	75,300	55,000
Total uses	<u>83,940</u>	<u>58,627</u>	<u>410,651</u>	<u>306,712</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<u>4,299</u>	<u>(3,627)</u>	<u>24,353</u>	<u>175,360</u>
<b>STATEMENT OF WORKING CAPITAL</b>				
Current assets:				
Beginning of the year	58,419	35,877	882,553	598,135
End of the year	<u>95,664</u>	<u>58,419</u>	<u>1,105,286</u>	<u>882,553</u>
	<u>37,245</u>	<u>22,542</u>	<u>222,733</u>	<u>284,418</u>
Current liabilities:				
Beginning of the year	52,307	26,138	491,776	382,718
End of the year	<u>85,253</u>	<u>52,307</u>	<u>690,156</u>	<u>491,776</u>
	<u>32,946</u>	<u>26,169</u>	<u>198,380</u>	<u>109,058</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<u>4,299</u>	<u>(3,627)</u>	<u>24,353</u>	<u>175,360</u>
<b>COMPOSITION OF FUNDS FROM (USED IN) OPERATIONS</b>				
Net income for the year	<u>181,980</u>	<u>192,184</u>	<u>181,980</u>	<u>189,365</u>
Equity pick-up	(190,620)	(194,631)	-	-
Depreciation and amortization	-	-	205,582	197,194
Apportionment of depreciation of shared systems	-	-	(3,250)	(3,360)
Monetary variation and other charges on long-term liabilities	-	-	-	(82,414)
Monetary variation and other charges on noncurrent assets	-	-	549	144,743
Deferred taxes	-	(1,180)	-	29,936
Provision (decrease in provision) for contingencies	-	-	(2,286)	2,451
Loss in the sale of property, plant and equipment	-	-	1,210	402
Increase in social security liabilities	-	-	479	-
Expenses (revenues) that do not affect the net working capital	<u>(190,620)</u>	<u>(195,811)</u>	<u>202,284</u>	<u>288,952</u>
Total	<u>(8,640)</u>	<u>(3,627)</u>	<u>384,264</u>	<u>478,317</u>

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

CELULAR CRT PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In thousands of Brazilian reais)

	Consolidated	
	<u>2004</u>	<u>2003</u>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	181,980	189,365
Adjustments to reconcile net income (loss) with cash provided by operating activities:		
Depreciation and amortization	205,582	197,194
Loss in the sales of permanent assets	1,210	402
Apportionment of depreciation of shared systems	(3,250)	(3,360)
Provision for doubtful accounts	21,941	10,504
Monetary and exchange variation	5,703	1,824
Write-off of forward and swap contracts	25,506	62,583
Increase in accounts receivable	(107,677)	(61,821)
Increase in inventories	(54,064)	(25,251)
Increase in recoverable and deferred taxes	(48,733)	(12,274)
Increase in other current assets	(28,085)	(15,601)
Increase (decrease) in payroll and related accruals	1,112	(371)
Increase in interests payable	14,489	19,876
Increase in accounts payable	140,318	74,650
Increase in taxes payable	2,019	34,948
Increase in provision for contingencies	2,430	2,451
Increase in other current liabilities	23,800	11,072
Net cash provided by operating activities	<u>384,281</u>	<u>486,191</u>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(204,271)	(142,732)
Additions to deferred assets	(335)	(230)
Interest on shareholders' equity and dividends received	<u>(75,300)</u>	<u>(55,000)</u>
Net cash provided by investing activities	<u>(279,906)</u>	<u>(197,962)</u>
<b>FINANCING ACTIVITIES</b>		
Loans repaid	(116,931)	(131,898)
Capital increase	-	64
Dividends and interest on shareholders' equity	<u>19,169</u>	<u>24,531</u>
Net cash provided by financing activities	<u>(97,762)</u>	<u>(107,303)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
At beginning of the year	<u>486,119</u>	<u>305,193</u>
At end of the year	<u>492,732</u>	<u>486,119</u>

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

## CELULAR CRT PARTICIPAÇÕES S.A.

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of Brazilian reais, unless otherwise indicated)

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#### 1. OPERATING CONTEXT

Celular CRT Participações S.A. (“Celular CRT” or “Company”) is a publicly-held company whose controlling shareholders, on December 31, 2004, are TBS Celular Participações S.A. (27.49% of the total capital stock), Brasilcel N.V. (23.96% of the total capital stock) and Avista Participações Ltda. (15.52% of the total capital stock). The following companies have an interest in TBS Celular Participações S.A.: Brasilcel N.V. (96.27% of the total capital stock), Compañía de Comunicaciones do Chile S.A. (2.61% of the total capital stock) and Telefónica Móviles S.A. (1.12% of the total capital stock). Avista Participações Ltda. 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).

Celular CRT is the controlling shareholder of Celular CRT S.A., which provides cellular telecommunication services in the State of Rio Grande do Sul, including the exercise of activities necessary or useful to perform such services, in accordance with the authorizations granted to it.

The authorization granted to Celular CRT S.A. shall be in force up to December 27, 2007 and may be renewed once for a 15-year’s term by means of the payment of annual rates of approximately 1% of its revenues.

As of July 6, 2003, Celular CRT implemented the Carriers Selection Code (CSP) (“Código de Seleção da Prestadora”), by which customers became to choose their carrier for national (VC2 and VC3) and international long-distance services, in compliance with the rules of Personal Mobile Service (SMP) (“Serviço Móvel Pessoal”). In accordance with such system, cellular operators no longer receive VC2, VC3 and shift revenues; instead, they receive interconnection fees for the use of their network on these calls.

The subsidiary’s businesses, including the services it may provide, are ruled by the National Telecommunications Agency (ANATEL) (“Agência Nacional de Telecomunicações”), the telecommunication industry regulator, in accordance with Law No. 9,472 of July 16, 1997, and relevant regulations, decrees, decisions and plans.

#### 2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the holding company and consolidated companies on December 31, 2004 and 2003 have been prepared pursuant to accounting practices established by the Brazilian corporate law, rules applicable to telecommunication services providers and accounting rules and procedures set forth by the Brazilian Securities Commission (CVM) (“Comissão de Valores Mobiliários”).

The consolidated financial statements include balances and transactions of the holding company and its subsidiary. In the consolidation, all balances and transactions among the companies have been eliminated.

The financial statements as of December 31, 2003 have been reclassified, as applicable, for comparability.

### 3. SUMMARY OF PRINCIPAL 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 receivables

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

#### c) Provision for doubtful accounts

It is constituted for credits which chances of recovery are considered 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, and the exchange variation is recorded as income. The exchange variation and gains on foreign currency derivative contracts are determined and recorded monthly, irrespectively of the settlement expiration dates.

#### e) Inventories

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

#### f) Prepaid expenses

They are showed by the amounts actually disbursed but not yet incurred.

#### g) Other assets

The subsidies practiced 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 subsidiary is recorded by equity pick-up method. Subsidiary's accounting practices are consistent with those adopted by the holding company.

i) Property, plant and equipment

It is showed by acquisition or construction cost less accrued depreciation, calculated on a straight-line basis, which relevant rates are in accordance with the estimated useful lives of the assets. The expenses incurred for repair and maintenance representing improvement, capacity increase or useful life are capitalized, while others are recorded in the income for the year. The provision for cost to be incurred for disassembling towers and equipment in leased property is capitalized and depreciated over the equipment useful life, not exceeding the term of the agreement.

j) 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 attributable to temporary differences, tax loss and social contribution carryforwards are recorded in assets assuming their future realization.

k) Loans and financing

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

l) FISTEL rate

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

m) Provision for contingencies

It is determined based on legal counsels and management opinions, as to the probable outcome of pending issues, and are adjusted until balance sheet date at probable loss value, subject to the nature of each contingency.

n) Provision for pension plan

The actuarial liabilities are calculated based on the projected unit credit cost method, and the fund assets are presented at their fair market value. Actuarial gains and losses were recorded immediately in the income for the year (Note 27).

o) Recognition of revenues

Services revenue is recognized as services are rendered, being the billing made monthly. The unbilled revenue between the last billing date and the end of the month is recognized as revenue in the month in which the service is actually rendered. The revenues concerning sales of prepaid cellular minutes are deferred and recognized as income as such credits are actually consumed.

p) Financial income and expenses

They represent interest and monetary and exchange variations resulting from financial investment, loan and financing obtained and granted. Exchange gains and losses in derivative instruments are included.

q) Derivatives

The holding company has derivative contracts in foreign currency with the purpose of managing their exposure to interest rate and exchange rates fluctuation regarding their cash flow in foreign currency. Those derivatives are recorded at the exchange rates in force on balance sheet date and prepaid or received premiums are deferred for amortization over the term of respective contracts. Gains and losses, whether realized or not, calculated exclusively based on agreed conditions, are recorded as net financial expense.

r) Employees' profit sharing

Provisions are made to recognize expense regarding employees' profit sharing program.

s) Use of estimate

The preparation of the financial statements requires 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.

t) Net income per thousand shares

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

#### 4. CASH AND CASH EQUIVALENTS

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
Cash and banks	1,020	44	6,849	5,754
Financial investments	<u>3,689</u>	<u>-</u>	<u>485,883</u>	<u>480,365</u>
Total	<u>4,709</u>	<u>44</u>	<u>492,732</u>	<u>486,119</u>

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

5. TRADE ACCOUNTS RECEIVABLE, NET

	<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
Unbilled amounts for services rendered	55,795	37,488
Billed amounts	76,637	56,902
Interconnection	68,652	40,875
Goods sold	71,472	49,324
Provision for doubtful accounts	<u>(10,074)</u>	<u>(7,843)</u>
Total	<u>262,482</u>	<u>176,746</u>

There are no customers who contribute to with more than 10% of net accounts receivable as of December 31, 2004 and 2003, except for amounts receivable from Brasil Telecom S.A., which represent approximately 12.07% and 15.31% of net trade accounts receivable, as of December 31, 2004 and 2003, respectively.

Changes in the provision for doubtful accounts are as follows:

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
Beginning balance	7,843	6,636
Complementary provision	21,941	10,504
Write-off	<u>(19,710)</u>	<u>(9,297)</u>
Ending balance	<u>10,074</u>	<u>7,843</u>

6. INVENTORIES

	<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
Cellular handsets	106,855	51,666
Accessories and other	678	395
Provision for obsolescence	<u>(2,101)</u>	<u>(693)</u>
Total	<u>105,432</u>	<u>51,368</u>

7. DEFERRED AND RECOVERABLE TAXES

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
Prepaid income and social contribution taxes	4,298	1,913	54,585	54,195
IRRF	9,985	677	38,629	6,502
Recoverable ICMS (State VAT)	-	-	49,705	33,843
Other	-	-	22,547	2,012
Total recoverable taxes	<u>14,283</u>	<u>2,590</u>	<u>165,466</u>	<u>96,552</u>
Deferred income and social contribution taxes	5,662	5,239	53,190	79,281
ICMS on deferred sales	-	-	13,348	7,438
Total	<u>19,945</u>	<u>7,829</u>	<u>232,004</u>	<u>183,271</u>
Current	19,945	2,590	186,404	129,476
Noncurrent	-	5,239	45,600	53,795

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

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
Merged tax credit (corporate restructuring)	-	-	24,968	58,258
Tax credits on:				
Obsolescence	-	-	714	236
Contingencies	-	-	2,293	1,467
Doubtful accounts credits	-	-	3,425	2,667
Loyalty program	-	-	3,187	1,726
Pension fund	-	-	3,357	3,826
Technical assistance	-	-	-	2,963
For accrual accounting	-	-	7,343	-
Other amounts	-	97	2,241	2,996
Tax loss and social contribution carryforwards	<u>5,662</u>	<u>5,142</u>	<u>5,662</u>	<u>5,142</u>
Total	<u>5,662</u>	<u>5,239</u>	<u>53,190</u>	<u>79,281</u>

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

- a) Tax loss and social contribution carryforwards are offset up to a limit of 30% per year on taxable income for each year.
- b) Merged tax credit: consists of net balance of goodwill and provision to maintain the integrity of the shareholders' equity (see Note 28); its realization occurs with the amortization of the merged goodwill, which will occur in five years as of 2000. External consultants opinions used in the corporate restructuring process give grounds to the recovery of the amount within such term.
- c) Temporary differences: will be realized upon payment of accruals or effective losses on bad debts or realization of inventories.

Technical study of feasibility approved by the Company's Board of Directors indicates the full recovery of recognized deferred tax amounts within the term set forth in CVM Instruction No. 371.

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

<u>Year</u>	<u>12.31.04</u>	
	<u>Holding Company</u>	<u>Consolidated</u>
2005	5,662	30,630
2007 on	-	<u>22,560</u>
Total	<u>5,662</u>	<u>53,190</u>

#### 8. PREPAID EXPENSES

	<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
FISTEL rate	18,051	11,535
Financial charges	78	589
Insurance premium	117	133
Advertising	7,830	6,725
Trade incentives	1,261	386
Other	<u>236</u>	<u>171</u>
Total	<u>27,573</u>	<u>19,539</u>
Current	21,656	15,877
Noncurrent	<u>5,917</u>	<u>3,662</u>

#### 9. OTHER ASSETS

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
Intercompany credits	23	-	7,326	2,872
Credit with suppliers	-	-	5,146	-
Subsidy on product sale	-	-	13,148	3,811
Advance to employees	-	-	977	897
Deposit in court	-	-	9,374	9,315
Other assets	<u>98</u>	<u>143</u>	<u>490</u>	<u>506</u>
Total	<u>121</u>	<u>143</u>	<u>36,461</u>	<u>17,401</u>
Current	121	143	27,106	8,086
Noncurrent	<u>-</u>	<u>-</u>	<u>9,355</u>	<u>9,315</u>

## 10. INVESTMENT

### a) Interest in the subsidiary

<u>Subsidiary</u>	<u>Total interest</u>	<u>Common shares</u>	<u>Shareholders' equity on 12.31.04</u>	<u>Net income for the year</u>	
				<u>2004</u>	<u>2003</u>
Celular CRT S.A.	100%	445,439,548	1,051,166	190,620	191,812

### b) Composition and changes

The investment in the subsidiary refers to the interest in the capital stock of Celular CRT S.A., with the following changes:

	<u>12.31.04</u>	<u>12.31.03</u>
Beginning balance	943,546	803,915
Equity pick-up	190,620	194,631
Interest on shareholders' equity	<u>(83,000)</u>	<u>(55,000)</u>
Ending balance	<u>1,051,166</u>	<u>943,546</u>

## 11. PROPERTY, PLANT AND EQUIPMENT, NET

### a) Composition

	<u>Annual depreciation rate - %</u>	<u>Consolidated</u>			
		<u>Cost</u>	<u>12.31.04</u>		<u>12.31.03</u>
			<u>Depreciation</u>	<u>Net</u>	<u>Net</u>
Transmission equipment	14.29	726,089	(501,270)	224,819	216,637
Switching equipment	14.29	270,793	(182,044)	88,749	113,902
Infrastructure	4.0 to 20.0	219,904	(87,279)	132,625	127,721
Lands	-	7,494	-	7,494	6,875
Rights to software use	20.0	135,079	(84,691)	50,388	54,123
Buildings	4.0	18,476	(2,522)	15,954	24,569
Terminal equipment	66.67	84,911	(51,500)	33,411	12,918
Other assets	10.0 to 20.0	170,143	(91,987)	78,156	92,955
Properties and work in progress	-	<u>111,545</u>	<u>-</u>	<u>111,545</u>	<u>85,161</u>
Total		<u>1,744,434</u>	<u>(1,001,293)</u>	<u>743,141</u>	<u>734,861</u>

b) Rentals

The Company leases equipment and property by means of a number of agreements with several maturity dates. Annual rental expenses of these transactions are:

<u>Year</u>	
2005	5,983
2006	5,533
2007	4,996
2008	4,649
2009	4,213
2010 on	<u>29,689</u>
Total minimum payments	<u>55,063</u>

12. TRADE ACCOUNTS PAYABLE

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
Suppliers	307	421	294,624	172,696
Amounts to be transferred SMP	-	-	33,686	22,190
Interconnection/connection	-	-	6,679	1,540
Technical assistance	-	-	9,205	8,715
Other	<u>17</u>	<u>60</u>	<u>3,495</u>	<u>2,230</u>
Total	<u>324</u>	<u>481</u>	<u>347,689</u>	<u>207,371</u>

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

13. TAXES, RATES AND CONTRIBUTIONS

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
ICMS	-	-	16,528	25,412
Income and social contribution taxes	-	-	31,599	38,182
PIS and COFINS	7,678	2,561	15,661	8,136
FISTEL	-	-	5,035	3,954
FUST and FUNTTEL	-	-	807	625
Other taxes, rates and contributions	<u>8,523</u>	<u>-</u>	<u>8,729</u>	<u>31</u>
Total	<u>16,201</u>	<u>2,561</u>	<u>78,359</u>	<u>76,340</u>

## 14. LOANS AND FINANCING

### a) Composition of debt

Description	Currency	Interest	Maturity	Consolidated	
				12.31.04	12.31.03
Principal:					
Financial institutions:					
Banco Europeu - foreign financing	US\$	1.45% p.a. + LIBOR	09.14.07	159,264	173,352
Citibank - OPIC	US\$	1.65% p.a. + LIBOR	07.25.05	33,180	72,230
Itaú several - debt assumption	US\$	1.825% p.a. + LIBOR	09.20.05 to 03.10.05	65,954	71,788
Citibank - Resolution No. 4,131	US\$	1.55% p.a. + LIBOR	11.07.05	6,636	14,446
Dresdner - Resolution No. 63	US\$	11.0% p.a.	12.27.04	-	28,892
Bank of Tokyo - Resolution No. 4,131	US\$	1.55% p.a. + LIBOR	04.30.04	-	28,892
Interest				<u>2,932</u>	<u>3,983</u>
Total				<u>267,966</u>	<u>393,583</u>
Current				108,702	105,105
Noncurrent				<u>159,264</u>	<u>288,478</u>

The amounts of loans and financing are used for expansion and modernization of cellular telephone network and capital expenditure.

### b) Repayment schedule

The long-term portion of loans and financing matures as follows:

	Consolidated 12.31.04
Year-	
2007	<u>159,264</u>
Total	<u>159,264</u>

### c) Restrictive covenants

The Company entered into loan agreements with Banco Europeu and Citibank - OPIC, whose balances on December 31, 2004 are R\$159,264 and R\$33,180, respectively. On such date, the Company and its subsidiary reached several economical and financial indexes established in agreement.

### d) Guarantees

Banks	Guarantee
Banco Europeu - foreign financing	Bank guarantee
Citibank	Guarantee of Overseas Private Investment Corporation - OPIC

e) Hedge

On December 31, 2004, the subsidiary had exchange contracts with notional amounts of US\$114,542 thousand (US\$136,504 thousand in 2003) to cover its obligations against exchange fluctuation. Until this date, the subsidiary has recorded net earnings of R\$12,471 (R\$66,855 in 2003), of which R\$6,123 (R\$12,521 in 2003) as current assets, R\$11,707 (R\$54,334 in 2003) as noncurrent, R\$4,126 as current liabilities and R\$1,233 as long-term liabilities.

15. DIVIDENDS AND INTEREST ON SHAREHOLDERS' EQUITY PAYABLE

	<u>Holding Company and Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
Interest on shareholders' equity	67,652	48,457
Dividends	<u>725</u>	<u>751</u>
Total	<u>68,377</u>	<u>49,208</u>

16. OTHER OBLIGATIONS

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>	<u>12.31.04</u>	<u>12.31.03</u>
Provision loyalty program	-	-	9,375	5,078
Prepaid services	-	-	44,754	25,491
Provision for pension fund	-	-	9,874	11,254
Other intercompany liabilities	53	3	5,735	4,176
Other	<u>-</u>	<u>1</u>	<u>7,436</u>	<u>1</u>
Total	<u>53</u>	<u>4</u>	<u>77,174</u>	<u>46,000</u>
Current	53	4	69,321	46,000
Noncurrent	<u>-</u>	<u>-</u>	<u>7,853</u>	<u>-</u>

The subsidiary has 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. Upon redemption of handsets by customers, the reserve is reduced.

## 17. PROVISION FOR CONTINGENCIES

The Company and its subsidiary 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 composition of the provision balance is as follows:

	<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
Labor	885	438
Tax	686	198
Civil	<u>5,173</u>	<u>3,678</u>
Total	<u>6,744</u>	<u>4,314</u>
Current	4,718	-
Long term	<u>2,026</u>	<u>4,314</u>

Changes in the provision for contingencies at year ended on December 31, 2004 are as follows:

	<u>Consolidated</u>
	<u>2004</u>
Balance on December 31, 2003	4,314
Additional provision, net of reversal	<u>2,430</u>
Balance on December 31, 2004	<u>6,744</u>

### 17.1. Tax claims

#### 17.1.1. Probable loss

Based on the opinion of its legal and tax counsels, the Company has no relevant tax claim which possibility of loss is classified as probable.

#### 17.1.2. Possible loss

Based on the opinion of its legal counsels and tax consultants, management believes that settlement of the following issues shall not represent a relevant adverse affect on its financial situation and, therefore, it did not recognize any provisions in the financial statements as of December 31, 2004.

In the cases in which the chance of loss is classified as possible, the amount involved is R\$54,156 in relation to the following issues:

a) State VAT (ICMS)

Celular CRT received a delinquency notice issued by Treasury Secretary of the State of Rio Grande do Sul as a result of the nonpayment of the ICMS allegedly levied on international calls, originated in Brazil, from 1997 to 1998.

Management is of the opinion that the predecessor company (merged) shall be hold liable for any tax liability resulting from ICMS on revenues of international calls recorded during the period prior to its incorporation.

Based on the opinion of its legal counsels, management is of the opinion that the possibility of loss resulting from such issue is remote, therefore it did not recognize any provision. The amount involved is approximately R\$45,300.

b) Tax on Services (ISS)

The Treasury Secretary of Porto Alegre issued delinquency notices in the aggregate amount of R\$1,613, which objects are: (i) R\$875 - ISS on accreditation; and (ii) R\$738 - ISS on related services (call blocking, line transfer, information, notices, etc.).

All of these claims are awaiting judgment by the Taxpayer Board of the Municipality of Porto Alegre.

c) Income tax on hedge/swap

Upon enactment of Law No. 9,779/99, earnings from any investment or financial transaction in fixed or variable rate became subject to the withholding income tax, even in case of hedge transactions made by means of swap and other transactions in derivative markets.

The Company petitioned a writ of mandamus with the purpose of removing such requirement to pay withholding tax on redemption value of derivative instruments established by Law No. 9,779/99.

The decision rendered by the lower court considered the action groundless, and the Company filed an appeal that is awaiting judgment. The amount of R\$1,646 has been deposited in court, therefore, no new disbursements shall be required.

## 17.2. Labor and civil 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.

In cases in which the chance of loss is classified as possible, the aggregate amount involved is R\$24,646 for civil claims and R\$5,639 for labor claims.

## 18. SHAREHOLDERS' EQUITY

### a) Capital stock

The capital stock is comprised by registered shares and without par value as follows.

	<u>Lot per thousand shares</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
Common shares	1,350,917	1,280,636
Preferred shares	<u>1,884,178</u>	<u>1,884,178</u>
Total	<u>3,235,095</u>	<u>3,164,814</u>

### b) Treasury shares

On December 31, 2004, the aggregate amount of treasury shares was 63,994 thousand preferred shares.

### c) Special goodwill reserve

This reserve refers to the constitution of a special reserve of goodwill resulting from the corporate restructuring of the Company, which is being capitalized in favor of the holding company, upon effective realization of the tax benefit.

### d) Capital gains

#### i) Statutory reserve

The statutory reserve is based on 5% of the annual net income until the limit of 20% of the total paid-up capital stock or 30% of the capital stock added by capital reserves, and from then on, the allocation of such reserves shall no longer be mandatory. The purpose of this reserve is to keep the integrity of the capital stock and may only be used to offset losses or increase the capital stock.

#### ii) Special reserve for expansion

The special reserve for expansion and modernization is based on the capital budget prepared by management, which shows the requirement of funds for investment projects for the next years.

### e) Contingency reserve and treasury shares

The amounts resulted from the spin-off process of Companhia Riograndense de Telecomunicações - CRT and which purpose is to guarantee any judicial decision in connection with judicial actions regarding capitalization realized in 1996 and 1997 by such company.

### f) Interest on shareholders' equity and dividends

In accordance with the bylaws, it shall be paid as dividends at each fiscal year an amount equivalent to at least 25% of the adjusted net income pursuant to applicable law, provided that there are available funds.

In December 2004, the Company made a credit of interest on shareholders' equity concerning 2004, in the amount of R\$75,300.

The dividends are calculated pursuant to the Company's bylaws and applicable corporate law. Before allocation to interest on shareholders' equity, the dividends due have been calculated as follows:

	<u>2004</u>	<u>2003</u>
Net income for the year	181,980	192,184
Allocation to statutory reserve	<u>(9,099)</u>	<u>(9,609)</u>
Adjusted net income	172,881	182,575
Dividends proposed	64,005	46,750
Interest on shareholders' equity allocated to dividends		
Gross interest on shareholders' equity	75,300	55,000
IRRF on interest on shareholders' equity	<u>(11,295)</u>	<u>(8,250)</u>
Interest on shareholders' equity net and dividends proposed	<u>64,005</u>	<u>46,750</u>
Number of shares (-) treasury shares:		
Common	1,350,917	1,280,636
Preferred	1,820,234	1,820,188
Dividends proposed:		
Common	30,337	18,236
Preferred	44,963	28,514
Dividends proposed per thousand shares (in Brazilian reais):		
Common	22.46	14.24
Preferred	24.70	15.66

Interest on shareholders' equity net of income tax will be allocated in full to dividends pursuant to Law No. 9,249/95.

The dividends proposed by Company's management, as interest on shareholders' equity, were capitalized assuming the relevant approval by the General Shareholders' Meeting.

19. NET REVENUE OF SERVICE AND SELLING

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
Subscription	89,893	104,140
Usage	584,025	573,406
Shift	-	7,183
Additional call charges	17,662	17,239
Interconnection	453,850	416,925
Data services	88,410	44,406
Other services	<u>26,573</u>	<u>14,234</u>
Total gross revenue from services	<u>1,260,413</u>	<u>1,177,533</u>
ICMS	(200,322)	(169,499)
PIS and COFINS	(45,670)	(39,355)
ISS	(385)	(136)
Discounts granted	<u>(36,252)</u>	<u>(97,217)</u>
Net operating revenue from services	<u>977,784</u>	<u>871,326</u>
Goods sold	<u>291,737</u>	<u>221,196</u>
ICMS	(20,358)	(24,316)
PIS and COFINS	(20,901)	(8,401)
Discounts granted	(41,842)	(20,057)
Return of goods	<u>(12,091)</u>	<u>(7,048)</u>
Net operating revenue	<u>196,545</u>	<u>161,374</u>
Total net operating revenue	<u>1,174,329</u>	<u>1,032,700</u>

There are no customers who contributed to more than 10% of the gross operating revenue during 2004 and 2003, except for Brasil Telecom S.A. Brasil Telecom S.A. is the fixed line service provider and contributed to approximately 22.50% and 22.39% of the total gross revenue for the years ended on December 31, 2004 and 2003, respectively, mainly in relation to interconnection.

20. COST OF SERVICES AND GOODS

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
Personnel	8,597	7,526
Supplies	518	530
Third-party services	29,326	21,206
Connection means	25,030	25,196
Rental/insurance/condominium	15,803	17,853
Interconnection	27,613	59,181
Taxes, rates and contributions	47,060	37,540
Depreciation and amortization	162,099	158,674
Cost of goods sold	304,314	198,452
Other input	<u>183</u>	<u>15</u>
Total	<u>620,543</u>	<u>526,173</u>

21. SELLING EXPENSES

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
Personnel	27,507	23,074
Supplies	3,668	656
Third-party services (*)	175,972	104,289
Rental/insurance/condominium	4,467	3,625
Depreciation and amortization	29,683	24,382
Provision for doubtful accounts	21,941	10,504
Other	<u>1,659</u>	<u>4,727</u>
Total	<u>264,897</u>	<u>171,257</u>

(\*) Includes expenses with advertising in the amount of R\$42,076 (R\$28,061 in 2003).

22. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Personnel	882	899	23,413	21,474
Supplies	-	-	2,154	1,246
Third-party services	2,162	1,981	50,981	47,624
Rental/insurance/condominium	-	1	5,099	4,513
Depreciation and amortization	-	-	13,622	13,999
Other	<u>15</u>	<u>-</u>	<u>353</u>	<u>494</u>
Total	<u>3,059</u>	<u>2,881</u>	<u>95,622</u>	<u>89,350</u>

23. OTHER OPERATING INCOME (EXPENSES)

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Income:				
Fines	-	-	3,478	3,521
Recovered expenses	22	-	30,895	1,860
Reversal of provisions (contingencies)	-	-	558	3,488
Trade incentives	-	-	8,052	-
Other operating income	<u>-</u>	<u>-</u>	<u>7,170</u>	<u>1,237</u>
Total	<u>22</u>	<u>-</u>	<u>50,153</u>	<u>10,106</u>
Expenses:				
FUST	-	-	(5,295)	(4,783)
FUNTTEL	-	-	(2,647)	(2,392)
ICMS on other expenses	-	-	(3,795)	(2,318)
PIS and COFINS on other income	-	-	(3,742)	(606)
Provision for contingencies	(43)	-	(2,988)	(2,451)
Other operating expenses	<u>-</u>	<u>-</u>	<u>(4,350)</u>	<u>(1,487)</u>
Total	<u>(43)</u>	<u>-</u>	<u>(22,817)</u>	<u>(14,037)</u>

24. FINANCIAL INCOME (EXPENSES)

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Financial income:				
Interest income	1,154	527	88,707	96,321
Monetary/exchange variation on assets	850	1,459	24,415	114,138
PIS/COFINS on financial income	<u>(99)</u>	<u>(92)</u>	<u>(6,691)</u>	<u>(10,518)</u>
Total	<u>1,905</u>	<u>1,894</u>	<u>106,431</u>	<u>199,941</u>
Financial expenses:				
Interest expense	(211)	(82)	(28,343)	(31,774)
Monetary/exchange variation on liabilities	-	-	(1,099)	(144,906)
Derivative transactions, net	-	-	(43,482)	(3,039)
Other financial expenses	<u>(7,678)</u>	<u>(2,558)</u>	<u>(7,678)</u>	<u>(2,558)</u>
Total	<u>(7,889)</u>	<u>(2,640)</u>	<u>(80,602)</u>	<u>(182,277)</u>

25. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiary estimate and pay monthly the installments of income and social contribution taxes on 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:

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Income tax	-	-	(46,837)	(27,894)
Social contribution	-	-	(17,040)	(8,992)
Deferred income tax	301	854	5,283	(22,870)
Deferred social contribution	<u>123</u>	<u>326</u>	<u>1,917</u>	<u>(9,325)</u>
Total	<u>424</u>	<u>1,180</u>	<u>(56,677)</u>	<u>(69,081)</u>

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

	<u>Holding Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Income before tax	189,256	191,004	163,357	203,446
Income and social contribution tax based on the official rate	(64,347)	(64,941)	(55,541)	(69,172)
Permanent additions	<u>(54)</u>	<u>(53)</u>	<u>(1,514)</u>	<u>(182)</u>
Nondeductible expenses	-	-	-	(31)
Other additions	(54)	(53)	(1,514)	(151)
Permanent exclusions	<u>64,825</u>	<u>66,174</u>	<u>378</u>	<u>273</u>
Equity pick-up	64,811	66,174	-	-
Tax incentive	-	-	494	-
Difference of additional income tax	-	-	24	-
Other exclusions	<u>14</u>	<u>-</u>	<u>(140)</u>	<u>273</u>
Income and social contribution taxes expense on income	<u>424</u>	<u>1,180</u>	<u>(56,677)</u>	<u>(69,081)</u>

## 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONSOLIDATED)

### a) Risk considerations

Celular CRT S.A. provides mobile telephone services in the State of Rio Grande do Sul pursuant to the authorization granted by the Federal Government. The operator is also engaged in the purchase and sale of handsets through their own sales networks and distribution channels, thus fostering their essential activities.

The major market risks to which Celular CRT S.A. is exposed in exercising its activities include:

- Credit risk: resulting from any difficulty in collecting telecommunication services provided to customers and revenues from sale of handsets to distribution networks, as well as the risk relating to swap transactions.
- Interest rate risk: resulting from debt and premiums on derivative instruments contracted at floating rates and involving the risk of financial expenses increasing as a result of an unfavorable upward trend in interest rates (mainly LIBOR and CDI).
- Currency risk: related to debt and premiums on derivative instruments contracted in foreign currency and associated to potential losses to the Company resulting from adverse exchange rate fluctuations.

Celular CRT S.A. has been actively managing and mitigating risks inherent to its operations by means of comprehensive operating initiatives, procedures and policies.

### 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. Celular CRT S.A. customers use 75.5% prepaid services that require pre-loading, thus not representing a credit risk.

Credit risk from the sale of handsets is managed by following a conservative credit granting which encompasses the use of advanced risk management methods that include applying credit scoring techniques, analyzing potential customer's balance sheet, and making inquiries of credit protection agencies' database. In addition, an automatic control system has been implemented with the distribution of SAP's software ERP for consistent transactions.

The Company is also exposed to credit risk arising out of its financial investments and receivables from swap transactions. The Company makes efforts to diversify such exposure among first class financial institutions.

### Interest rate risk

The Company is exposed to local interest rate risk, due to exchange derivative transactions and borrowings contracted in reals associated with the cost of CDI rates. However, the balance of those financial investments also indexed at CDI neutralizes such effect.

Foreign currency-denominated loans are also exposed to the risk of increase in floating interest rate (LIBOR). As of December 31, 2004, the principal amount of these transactions was US\$99,847 (R\$136,225 in 2003).

### Currency risk

Celular CRT S.A. utilizes derivative instruments to protect against the currency risk on foreign currency-denominated loans. The instruments usually used are swap, option and forward contracts.

The Company's net exposure to currency risk as of December 31, 2004 is shown in the table below:

	<u>In thousands of US\$</u>
Loans and financing	(100,952)
Hedge instruments	<u>114,542</u>
Surplus	<u>13,590</u>

During 2004, the Company entered into derivative instruments to hedge other foreign currency commitments against exchange variations.

b) Derivative instruments

Celular CRT S.A. records derivative gains and losses as a component of financial income and expenses.

Appraisal of book and market values of loans and financing and derivative instruments are estimated as follows:

	<u>Book value</u>	<u>Market value</u>	<u>Unrealized gains (losses)</u>
Loans and financing	(267,966)	(273,074)	(5,108)
Derivative instruments	<u>12,471</u>	<u>27,729</u>	<u>15,258</u>
Total	<u>(255,495)</u>	<u>(245,345)</u>	<u>10,150</u>

c) Market value of financial instruments

The market value of loans and financing and derivative instruments were determined based on the discounted cash flows, using available projected interest rate information.

Market values have been determined using available market information and appropriate valuation methodologies. Accordingly, the estimates presented above are not necessarily indicative of the amounts that could be realized in a current market. The use of different market assumptions may have a material effect on estimates.

27. PENSION AND POST-RETIREMENT BENEFIT PLAN

a) Plano Visão

Upon approval of the sponsor withdrawal process with Fundação dos Funcionários da CRT - FCRT, the Complementary Social Security Secretary also approved Plano de Benefícios Visão Celular CRT - Plano Visão, implemented by the holding company as of March 1, 2004, upon which the mentioned plan has been offered to its participants and has a characteristic of an individual contribution plan managed by Fundação Sistel de Seguridade Social - SISTEL. Plano Visão is made feasible by means of contributions made by participants (employees) and by the sponsor, credited to participants' individual accounts. The sponsor accounts for the cost of all associated administrative and maintenance expenses, including for the estimate of accounts balances in benefits of participants' death and disability.

The Company's contributions to Plano Visão Celular are equal to participants', ranging between 0% and 9% on participation salary, pursuant to the percentage chosen by participant.

During the term of ten months ended on December 31, 2004, the holding company made a contribution to Plano Visão Celular in the amount of R\$585.

The projected unit cost method was used for actuarial appraisal of the plan, which relevant assets are positioned on December 31, 2004.

In 2004, the Company recognized pro rata the actuarial cost of R\$479.

The following table demonstrates the composition of the provision for retirement benefit plans as of December 31, 2004, in addition to other information required by CVM Resolution No. 371, of December 13, 2000, on such plans.

<u>Plano Visão</u>	<u>12.31.04</u>
Visão	<u>479</u>
Total	<u>479</u>

i) Conciliation of assets and liabilities

<u>Plano Visão</u>	<u>12.31.04</u>
Total actuarial liabilities	(1,006)
Assets fair value	<u>527</u>
Net liabilities	<u>(479)</u>

Although Plano Visão is a defined contribution plan, there is an actuarial risk of death and disability, which shall be borne by the sponsor, and the respective actuarial calculation on such risks is required.

ii) Estimate expense 2005

<u>Plano Visão</u>	
Service cost	137
Interest cost	105
Estimate assets earnings	(74)
Employees contribution	<u>(13)</u>
	<u>155</u>

iii) Actuarial assumptions

	<u>Plano Visão</u>
	<u>12.31.04</u>
Actual rate used for discount at current value of actuarial liabilities	11.30%
Estimate return rate on plan assets	13.75%
Future salary growth rate	7.10%
Mortality table	UP 84 with hazard risk of 1 year and sex segregated
Disabled mortality table	IAPB-57
Disability table	Mercer Disability
% of participants married on retirement date	95%
Number of retired participants of Plano Visão	-
Number of working participants of Plano Visão	265

b) Withdrawal process as sponsor of FCRT plan

A sponsorship withdrawal agreement in connection with FCRT plan was executed on December 31, 2001, and approved by the Complementary Social Security Secretary on December 30, 2003.

In accordance with the mentioned agreement, the Company agreed to transfer to SISTEL the amounts of the reserve of working participants' savings that migrate to Plano Visão. The reserve has been estimate based on the proportional benefit method.

Such transfers begun in October 2004, and on December 31, 2004 have totaled R\$8,797.

In addition, the Company made a reserve of R\$9,395, of which R\$5,201 as withdrawal reserve of participants holding an Intention Statement to Migrate to BrTPREV, and who are awaiting the settlement of cases pending in INSS (Social Security) in order to obtain retirement benefits. The provisioned balance shall be transferred during 2005, upon completion of the validation of amounts showed.

The amount showed by BrTPREV as contingency liability of judicial and actuarial nature in the amount of R\$13,842, which accuracy and chances of being favorable to the Company may not be determined at this time, is being analyzed.

28. CORPORATE RESTRUCTURING

The corporate restructuring was completed on October 11, 2000, and the goodwill paid in the privatization of the holding company was transferred to its subsidiary.

The financial statements kept for corporate and tax purposes of the subsidiary have specific accounts relating to merged goodwill and reserve, and amortization, reversal and corresponding tax credit, which balances as of December 31, 2004 and 2003 are as follows:

	Balances on <u>merger date</u>	Spin off Celular CRT Participações <u>S.A.</u>	<u>Consolidated</u>	
			<u>12.31.04</u>	<u>12.31.03</u>
Balance sheet:				
Goodwill - merged	489,561	481,402	73,434	171,346
Reserve - merged	(326,036)	(320,602)	(48,466)	(113,088)
Balance	<u>163,525</u>	<u>160,800</u>	<u>24,968</u>	<u>58,258</u>
			<u>Consolidated</u>	
			<u>2004</u>	<u>2003</u>
Income:				
Goodwill amortization			97,912	97,912
Reversal of reserve			(64,622)	(64,622)
Tax credit			(33,290)	(33,290)
Effect on income			<u>-</u>	<u>-</u>

In accordance with the above-mentioned information, the goodwill amortization, net of the reversal of reserve and corresponding tax credit, results in a null effect on income and, consequently, on the calculation basis of statutory minimum dividends. In order to demonstrate the financial and equity situation of the Company and its subsidiary in the financial statements, the net value of R\$24,968, on December 31, 2004 (R\$58,258 in 2003), which essentially represents the merged tax credit, was classified in the balance sheet in current assets and noncurrent assets as deferred taxes (see Note 7).

The tax credit merged is capitalized to the extent of effective realization. The Company retained all tax credits generated in the year.

## 29. MANAGEMENT COMPENSATION

During 2004 and 2003, management compensation in the amounts of R\$665 and R\$594, respectively, was recognized as general and administrative expenses.

## 30. TRANSACTIONS WITH RELATED PARTIES

The main transactions with unconsolidated related parties are as follows:

### a) Use of network and long-distance (roaming) cellular communication

Those transactions involve companies owned by the same group: Telesp Celular S.A., Global Telecom S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Tele Centro Oeste Celular S.A., Telems Celular S.A., Teleron Celular S.A., Telemat Celular S.A., Teleacre Celular S.A., Telegoiás Celular S.A., NBT S.A. and Telecomunicações de São Paulo S.A. Certain of these transactions were established based on contracts between TELEBRÁS and the operating concessionaires before privatization under the terms established by ANATEL.

### b) Technical assistance

It shall be paid by the subsidiary, concerning the provision of technical assistance services to TBS Celular Participações S.A., calculated based on the percentage applied on net revenue from services.

### c) Corporate services provision is passed on to companies owned by the same controlling group at the cost effectively incurred for these services.

### d) Call center services provided by Atento Brasil S.A. to users of the subsidiary telecommunication services, contracted for a period of 12 months, renewable for the same period.

### e) Logistic operator and accounting financial consulting services rendered by Telefônica Gestão de Serviços.

### f) Provider services of voice portal content by Terra Networks Brasil.

### g) Maintenance of the profitability and costs control system by Telefônica Móbile Solution do Brasil.

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

	<u>Consolidated</u>	
	<u>12.31.04</u>	<u>12.31.03</u>
<b>Assets:</b>		
Trade accounts receivable	3,926	3,886
Intercompany credits	7,326	2,869
<b>Liabilities:</b>		
Trade accounts payable	25,709	30,085
Intercompany liabilities	5,735	4,176
	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
<b>Revenues:</b>		
Revenue from telecommunication services:		
Tele Sudeste and subsidiaries	-	374
Tele Leste and subsidiaries	-	83
Telesp Celular and subsidiaries	-	1,552
Telecomunicações de São Paulo S.A.	<u>23,042</u>	<u>20,821</u>
	<u>23,042</u>	<u>22,830</u>
<b>Expenses:</b>		
Cost of service and selling:		
Tele Sudeste and subsidiaries	-	(298)
Tele Leste and subsidiaries	-	(67)
Telesp Celular and subsidiaries	-	(1,345)
Telecomunicações de São Paulo S.A.	<u>-</u>	<u>(141)</u>
	<u>-</u>	<u>(1,851)</u>
<b>Selling expenses-</b>		
Atento Brasil S.A.	<u>(31,598)</u>	<u>(25,716)</u>
<b>General and administrative expenses:</b>		
Telecomunicações de São Paulo S.A.	(371)	-
TBS Celular Participações S.A.	(9,770)	(8,715)
Terra Brasil	(209)	(531)
Telefônica Gestão de Serviços Compart. - T-Gestiona	<u>(6,362)</u>	<u>(1,975)</u>
	<u>(16,712)</u>	<u>(11,221)</u>
<b>Expenses recovery - proration:</b>		
Tele Sudeste and subsidiaries	1,859	1,821
Telesp Celular and subsidiaries	6,406	4,591
Tele Leste and subsidiaries	<u>411</u>	<u>433</u>
	<u>8,676</u>	<u>6,845</u>

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
Proration expenses:		
Tele Sudeste and subsidiaries	(8,370)	(10,631)
Telesp Celular and subsidiaries	(26,009)	(15,888)
Tele Leste and subsidiaries	<u>(926)</u>	<u>(896)</u>
	<u>(35,305)</u>	<u>(27,415)</u>
Financial income (expenses), net:		
Telefônica Empresas S.A	62	-
T. Empresas Brasil	<u>2,400</u>	<u>-</u>
	<u>2,462</u>	<u>-</u>

### 31. INSURANCE

The Company maintains a monitoring policy of risks inherent to its operations. Consequently, on December 31, 2004, the Company had insurance contracts in force to cover operating risks, general liability and health care, etc. Company's management is of the opinion that these values are sufficient to cover any losses. The main assets, liabilities or interest covered by insurance and respective amounts are as follows:

<u>Modality</u>	<u>Amounts insured</u>
Operating risks	R\$796,320,000.00
General civil liability (RCG)	R\$5,822,400.00
Vehicle (officers fleet)	Fipe Table and R\$200,000.00 for DC/DM
Vehicle (operational fleet)	R\$200,000.00 for DC/DM

### 32. CONCILIATION BETWEEN HOLDING COMPANY AND CONSOLIDATED NET INCOME

The conciliation between the holding company and consolidated net income for the year is as follows:

	<u>Consolidated</u>
	<u>2003</u>
Holding company net income	192,184
Capital reserve of Celular CRT S.A.	(64)
Special goodwill reserve	<u>(2,755)</u>
Consolidated net income	<u>189,365</u>