

TELESP CELLULAR HOLDING CO /ADR/  
Form 6-K  
March 27, 2006

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 6-K

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934

For the month of March, 2006

Commission File Number 1-14493

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### TELESP CELULAR PARTICIPAÇÕES S.A.

(Exact name of registrant as specified in its charter)

#### Telesp Cellular Holding Company

(Translation of Registrant's name into English)

Av. Roque Petroni Jr., no.1464, 6<sup>th</sup> floor part, "B"building  
04707-000 - São Paulo, SP  
Federative Republic of Brazil  
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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#### MANAGEMENT'S REPORT

The management of **Telesp Celular Participações S/A**, a company operated by Telefónica Móviles and Portugal Telecom, **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 at December 31, 2005, in compliance with the provisions in the law and bylaws.

## **Message from the Chief Executive Officer**

2005 was a year of important advances for VIVO, the brand under which the companies Telesp Celular Participações S.A. – TCP (controlling shareholder of Tele Centro Oeste Celular Participações S.A. – TCO), Tele Leste Celular Participações S.A. – TLE, Tele Sudeste Participações S. A – TSD and Celular CRT Participações – Celular CRT all operate; they all make up the assets of the joint venture formed by Telefónica Móviles and Portugal Telecom. A customer base of close to 30 million clients in December 2005 is the best evidence of VIVO's leadership in the Brazilian mobile communications market. But of greater value than its superiority in terms of "market share" are the quality of its customer base and its leadership in revenue share and EBITDA figures.

In general, the players in this market have based competition strategies on powerful mechanisms designed to reduce entry level prices and on high investments in advertising and marketing. Vivo has adapted to market conditions, without putting in risk its capacity of generating results, which allows it to continue its quality relationships with its clients, shareholders and community. Increasing numbers of postpaid subscribers and ongoing income data growth registered between 2004 and 2005 are some of the indicators that attest that the path chosen was the right one. The Brazilian market, with approximately 85 million cell phone users, still has room for growth, albeit at a slower pace than in the past few years. VIVO is on the lookout for opportunities to add new customers to its base. But, in the current scenario, the organization's major challenge is to "win over" the customers it already has, that is, to ensure their loyalty. There is a very simple form of making customers confirm their choice in appointing VIVO as their carrier: a continual drive for customer satisfaction, through service excellence, especially in billing, card recharging and customer services. These are key factors for the customer and, thus, key factors in VIVO's strategy. Quality in these items that are sensitive to customers is what is going to make the difference.

## **Ongoing advances**

In 2005, VIVO evolved significantly in several fields. Expansion projects and the CDMA overlay allowed Vivo to increase by about 20% the digital coverage in several areas. One of the highlights was the State of São Paulo, which now has VIVO coverage in 100% of its municipalities. Besides growing in terms of quantity, the organization gained points in terms of service quality, evidenced by the increase in the completed originated call rate to 78%, from 72%, well above the 67% targeted by Anatel.

VIVO also made significant progress in its projects to unify the main business and operation support systems. In 2005, SAP and data warehouse projects were finally concluded. Unification of billing, prepaid and front-office systems has also moved forward and is expected to be fully completed in 2006. These moves gave the organization greater agility, efficiency and competitiveness. They have, among other things, made the launch of new products easier and enabled VIVO to offer customers the same promotions and type of relations, regardless of which area they are in.

One other contribution towards consolidating the organization into one single entity that must be mentioned was the decision by the boards of directors of the companies operating under the VIVO brand to promote the corporate restructuring that will result in a single publicly held company - Vivo Participações S.A.

The system unification projects and improvement in customer services have proved to have successful results among customers as evidenced, for example, by the drop in call center calls in 2005 as compared to those of the previous year.

## **Third Generation**

With respect to technology, CDMA EVDO, VIVO's Third Generation System, which guarantees very high data transmission speeds, is now fully operational in São Paulo, Rio de Janeiro, Curitiba, Porto Alegre, Salvador and Brasília. This technology is the cornerstone for some significant innovations in services, such as Vivo Play 3G and Vivo Zap 3G. Included in the important launches made in 2005 are Smart Mail (a corporate service that permits real time access to office e-mails) and Vivo Moblog (a service which, differently from common blogs, allows both the Internet and cell phones to be used in text and image configurations and publications). To innovate is one of the key factors in increasing data service revenues, which already account for 6% of total revenues. Use of the Vivo Downloads service alone – which includes the downloading of games, images and musical tones – has risen by 200%

from 2004 to 2005.

But for VIVO, to innovate entails much more than to introduce a new service in the market or to pursue cutting-edge technology. It is equally important to innovate in terms of processes, attitudes, customer relations and employee relations. To simplify offers or improve communication mechanisms between in-house departments to expedite delivery of a solution to a demand to the Call Center are innovations that do not require sophisticated technology and have an important positive impact on customers.

If VIVO put a lot of energy into the businesses throughout 2005, it did so without disregarding another essential aspect: exercising its social responsibility, whether in forging an ethical and transparent relationship with its different target publics – customers, shareholders, employees, community members and government authorities –, or in participating in initiatives that promote progress and social equality. The close to 40 projects sponsored by Instituto Vivo, especially in the field of Education, benefit more than 200,000 persons across Brazil. A civic effort to which all VIVO employees contribute is the VIVO Volunteer Program, which organizes activities designed mainly for the visually disabled.

## **Transformation**

2005 was, without any doubt, a year of major realizations for Vivo, as the reader will have opportunity to see in greater detail throughout this report. But one factor has made 2005 a decisive year: it marks the beginning of a new era for the organization. An era in which VIVO will be fully devoted to customer satisfaction.

This is a challenging strategic guideline as it requires the fine-tuning of all the departments to focus on the customer's "cause". It requires changes that will only be brought about if the people that make up the organization are strongly determined to undertake them. And VIVO's professionals are. The climate survey conducted at the end of 2005 showed that all employees fully endorse the new strategic orientation, clearly identify the paths of change that must be followed and are willing and prepared to help VIVO become a 100% customer-oriented company, with segmented promotions and excelling in general, billing, recharging and customer services. These are essential elements that add value to the customer and to VIVO's business.

## **2005 Highlights**

- Leading position in mobile telephony in Brazil with a 34.5% market share (source: Anatel);
- Approximately 30 million customers at the end of 2005;
- 100% coverage in all of the municipalities of the State of São Paulo;
- The greatest coverage in Brazil – servicing over 2,200 municipalities;
- More than 7,600 points of sale of its own or outsourced;
- Pioneer in providing 3rd Generation Services in Brazil, due to the introduction of the CDMA EV-DO technology in its main capital cities (São Paulo, Rio de Janeiro, Florianópolis, Curitiba, Porto Alegre, Salvador, Vitória and Brasília);
- Main innovations: Vivo Play 3G, Vivo ZAP, Smart Mail and Globalmoto;
- 15 million downloads since 2003;
- 2 million VIVO Wap users per month;
- More than 6,300 direct jobs;

- 11th best valued brand on the domestic market, according to Internbrand ranking, worth US\$218 million;
- SAP project completed, unifying the entire management system;
- Data warehouse unification project completed;
- Vivo was granted more than 40 awards, with special mention to the Caboré Prize – for best advertiser of the year; and
- Sponsorships: *Barco Brasil 1* in Volvo Ocean Race and Brazilian Soccer Team.

## 1 – Political and Economic Environment

In 2005 the fundamentals of the export sector of the Brazilian economy continued to show improvement. The trade balance registered a historical record surplus of US\$44.8 billion, which resulted, despite the increase in profit and dividend remittances to US\$13.4 billion, in a current account surplus in the equivalent of 1.8% of GDP. The level of foreign reserves rose to US\$ 53.8 billion, the highest level posted since 1998; IMF debt of US\$15.5 billion was paid earlier than scheduled and foreign debt reduced by US\$ 34 billion, while the domestic securities debt indexed to foreign exchange rates was paid off. These efforts enhanced all foreign solvency indicators, which strengthened the downward trend in the Brazil risk premium throughout the year, to 303 bps at year end, 1 bps higher than the lowest risk level registered by Brazil since this indicator first started to be measured.

Due to the improvement in the foreign solvency rate and ongoing decline in the risk premium, the foreign exchange rate continued to steadily drop, with the US dollar depreciating in relation to the Brazilian real. In 2005, Brazil's currency registered a nominal appreciation of 17.1% - annual average versus last year's average. The face value appreciation of the Brazilian real was one of the factors that contributed to achieving the inflation target in 2005. Inflation according to the IPCA (Expanded Consumer Price Index) of 5.7% in 2005, the lowest since 1998, was slightly higher than the 5.1% Central Bank target, but well within the tolerance bracket.

The second reason why the inflation rate (based on the IPCA) remained within the tolerance brackets established by Central Bank was the rise in interest rate in 2005. During the year, the Central Bank of Brazil raised the SELIC rate (Special Settlement and Custody System) to 19.75% in August, from 18.25% in January, and then reduced it to 18.0% in December. As a result, the accumulated nominal rate registered in the year was 19.0%, or 12.6% in real terms. It should be mentioned, on the other hand, that this increase in real interest rate also reduced economic activity, particularly in the second half of the year. Because of this, the growth rate for the Brazilian GDP should be 2.0% for 2005.

## Worldwide Mobile Phone Market

The worldwide mobile phone market grew 21.0% and 25.3% in 2003 and 2004, respectively.

Similar growth of around 24% is estimated for 2005. In 2005, total number of cell phone users worldwide exceeded the two billion mark.

The penetration of mobile phones worldwide is expected to have reached 29% in 2005, up five percentage points over 2004.

Prepaid plans continue to be the driving force behind the growing number of users in several areas around the world, the only exception being North America and Europe, where prepaid subscribers account for 96% of new telephone line additions. In 2005, 62% of cell phone users were prepaid plan subscribers.

It is estimated also that 26% of worldwide mobile service users are lines used by companies.

Some 77.3% of the lines in the world use GSM technology, 15.3% CDMA technology and 7.4% use other

technologies. As far as third generation technologies are concerned (3G), W-CDMA (UMTS) has 49 million subscribers while the 1xEV-DO technology has 26 million subscribers.

Brazil is the fifth country among the nations with the largest number of cell phones, and its 20 million user market growth rate in 2005 was also one of the highest in the world, surpassed only by China (76 million), Russia (61 million) and India (28 million). China closed 2005 with 400 million cell phones (31.8 mobiles/100 inhab.), Russia with 125 million (86.6 mobiles/100 inhab.) and India with 76 million (7.0 mobiles/100 inhab.).

Following the same trend of the previous year, in 2005 the markets of China, Russia, India, Brazil and United States were leaders in terms of new subscribers. Pakistan, Colombia, Nigeria and Egypt were the countries that reported the highest mobile phone percentage growth.

### **Mobile Phone Market in Brazil**

2005 was characterized by strong expansion in the Brazilian mobile business triggered mainly by strong competitive pressure among operators, which lowered the entry level prices and the service prices. The year closed with a total 86.2 million lines, reporting 31.4% growth in the year.

Expectations point to a slight slowdown in the growth of the customer base of the mobile business in 2006, due mainly to high mobile penetration and operator concern in improving business profitability.

VIVO maintained its leadership position on the Brazilian mobile market, with a 34.5% market share at the end of the year.

Net additions in 2005 totaled 20.6 million, up 7.3% on net additions registered in 2004. The last quarter of the year reported the highest volume of net additions in the year, totaling 6.2 million new lines, down 16.6% when compared to the last quarter of 2004.

Due to the strong growth of the customer base in 2005, mobile penetration reached 46.6%, which is higher than in 2004 by 10 percentage points. Consequently, mobile penetration was 24 percentage points higher than that registered by fixed telephones in Brazil of 22% at the end of 2005.

Data services usage also rose in Brazil in 2005. Revenues produced in Brazil from data transmission accounted for 4.4% of ARPU in third quarter 2004, but had climbed to 5.8% in third quarter 2005. 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 2006. This growth may be spurred by the diversity of solutions and service applications provided by the use of data services through the cellular phone.

### **Regulatory Environment**

2005 was marked by intensified fiscal control actions by Anatel and the issue of Public Inquiries proposing changes in the regulations, especially focused on the protection of consumer rights.

Stricter fiscal control actions by Anatel caused an increase in the number of administrative proceedings filed against cell phone operators, especially in view of the quality of services rendered. These proceedings could result in the application of sanctions on the respective operators.

One of the most important Public Inquiries was No. 642, which proposed changes in SMP (public mobile service) regulations. January 16, 2006 was the deadline for any opinions to be voiced thereon. In this document, Anatel addresses points of vital importance to the cell phone business such as: compulsory assistance presence per serviced municipality, extension of prepaid card validity; extended period before blocking use of phone of defaulting users and abolishment of the service plan grace periods.

Among the resolutions published by Anatel in 2005, most noteworthy are No. 410, which provides the new general interconnection regulations, and No. 408, which upheld the partial *Bill and Keep* rule on payment for use of networks among SMP operators.

2005 also featured the beginning of free negotiations of the price for use of mobile networks (VU-M), until the pricing-at-cost model is implemented. A temporary agreement was signed among local fixed telephone operators and mobile operators to ensure a 4.5% price adjustment, pending a decision by Anatel on requests for arbitration relative to VU-M prices.

## 2 – Marketing Strategy

The mobile telephony industry in Brazil is starting to reach a saturation point, with the higher social classes registering very high levels of penetration. In these circumstances, the market value starts to steadily become centered on the bases of the operators themselves, increasing the competition for value-added customers. At year end the first signs of the slowing down of the business appeared and caused operators to seek to maximize the creation of value. We believe that this could lead, more and more, to improved results in the industry.

In this context, VIVO based its 2005 strategy on two fundamental principles:

- To maintain its market leadership;
- To grow with profitability in order to maximize EBITDA (earnings before interest, taxes, depreciation and amortization) and its margin.

These principles were translated into a marketing strategy made up of great “macro actions”, which were put into effect throughout 2005 and expected to be continued in 2006:

- ◆ **To Deliver Basic Service with Quality Leadership**, adjusting the company’s framework and optimizing key processes such as call center customer service and public stores;
- ◆ **Aggressive Customer Loyalty Programs** in order 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 by allocating funds according to profitability and returns;
- ◆ **Selective Growth** in segments and regions with higher value-creation potential;
- ◆ **Ensure profitability of the current customer base as well as of new customers captured during the year** by implementing actions that stimulate use of services (especially recharging of prepaid cards), improving segmented management and adjusting the cost of servicing to the value of each segment;
- ◆ **Build/Communicate Brand Differential** by exploiting the competitive edge of its coverage and technological advantages of the CDMA (3G - EVDO), translating into innovative services and more modern handsets; and
- ◆ **Change brand value perception** by exploiting simple attributes recognized by customers and a commitment to deliver quality and satisfactory customer services (establish credibility and trust).

## Plans and Campaigns

The retail campaigns in 2005 were aimed at selective growth, particularly in the postpaid plan and other segments with potential for greater value generation, in order to improve price perception and enhance market leadership.

Among the benefits granted in promotions this year, VIVO tried to create offers that were both attractive and also encouraged consumer habits in customers, by offering more incentives to those holding more profitable postpaid plans (by giving discounts to handsets), monthly card recharging to prepaid subscribers and timely payments to postpaid plan subscribers.

The principal benefits included: intranet traffic (local and long distance using CSP – Long distance carrier selector code - 15), data services (SMS and MMS), reduced off-peak rates; selected handset price reductions (postpaid plan promotions that offered escalating discounts according to higher service plan value to boost growth of the high potential segment), among others.

In all VIVO's acquisition campaigns, a special focus was placed on the value attributed to the current customer base, and all customers were given the chance of taking part in all of the campaigns by changing their handsets and keeping their former numbers, which ensured customer loyalty and higher profitability rates, as described above.

VIVO also engaged in segmented actions that centered on the Youth and High Potential segments. The campaign designed for the Youth segment was "Vivo in Colleges", a project that was conducted in 100 of the largest and best universities in Brazil. It was aimed at bringing VIVO closer to college students, but this time by "invading their world", and made possible a greater bridging of the gap and helped them identify more with the VIVO brand. In all, some 700,000 students participated in this project.

Another highlight was a marketing drive involving partners that speak the language of young people. The most important of these was the partnership formed with Terra, Brazil's largest Internet portal. Direct marketing actions were taken to capture users in this segment.

Focused on the High Potential segment, the most relevant projects were those designed to acquire the postpaid clients of higher value of the competition. These campaigns were undertaken through direct marketing and in the VIVO stores. The promotions of these campaigns were aimed at providing higher benefits to customers who made a commitment to higher monthly disbursements.

Concurrently with the Acquisition Campaigns, VIVO strove to enhance price perception in the market and within its customer base. The plan portfolio was updated in view of the promotions undertaken by new players on the market that posted price discounts and aggressive subsidies as their principal means of leveraging sales. This adjustment was extended to the customer base through a migration of customers to selective plans with the objective of guaranteeing returns and customer loyalty via segmented promotions. In September, with a view to assuring the loyalty of high value postpaid subscribers, the *Vivo Ideal* plan was launched, which automatically fitted customers into the 150, 300, 500 and 1000 minute plans according to their consumption.

In addition, in October 2005, VIVO launched a new campaign "*Vivo e Você na Copa*" (Vivo and You at the World Cup) focused on its current customer base (both prepaid and postpaid plan subscribers), in order to enhance profitability. This campaign offers to take 75 customers with companion to watch Brazil play in the 2006 World Soccer Championship, and will be valid until March 31, 2006.

## 2005 Acquisition Offers

The year of 2005 started with a summer promotion entitled "*Verão em Dobro VIVO*" (Double Summer Vivo), which offered the benefit of card recharges and call minute bonuses worth two times more and exclusively to postpaid clients'

long-distance (LD) calls at local charges via CSP 15, to boost intranet and LD traffic.

In March, the campaign “*VIVO 15 Super Tarifa*” (VIVO 15 Super Rate) addressed to young people, boosted postpaid and prepaid plan additions with an aggressive promotion and strong appeal to price perception through a reduced rate (R\$ 0.15/min) on all intranet calls in Brazil, plus a data services sample package.

The campaign “*Dia das Mães VIVO*” (Mother’s Day Vivo) in May focused on price perception again, with a 50% discount on local and long-distance intranet calls using CSP 15 of Telefônica, in an attempt to reinforce the VIVO Community concept. A data services sample package (SMS + MMS) was offered in addition to this benefit. Another campaign introduced at the same period featured “*Bom de Papo*” (Easy Chatting), packages of 300 minutes (60 minutes free + 240 minutes within the Vivo network) and 600 minutes (120 minutes free + 480 within the Vivo network), designed to attract and ensure loyalty of high-value postpaid customers which were targeted by the competition.

In mid-June, we launched the campaign “*Noite dos Namorados*” (Valentine’s Evening) to encourage calls during the network’s off-peak period, to reduce idle time by offering reduced rates for voice and data for only R\$ 0.10/minute. During the same month, focused on the high potential segment, VIVO launched the promotion “*100 minutos por R\$1*” (a minute-based package for intranet local calls for R\$1.00 per month added to the 60, 120, 180, 240, 360, 600 and 900-minute plans). Both offers were designed to improve price perception and the “VIVO Community” concept.

In July, as a result of launching the Father’s Day Campaign, VIVO started off the promotion “*Mesada VIVO Pré*” (VIVO Prepaid Pocketmoney). It was a simple, attractive, but different kind of promotion in which R\$30 were given as bonus for local calls to any operator, coupled with a data services sample package (SMS and MMS). The promotion was later extended into the months of August and September.

During this same period, VIVO started version two of the *Bom de Papo* campaign designed to attract and ensure the loyalty of high-value postpaid subscribers who continued to be targeted by the competition.

In October, the company again focused its attention on youth, and again used the “VIVO Community” concept under the promotion called “*Fale + Por –*” (Speak + For –), whereby local intranet calls had reduced rates (R\$0.25/min), plus the benefit of a data services sample package. This again was a simple and competitive offer which also aimed at enhancing price perception.

To close the year, Brazil’s leading mobile telephone company set in motion a pioneering and very attractive offer, which was easily understood by customers. Its purpose was to exploit free use of cell phones through “*Natal Bônus Livre*” (Christmas Free Bonus) campaign, with a bonus of R\$ 40/month (for 6 months) for local calls to any cellular or fixed phone, conditioned upon a monthly card recharge and timely paid postpaid plans, plus a bonus data package (SMS and MMS).

### **Customer Loyalty Projects**

Year 2005 was marked by aggressive attempts to “shield” high-value customers using a Program of Points as the main customer retention tool. Under this program customers accumulate points based on their monthly invoices, and these points can be used in acquiring a new handset.

The Program of Points was at first implemented in VIVO’s own stores, which not only made it easier for customers to exchange handsets but also stepped up the number of handsets exchanged each month. Besides this, in 2005 the implementation of this program was completed in all regions, integrating the program nationwide. All this effort resulted in an 82% growth in “shielding” our customers in relation to 2004, especially in the third and fourth quarters of 2005.



### **3 – Business Performance**

TCP is the holding company that controls operators Telesp Celular S.A. (“TC”) and Global Telecom S.A. (“GT”), and on April 25, 2003, it acquired a majority stake in the voting capital of the holding company Tele Centro Oeste Celular Participações S.A. (“TCO”). All its subsidiaries are authorized to provide personal communications services (SMP); TC operates in the state of São Paulo, GT in the states of Paraná and Santa Catarina and TCO in the Federal District and states of Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Acre, Rondônia, Roraima, Amapá, Amazonas, Pará and Maranhão.

TC and GT are wholly-owned subsidiaries of TCP, and on December 31, 2005, TCP owned 52.47% of TCO’s share capital, and 90.59% of its voting capital.

#### **Operating Performance**

As of December 31, 2005, TCP reported a 14.6% increase in its customer base, totaling 20,201 thousand customers, including those of TCO, and a 45.2% market share, thus maintaining its lead position and proving the effectiveness of its strategy, which was to invest in coverage, innovation and service quality and to maintain a high cost-benefit ratio for customers in a market marked with intense competition.

The figures below show TCP’s operating performance:

The ARPU (average revenue per user) posted in 2005 of R\$28.2 was 15.2% lower than that registered in 2004, showing the reduction in the prepaid ARPU, which was due, among other factors, to the drop in outgoing traffic and in the MOU (minutes of use) of this market segment. Total MOU in 2005 was 75.

SAC (subscriber acquisition cost) reached R\$146 in 2005, with the increase in relation to 2004 due to increase in commissions and advertising costs, at the same time maintaining efforts to retain customers, especially average and high end customers.

The penetration level in the TCP area in 2005 was 49.3%, indicating that there is still room for market growth.

### **Infrastructure – Network**

In 2005, 1xRTT managed to cover significant new ground. This year, 685 new municipalities within the TCP concession area were provided this new technology, 360 of which are situated in the state of São Paulo via the TC operator; 118 in the states of Paraná and Santa Catarina via GT; and another 207 serviced by TCO (including NBT).

One other relevant fact was that in 2005, CDMA technology was extended to 100% of the municipalities of the state of São Paulo (645 municipalities) serviced by TC. This was only possible due to the extension of coverage to 145 new municipalities during the year, and a roaming agreement signed with CTBC (Companhia Telecomunicações Brasil Central) in another 23 municipalities located outside the TC concession area.

In 2005, 100% of the municipalities that once were provided analog services in the states serviced by TC and TCO are now assured digital coverage.

In the states of Paraná and Santa Catarina one hundred and fifteen new municipalities are now serviced by GT, and fifty by TCO and NBT.

The mobile phone network of TCP, which works on digital TDMA, CDMA and 1xRTT and analog technologies, ended the year covering 62.8% of the municipalities, or 91,3% of the population living in its concession area. The company's network consisted of: 118 switch centers (including Gateways), 5,630 cell stations and 224 other pieces of equipment.

One other important fact in 2005 was the activation of EV-DO hot spots in the main capital cities and cities within the TCP concession area, including: São Paulo, Brasília, Curitiba, Florianópolis, Campinas, São Bernardo do Campo, Osasco, São José dos Campos, São Caetano do Sul, Campos do Jordão and others.

At the end of the year, TCP had installed 584 EV-DO carriers in its mobile network, 501 of which were at TC, 40 at GT and 43 at TCO.

### **Distribution network**

On December 31, 2005 TCP owned 201 purchase points, of which 94 were for TC, 38 for GT and 69 for TCO. A Virtual Shop was available for TC, GT and restricted to the Federal District for TCO. Orders by phone were available exclusively from TC and GT. In addition, TCP had an efficient network of authorized dealers – retail and wholesale - comprised of around 5,538 storefronts (49% working exclusively for TCP) that can handle sales of services and handsets (2,384 purchase points in TC, 1,249 in GT and 1,905 in TCO).

There were over 147,585 points of purchase (57,199 in TC, 21,544 in GT and 68,842 in TCO) where customers can recharge prepaid cards. These include operator stores, authorized dealers, lottery shops and physical and virtual card distributors such as small shops, drugstores, newspaper stands, bookstores, bakeries, gas stations, bars and restaurants. Electronic recharging is also available through a number of banks.

### **Roaming**

In October VIVO launched *Globalmoto*, the first cell phone in Brazil that provides automatic international roaming facilities in more than 170 countries. Even in countries where CDMA technology is not available, customers may continue to use the same handset and number. The new handset is being widely used by corporate customers, whose officers are always traveling abroad.

However, customers who do not own a Globalmoto may also freely access their numbers in over 170 countries, since if CDMA is not available in the country they are visiting, VIVO offers a *VIVO no MUNDO VIP* (VIVO in the VIP World) kit with a handset that runs on technology used in that particular country, without any additional cost to the customer, who may keep their original numbers.

Today, VIVO postpaid subscribers can use their own handsets in the United States, Canada, Mexico, Puerto Rico, Dominican Republic, Chile, Peru, Argentina, Uruguay, China, South Korea and New Zealand, an amenity that is available in over 2,500 cities.

Also with regard to international roaming, the company decided to maintain a low and simple rate as a means of standing up to competition.

With respect to national roaming, VIVO still has roaming agreements with carriers that operate in other Brazilian states, to provide nationwide service to customers.

### **Information Systems**

In 2005, Information Systems focused on projects aimed at consolidating 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 some of the unconsolidated applications will be migrating to, which is now in a modern, safe and efficient technological environment.

### **Quality Program**

In 2005 we continued to qualify for quality certification for SMP PGMQ indicators (collection, consolidation and sending methods) first extended in August 2003 by the certification bureau BVQI - *Bureau Veritas Quality International*. This certification meets one of the requirements for migrating to SMP - Personal Mobile Service and is benchmarked through the Personal Mobile Service Quality Indicator Regulations, defined under a resolution issued by Anatel (National Telecommunications Agency).

Good practices undertaken in adjusting to ISO9001:2000 requirements were incorporated into work routines. Compliance with mapped procedures and procedure registers are ensured through internal quality audits that are conducted throughout the entire business.

We directed our actions to focusing on improving those processes that cause a direct impact on the customer's experience with VIVO. Within this context, all procedures involving sales activities, use of services, billing and customer services, are specifically outlined and undertaken by teams that devote their time specifically to these, based on existing best and most efficient practices.

## **4 – Customer Services**

The scenario in 2005 was marked by stronger competition in the cell phone business, causing increases in promotions and actions to encourage acquisition and ensure customer loyalty and higher profitability. This caused an increase in the number of calls to the Customer Relations Centers (monthly average of 37.2 million calls offered), up 11% over last year's figure, but in line with the 12.3% increase in the customer base.

To meet this demand, several customer service optimization actions were taken, among which we highlight: customer calls directed to a single number \*8486 (\*VIVO), a virtual agent (recognition of verbal commands), transfer reduction project (after assessing relevance and adherence to procedures, reduction of layers of customer service and 2nd transfers), implementation of the MDP (Daily Performance Map – On-line Operation Management System), Re-incidence Reduction Project and Relationship Consultants.

Also worthy of mentioning are: expansion of URA (audible response units) to Prepaid Promotion and Registration, increases in the recharge channel \*7000, restructuring of Bradesco recharge URAs, and implementation of nationwide recharge URAs via Banco24hs; increases in the number of TAVs (VIVO Self Service Terminals) in our own stores; a National VIVO Portal ([www.vivo.com.br](http://www.vivo.com.br)) - a content channel comprised of services, information, promotions, e-commerce, reaching almost 5 million hits per month, which makes it one of the sites with most viewers worldwide, and VOL (Vivo Online) - Web service channel which provided close to 1.5 million services/month.

For handling incidents, VIVO launched a VIVO Customer Portal in early 2005, whose main objective was assessment/solution of the causes of incidents in partnership with other management departments, which has helped reduce the back office reported incidence rate by 15%.

Also during 2005, a national Individual Business Operations nucleus was created, which reports to the Customer Services Department. It controls all actions related to acquisition, profitability, customer retention and loyalty, has an installed infrastructure of 1500 PAs and boasts an average of 2,300,000 outbound contacts/month, as well as a customer retention and loyalty nucleus (Save Team). The Save Team reported an 8.4 percentage point improvement (retention rate in Dec/04 = 76.2%; Dec/05 = 84.6%), due to a gradual replacement of bonus promotions with "shielding" offers (handsets and plans), adding quality to retention and centering all physical operations in SP, which contributed towards implementing a management system consistent with corporate objectives.

The creation of the National Corporate Customer Division and unification of back office operations, customer relations, retention, CRI, Data and Critical Missions in a single site has boosted results in the corporate channel.

To guarantee the continuity and quality of customer services during the migration of the billing and front office systems was another challenge we overcame in 2005. This experience will help to handle the migrations we expect to take place in 2006.

This set of actions has enabled us to follow our customer-focused strategy, which is strongly based on a corporate culture that respects consumers, and to make headway not only in quantitative terms but also in qualitative terms, as indicated by the Quality URAs - on-line electronic measures of customer satisfaction with services and satisfaction surveys developed by a specialized company, Indicator GFK, according to which TCP's customer treatment scored 8.3 in the last two months of 2005.

It should be mentioned that in 2005, VIVO earned a place of distinction on being granted several prizes: "*Consumidor Moderno de Excelência em Serviços ao Cliente*" (Modern Consumer for Customer Service Excellence) – Category: National Mobile Telephony; "*Padrão de Qualidade B2B*" (Quality Standard in B2B) – Category: Best Developed Convergence Environment; and for the third successive year it received honorable mention in a survey on "*Empresas que mais respeitam o Consumidor*" (Companies that respect Consumers the Most) – Category: Mobile Telephony Services – Ed. Padrão.

**5 – Economic and Financial Performance**

| <b>Em R\$ milhões</b>        | <b>2005</b> | <b>2004</b> | <b>Var.(%)</b> |
|------------------------------|-------------|-------------|----------------|
| Net operating revenue        | 7,473.2     | 7,341.0     | 1.8%           |
| Operating costs and expenses | 6,986.5     | 6,026.4     | 15.9%          |
| EBITDA                       | 2,039.1     | 2,588.9     | -21.2%         |
| Loss for the Year            | (909.2)     | (490.1)     | 85.5%          |
| Loans and financing          | 5,193.0     | 4,963.2     | 4.6%           |

**Operating Revenue**

The net operating revenue of TCP increased by 1.8%, totaling R\$ 7,473.2 million in 2005 against R\$ 7,341.0 million in 2004, due to the 3.2% increase in the net revenue from services, partially offset by the 5.4% drop in the revenue from sales of handsets and accessories.

The net operating revenue from services increased by 3.1%, totaling R\$ 6,361.0 million in 2005, against R\$ 6,165.6 in 2004. Such increase reflects the growth in the average customer base and traffic, offer of new data services. Changes in the customer mix should also be considered, with increased participation of prepaid customers and the impact of “right planning” targeted loyalty plans.

The net operating revenue from sales of products in 2005 was R\$ 1,112.2 million, a 5.7% reduction in relation to 2004, which recorded R\$ 1,175.4 million. Such reduction is related to the number of handsets sold, as well as the effects of better commercial agreements with suppliers.

**Operating Costs and Expenses**

The operating costs increased by 15.9%, totaling R\$ 6,986.5 million in 2005, mainly due to the increase in selling expenses and to the intense competitive activity during the period.

**EBITDA**

The EBITDA was R\$ 2,039.1 million, 21.2% lower than in 2004, due to the strong commercial activity in the year. The 27.3% margin on the net operating revenue was 8.0 percentage points lower than the margin recorded for 2004.

EBITDA is calculated as follows:

**R\$ million**

|                      |         |
|----------------------|---------|
| Operating Income (*) | (431.0) |
|----------------------|---------|

|                                    |                |
|------------------------------------|----------------|
| Financial Income (*)               | 917.6          |
| Depreciation and Amortization (**) | 1,552.5        |
|                                    | <b>2,039.1</b> |

(\*) See Income Statement

(\*\*) See Statement of Changes in Financial Position

### Loss for the Current Year

The consolidated loss recorded for 2005 was R\$909.2 million.

### VALUE ADDED STATEMENT

Fiscal year ended December 31, 2005

|   | CONSOLIDATED |           |
|---|--------------|-----------|
| 1. REVENUES                                   |              | 8,781.1   |
| 2. OUTSOURCED RAW MATERIALS                   |              | (3,656.9) |
| 3. GROSS VALUE ADDED (1-2)                    |              | 5,124.2   |
| 4. WITHHOLDINGS                               |              |           |
| Depreciation and amortization                 |              | (1,552.5) |
| 5. NET VALUE ADDED PRODUCED (3-4)             |              | 3,571.7   |
| 6. VALUE ADDED RECEIVED BY TRANSFER           |              |           |
| Financial Revenues                            |              | 565.7     |
| 7. TOTAL VALUE ADDED TO BE DISTRIBUTED (5+6)  |              | 4,137.4   |
| VALUE ADDED DISTRIBUTION                      |              |           |
| . Labor, payroll charges and benefits (-INSS) | 361.7        | 8.74%     |
| . Taxes, charges and contributions (+INSS)    | 2,734.1      | 66.08%    |
| . Interests and rentals                       | 1,950.9      | 47.15%    |
| . Distribution to Shareholders                | (50.4)       | -1.22%    |
| . Retained losses                             | (858.9)      | -20.76 %  |

### Loans and Financing

At the end of 2005, the Company's debt was R\$ 5,193.0 million (R\$ 4,963.2 million at the end of 2004), of which 62% was denominated in foreign currency and entirely protected by derivative transactions.

The indebtedness recorded as of December 31, 2005 was offset by cash and financial investments (R\$ 1,022.1 million) and by derivative assets and liabilities (R\$ 310.1 million in net liabilities), resulting in net debt of R\$ 4,481.0 million (R\$ 3,809.2 million at December 31, 2004).

### 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 of the TDMA network in TCO, evolution and expansion of the covered area of 1XRTT in GT, 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\$ 1,557.7 million during the year.

## **7 – Capital Markets**

The São Paulo Stock Exchange index – Ibovespa posted 33,436 at year end. In 2005, the Ibovespa increased by 27.7%, while the Dow Jones Industrial Average (DJIA) dropped by 0.6%. The average daily volume of transactions traded on the São Paulo Stock Exchange – Bovespa in 2005 was R\$ 1,610.8 million, a 31.9% increase in relation to 2004.

TCP shares started being traded on the São Paulo Stock Exchange – BOVESPA on September 21, 1998, under the symbols TSPP3 (common shares – ON) and TSPP4 (preferred shares – PN) and on the New York Stock Exchange – NYSE on November 16, 1998 under the symbol TCP (American Depositary Receipts – ADRs).

The market price of the registered common shares – ON and of the registered preferred shares – PN was, respectively, R\$ 8.49 and R\$ 8.85, at the trading session of 12/30/2005. In 2005, TCP shares recorded a daily average trading volume of R\$ 396.48 thousand for ON shares and R\$ 12,494.84 thousand for PN shares on the São Paulo Stock Exchange.



On the NYSE, the ADRs were traded at year end for the price of US\$ 3.78, with a total of 157,063,941 ADRs outstanding. A total of 347.4 million ADRs were traded in 2005, representing a daily average amount of US\$ 6.46 million.

| Per share                     | 2005   | 2004** |
|-------------------------------|--------|--------|
| Loss (R\$)                    | (1.35) | (0.99) |
| Equity Value (R\$)            | 6.06   | 6.20   |
| ADR Prices in US\$            | 3.78   | 6.74   |
| Preferred Share Prices (R\$)* | 8.85   | 7.19   |

|                            |      |      |
|----------------------------|------|------|
| Common Share Prices (R\$)* | 8.49 | 5.00 |
|----------------------------|------|------|

(\*)Closing price in Bovespa's last trading session of the year

(\*\*) Change due to reverse stock split

The Company's Capital Stock in December 2005 was R\$ 6,670,152,498.26, represented by 250,457,704 common shares and 411,866,638 preferred shares.

### Corporate Restructuring

In accordance with CVM Instructions Nos. 319/99 and 358/02, the managements of Telesp Celular Participações S.A. ("TCP"), Tele Centro Oeste Celular Participações S.A., ("TCO"), Tele Sudeste Celular Participações S.A. ("TSD"), Tele Leste Celular Participações S.A. ("TLE") and Celular CRT Participações S.A. ("CRTPart") announced that on December 4, 2005, their respective Boards of Directors approved a proposal for reorganization to be submitted to the companies' shareholders. This corporate reorganization involved the merger of shares of TCO to convert it into a wholly owned subsidiary of TCP, as well as the merger of the companies TSD, TLE and CRTPart into TCP, in accordance with the terms and conditions found in the publication of such Relevant Fact of the same date.

The managements of TCP, TCO, TSD, TLE and CRTPart believe that reorganizing the company and thereby concentrating all shareholders of the companies in a single publicly held company will simplify the current corporate framework, thereby reducing costs and increasing shareholder value, permitting shareholders to hold interests in a company with greater liquidity in both domestic and foreign stock exchanges, facilitating the unification, standardization and streamlining of the TCP, TCO, TSD, TLE and CRTPar businesses, and enabling the better use of the synergies among the companies, which, directly or via their respective operators they control, already operate under the "VIVO" brand. More information may be obtained on our site at [www.vivo.com.br/ri](http://www.vivo.com.br/ri).

### Issue of TCP Debentures

On May 1, 2005, TCP issued two series of debentures with a total principal of R\$1.0 billion, both of which will mature in May 2015. The first series, amounting to R\$200,000 million, will earn interest at the equivalent of 103.3% of the average one-day interbank deposits rate (DI – Extra group one-day Interbank Deposits) paid semi-annually, and will be subject to renegotiation in May 2009. The second series, in the total amount of R\$ 800 million, will earn interest at the equivalent of 104.2% of the average one-day interbank deposits rate, paid semi-annually, and will be subject to renegotiation in May 2010. The funding obtained from the issue of debentures was used to pay down short-term debt.

### Reverse stock split and change in ADR ratio

On May 4, 2005 TCP completed a reverse stock split and grouped every block of 2,500 common and preferred shares into one common or preferred share, respectively. TCP also changed the ratio of its ADSs to preferred shares, and each ADS now represents one preferred share. After shares were grouped, TCP shares started to be traded on the São Paulo Stock Exchange based on the price of one share instead of on the price of a one thousand-share block.

The purpose of the reverse stock split was to reduce management and operating costs as regards both the Company and its Shareholders; enhance efficiency of registers and control systems and disclosure of information; attribute greater visibility to the prices of shares representing the Company's share capital on the market by starting to trade in Reais (R\$) per share, also responding to a Bovespa initiative in this regard; and reduce chances of information and communication errors, thus improving services to Company shareholders.

### Capital Increase

On July 29, 2005, the Board of Directors of TCP approved a capital increase and issued a total 29,298,932 new common shares at the issue price of R\$ 8.28 pursuant to preemptive rights.

The issue price was 90% of the weighted average of the closing prices on the São Paulo Stock Exchange in the 30 trading sessions held between May 16, 2005 and June 27, 2005. The right to exercise preemptive rights was then granted to all shareholders between June 29, 2005 and July 28, 2005.

This capital increase enabled Brasilcel, as the controlling shareholder of TCP, to capitalize part of the tax benefit related to the goodwill generated in the acquisition of the company. CVM regulations permit buyers of publicly held companies to capitalize tax benefits derived from amortization of goodwill generated in company acquisitions, provided preemptive rights related to such capital increase are extended to the other shareholders of the publicly held company. The tax benefits capitalized by Brasilcel in July 2005 relative to TCP included R\$120,850,877 in tax benefits for the fiscal year ending on December 31, 2004 and R\$121,744,279 for fiscal years 2002 and 2003.

**Ownership structure in December 2005:**



## **Investor Relations**

TCP works with the constant purpose of improving its corporate governance practices, promoting 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 2005 with analysts and investors, as well as several other events. Further, TCP keeps information and communication channels available by telephone, e-mail and website ([www.vivo.com.br/ri](http://www.vivo.com.br/ri)), containing updated information about the company's operations.

## **Sarbanes-Oxley**

This law applies to companies that trade securities on the US market. To this effect, the company has been taking the necessary actions in order to comply with its requirements.

## **Code of Ethics**

By adopting the Code of Ethics, the Company aims at enforcing the compliance with laws, regulations and other applicable rules with honest, accurate and ethical conduct. Said code applies to all managers (President, Vice-Presidents and Management) and/or persons exercising similar duties in the Company.

In accordance with the Code, VIVO executives are committed to accomplish the directives of their superiors, the rules, policies, directives and the applicable laws and to cause the employees reporting to them to fulfill the same, undertaking to provide the necessary clarifications and communications, whenever necessary.

## **Policy for Disclosure of Relevant Act or Fact and Disclosure Committee**

The Policy for Disclosure of Relevant Act or Fact was set forth by the Board of Directors of TCP in compliance with Article 16 of CVM Instruction no. 358, dated January 03, 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 of the relevant information itself, under the terms of the provisions in the Relevant Act or Fact Policy and in CVM Instructions 358/02 and 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 10 members (representing the Investor Relations, Controls, Corporate Communication, Accounting, Financial, Mergers & 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 collegial body, being made up of three members of the Board of Directors. It is 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 Bylaws of the Company.

## **Board of Directors**

The Board of Directors of TCP is made up of 9 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 three of its members are independent directors within the meaning of the **Sarbanes-Oxley** Law.

## **Statutory Board of Auditors**

The Statutory Board of Auditors (*Conselho Fiscal*) comprises three effective members and three deputy members elected by the General Meeting of Shareholders for a one-year term of office. The Statutory Board of Auditors has a non-permanent nature, being installed upon request of the shareholders, holds regular meetings once in every quarter and special meetings whenever called by the chairman of the Board of Directors or by two members of the Statutory Board of Auditors.

## **Board of Executive Officers**

The Company has 8 Executive Officers, who may or may not be shareholders, all Brazilian residents elected by the Board of Directors, for a three (3)-year term of office, 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. An 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 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 CPqD, a Research and Development Center in Campinas, São Paulo, for evaluation and study of new technologies.

## **10 – Human Resources**

The company believes that people are the great differentiating factor in the development of its strategies and achieving differentiated results.

### **Talent Attraction and Retention**

Marked by a significant appeal, the company is holding its 4th Trainees Program, which allows potential young workers to become acquainted with the main areas of activity of the company. In order to retain talent, 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 competencies, and 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\$ 52.2 million in 2005 for all the companies operating under “VIVO” brand with respect to fiscal year 2004.

### Professional Qualification and Development

The highly competitive market and the need to maintain leadership have continued to demand efforts and investments from the company in continuously developing its professionals, with some R\$ 7.4 million having been invested by VIVO companies in 2005. This was one of the most significant factors that contributed to the increased competitiveness of VIVO companies.

Vivo was awarded the ADVB 2005 Top of HR prize for its program *VIVO APRENDENDO – INICIATIVA PARA AVALIAR, DETERMINAÇÃO PARA CRESCER* (VIVO LEARNING – INITIATIVE FOR EVALUATING, DETERMINATION FOR GROWING), which program reflects innovation and use of technology in the management of our human resources.

### 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 through corporate campaigns, intranet, Conexão RH (a human resources portal for employees) and others.

In light of the diversity of workers of the company, the focus was placed on the search for a communications strategy, on the basis of carefully and specially prepared diagnoses, with due regard to regional contributions in the formation of the VIVO’s Culture.

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 levels.

Workers are also asked to answer questions in connection with an internal atmosphere study, 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 a step forward in the 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 2005 was 4,199, against 4,217 in December 2004. Such reduction was mainly due to the centralization of some activities and optimization of the company’s processes.

The distribution per activity is as follows:

| Area of Activity                     | 2005        | 2004        | % var         |
|--------------------------------------|-------------|-------------|---------------|
| Technical and Operations             | 1036        | 948         | 9.3%          |
| Marketing and Sales                  | 1801        | 1941        | (7.2%)        |
| Customer Assistance                  | 575         | 542         | 6.1%          |
| Financial and Administrative Support | 787         | 786         | 0.1%          |
| <b>TOTAL</b>                         | <b>4199</b> | <b>4217</b> | <b>(0.4%)</b> |

Adhesion to the Private Pension Plans represented 60.3% of the total labor count, which means 2,534 workers (Dec/2005).

## 11 – Environmental Responsibility

Environmental Management began to take the shape of a project planning and preparation department in late 2004, when it was transferred to the Regulations and Foreign Affairs Board. Its mission is “to transform VIVO into a model of an environmentally responsible company with a view to creating a competitive edge for the company”.

To achieve this, it follows three major guidelines:

### VIVO’s Impact on the Environment

- Policies and Procedures – to foster the commitment to develop and implement a policy and procedures designed to minimize risks and heighten awareness of the public involved;
- Waste Management – to create tools to evaluate waste stemming from company operations and to establish the most adequate form of waste collection and disposal, as well as actions to minimize waste production.

### VIVO’s Contribution to the Environment

- Environmental Education – to implement internal and external campaigns and events aimed at heightening environmental awareness of employees, customers, community members and shareholders. To develop creativity and environmental management to become a competitive advantage for the company.

### Commitment with the Community and Government

- Electromagnetic emissions – to educate and inform the community and to take part in discussions on legal aspects related to the business with the regulatory authorities, as well as to create tools for updating technical research on such emissions, and for compliance with Anatel Resolution No. 303.

### A Look Back at 2005:

Among the main actions undertaken by the Company, we highlight:

- Collection of cell phone batteries at stores with a view to fostering awareness among users on how this collection is important in preserving the environment. Radio Base station batteries were also recycled and the proceeds donated to Instituto VIVO to invest in socio-environmental projects. Along these same lines, selective collection of recyclable waste products was organized at the administrative buildings and then sold by the company, with the proceeds therefrom being donated to socio-environmental institutions and projects.
- Through its Environment Management, VIVO has sought to integrate all its in-house departments on environmental issues, and also to apply and extend its environment programs across the country. With this in mind, in June it launched *Environment Week*, a campaign entitled “**I Semana Meio Ambiente VIVO – Gestão Ambiental no Mundo dos Negócios**” (Vivo Environment Week – Environment Management in the Business World), which aimed precisely at this objective. This week will henceforth be included in the company’s internal campaigns and actions agenda. Education and Environmental Marketing are the key instruments in this effort, which also has the cooperation of the different departments and personnel of regional branch offices.



- Lectures for the communities and a commitment by the company to environmental authorities that it would become involved in electromagnetic emission issues. A survey was also conducted on cooling gases in 2005, and in 2006 GMA will be instructing the departments in charge by distributing brochures and directing them on how to register with IBAMA (Brazil's Environmental Authority).

## 12 – Awards

In 2005, the Company was granted several awards, among the most notable of which were:

- **3rd Environmental Benchmarking** – Global Telecom S/A - VIVO PR/SC was awarded 3rd place in the case "Transforming Life with Art" – a selective garbage collection and internal environmental educational program for poor children and refreshing courses for public school teachers.
- **Valor Social Prize** – VIVO won the prize in the Respect for the Environment category nationwide, with the case "Waste Management Program", elected the best by popular vote.
- **Vivo Localiza** garnered the prize for **most innovative service** offered by *InfoExame* magazine.
- **Caboré Prize** – VIVO is elected the Advertiser of the Year.
- **Top de Marketing ADVB** – VIVO received a prize for *Vivo Encontra* (VIVO Finds) and Gisele Bündchen projects.
- **Consumidor Moderno** – VIVO is given an award by *Consumidor Moderno* (Modern Consumer) magazine for quality customer services.
- **Top RH ADVB** – Prize for the *Vivo Aprendendo* (Vivo Learning) program, implemented by VIVO's Human Resources Department.

## 13 – Independent Audit

The policy of Telesp Celular Participações S.A. towards its independent auditors with respect to the rendering of services not related to external audit is based on principles that protect the 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 client.

In fiscal year 2005, Telesp Celular Participações S.A. assigned to these auditors other works that were not directly related to the auditing of the financial statements, the amount of which did not exceed 5% of the total fees related to the independent audit services.

The independence of these auditors is ensured to the extent that the referred works were carried out by an independent staff in relation to the group in charge of the external audit work. Decision making about the adopted procedures was established by the company's Management.

### Policies and procedures:

The Company's and its controlled companies' policies prohibit their independent auditors from being retained to render services that entail conflicts of interest or loss of objectivity. 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 2006 will maintain the growth trend 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 the average growth of the economy. Strong competition is expected for 2006, as a consequence of consolidation of the current competitors, continuation of the focus on the data business, aiming at increasing the ARPU, searching for synergies and scale economies and customer retention and loyalty campaigns and actions.

Within this context, the Company intends to maintain a leadership position on the Brazilian market, stimulating growth, attempting to provide differentiated services through the constant development of new technologies and integrated solutions, minimizing the effects of strong competition 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 – Acknowledgements**

The management of Telesp Celular 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

## **BOARD OF DIRECTORS**

Fernando Xavier Ferreira - Chairman  
Carlos Manuel de Lucena e Vasconcelos Cruz - Vice-Chairman  
Felix Pablo Ivorra Cano  
Shakhaf Wine  
Ignacio Aller Mallo  
Luis Paulo Reis Cocco  
Antonio Gonçalves de Oliveira  
Luiz Kaufmann  
Henri Philippe Reichstul

**STATUTORY AUDIT COUNCIL**

**EFFECTIVE MEMBERS**

NELSON JIMENES

Preferred Shareholders' Representative

EVANDRO LUIS PIPPI KRUEL

NORAIR FERREIRA DO CARMO

**DEPUTY MEMBERS**

JOÃO BOTELHO

Preferred Shareholders' Representative

FABIANA FAÉ VICENTE RODRIGUES

WOLNEY Q.SCHULLER CARVALHO

**EXECUTIVE OFFICERS' COMMITTEE**

ROBERTO OLIVEIRA DE LIMA

Chief Executive Officer

PAULO CESAR PEREIRA TEIXEIRA

Executive Vice-President for Finance, Planning, Control and Investor Relations.

PAULO CESAR PEREIRA TEIXEIRA

Executive Vice-President for Operations

LUIS FILIPE SARAIVA CASTEL-BRANCO DE AVELAR

Executive Vice-President for Marketing and Innovation and

Executive Vice-President for IT and Services and Products Engineering

JAVIER RODRÍGUEZ GARCÍA

Vice-President for Technology and Networks

JOSÉ CARLOS DE LA ROSA GUARDIOLA

Vice-President for Compliance and Corporate Regulations

GUILHERME PORTELA SANTOS

Vice-President for Customers

(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELESP CELULAR PARTICIPAÇÕES S.A.

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais)

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| ASSETS   | Company          |                  | Consolidated      |                   |
|--|------------------|------------------|-------------------|-------------------|
|  | 12.31.05         | 12.31.04         | 12.31.05          | 12.31.04          |
| <b>CURRENT ASSETS</b>                          |                  |                  |                   |                   |
| Cash and banks                                 | 326              | 1,231            | 117,993           | 111,326           |
| Temporary cash investments                     | -                | 93,191           | 904,153           | 1,069,532         |
| Trade accounts receivable, net                 | -                | -                | 1,775,409         | 1,483,819         |
| Inventories                                    | -                | -                | 258,755           | 455,312           |
| Advances to suppliers                          | -                | -                | 18,273            | 52,878            |
| Interest on shareholders' equity and dividends | 64,148           | 532,834          | -                 | -                 |
| Deferred and recoverable taxes                 | 13,400           | 118,824          | 949,115           | 871,281           |
| Prepaid expenses                               | 807              | 1,301            | 187,276           | 157,235           |
| Derivative contracts                           | 2,777            | -                | 300,662           | 7,804             |
| Other current assets                           | 14,706           | 18,052           | 116,466           | 154,164           |
|  | 96,164           | 765,433          | 4,628,102         | 4,363,351         |
| <b>NONCURRENT ASSETS</b>                       |                  |                  |                   |                   |
| Recoverable taxes                              | 370,026          | 211,481          | 1,352,773         | 297,804           |
| Deferred income tax                            | -                | -                | -                 | 1,099,357         |
| Derivative contracts                           | 1,115            | -                | 5,354             | 385,296           |
| Prepaid expenses                               | 3,337            | 1,308            | 25,030            | 36,119            |
| Other noncurrent assets                        | 1,945            | 1,947            | 54,554            | 74,177            |
|  | 376,423          | 214,736          | 1,437,711         | 1,892,753         |
| <b>PERMANENT ASSETS</b>                        |                  |                  |                   |                   |
| Investments                                    | 7,140,076        | 7,524,778        | 1,550,211         | 2,056,427         |
| Property, plant and equipment, net             | 231              | 553              | 5,993,409         | 5,603,003         |
| Deferred assets, net                           | -                | -                | 177,300           | 223,865           |
|  | 7,140,307        | 7,525,331        | 7,720,920         | 7,883,295         |
| <b>TOTAL ASSETS</b>                            | <b>7,612,894</b> | <b>8,505,500</b> | <b>13,786,733</b> | <b>14,139,399</b> |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Company  |          | Consolidated |          |
|--------------------------------------|----------|----------|--------------|----------|
|                                      | 12.31.05 | 12.31.04 | 12.31.05     | 12.31.04 |

## CURRENT LIABILITIES

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Payroll and related accruals                   | 1,032     | 1,136     | 105,106   | 104,327   |
| Suppliers and trade accounts payable           | 24,934    | 16,418    | 1,536,277 | 1,692,532 |
| Taxes payable                                  | 7,690     | 5,471     | 403,210   | 343,367   |
| Loans and financing                            | 1,066,051 | 1,909,640 | 1,546,935 | 2,896,102 |
| Interest on shareholders' equity and dividends | -         | -         | 51,771    | 82,281    |
| Reserve for contingencies                      | 66,946    | 58,987    | 170,988   | 124,296   |
| Derivative contracts                           | 211,456   | 169,118   | 321,686   | 266,200   |
| Other liabilities                              | 22,774    | 20,997    | 215,285   | 134,695   |
|  | 1,400,883 | 2,181,767 | 4,351,258 | 5,643,800 |

## NONCURRENT LIABILITIES

|                           |           |           |           |           |
|---------------------------|-----------|-----------|-----------|-----------|
| Loans and financing       | 2,065,778 | 1,293,647 | 3,646,102 | 2,067,071 |
| Reserve for contingencies | 260       | -         | 207,637   | 195,434   |
| Taxes payable             | -         | -         | 169,578   | 189,341   |
| Derivative contracts      | 130,632   | 122,611   | 294,416   | 153,835   |
| Other liabilities         | -         | -         | 44,086    | 39,393    |
|                           | 2,196,670 | 1,416,258 | 4,361,819 | 2,645,074 |

|                                     |   |           |   |           |
|-------------------------------------|---|-----------|---|-----------|
| ADVANCE FOR FUTURE CAPITAL INCREASE | - | 1,999,942 | - | 1,999,942 |
|-------------------------------------|---|-----------|---|-----------|

|                   |   |   |           |         |
|-------------------|---|---|-----------|---------|
| MINORITY INTEREST | - | - | 1,058,189 | 942,924 |
|-------------------|---|---|-----------|---------|

## SHAREHOLDERS' EQUITY

|                     |             |             |             |             |
|---------------------|-------------|-------------|-------------|-------------|
| Capital stock       | 6,670,152   | 4,373,661   | 6,670,152   | 4,373,661   |
| Capital reserve     | 793,396     | 1,089,879   | 793,396     | 1,089,879   |
| Accumulated deficit | (3,448,359) | (2,556,159) | (3,448,359) | (2,556,159) |
|                     | 4,015,189   | 2,907,381   | 4,015,189   | 2,907,381   |

|                          |     |     |     |     |
|--------------------------|-----|-----|-----|-----|
| FUNDS FOR CAPITALIZATION | 152 | 152 | 278 | 278 |
|--------------------------|-----|-----|-----|-----|

|  |           |           |            |            |
|--|-----------|-----------|------------|------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 7,612,894 | 8,505,500 | 13,786,733 | 14,139,399 |
|--|-----------|-----------|------------|------------|

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## TELESP CELULAR PARTICIPAÇÕES S.A.

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

## STATEMENTS OF LOSS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais, except for per share amounts)

|  | Company          |                  | Consolidated     |                |
|--|------------------|------------------|------------------|----------------|
|  | 12.31.05         | 12.31.04         | 12.31.05         | 12.31.04       |
| <b>GROSS OPERATING REVENUE</b>                                   |                  |                  |                  |                |
| Telecommunications services                                      | -                | -                | 8,269,362        | 7,802,257      |
| Sale of handsets and accessories                                 | -                | -                | 1,985,514        | 1,953,366      |
|  | -                | -                | 10,254,876       | 9,755,623      |
| Deductions from gross revenue                                    | -                | -                | (2,781,810)      | (2,414,596)    |
| <b>NET OPERATING REVENUE</b>                                     | -                | -                | 7,473,066        | 7,341,027      |
| Cost of services provided  | -                | -                | (1,770,477)      | (1,591,757)    |
| Cost of goods sold   | -                | -                | (1,587,028)      | (1,734,445)    |
| <b>GROSS PROFIT</b>  | -                | -                | 4,115,561        | 4,014,825      |
| <b>OPERATING INCOME (EXPENSES)</b>                               |                  |                  |                  |                |
| Selling expenses   | -                | -                | (2,626,546)      | (1,909,311)    |
| General and administrative expenses                              | (8,454)          | (8,165)          | (659,355)        | (620,591)      |
| Other operating expenses   | (340,288)        | (218,882)        | (625,228)        | (410,809)      |
| Other operating income   | 9,631            | 5,031            | 282,204          | 240,910        |
| Equity   | 49,526           | 460,077          | -                | -              |
|  | (289,585)        | 238,061          | (3,628,925)      | (2,699,801)    |
| <b>OPERATING INCOME (LOSS) BEFORE FINANCIAL INCOME (EXPENSE)</b> |                  |                  |                  |                |
|  | (289,585)        | 238,061          | 486,636          | 1,315,024      |
| Financial expenses   | (804,286)        | (1,062,151)      | (1,630,232)      | (1,716,367)    |
| Paid interest on shareholders' equity                            | -                | -                | (24,281)         | (39,838)       |
| Financial income   | 218,884          | 330,457          | 712,618          | 620,965        |
| Received interest on shareholders' equity                        | 75,468           | 316,230          | -                | -              |
| <b>OPERATING INCOME (LOSS)</b>                                   | <b>(799,519)</b> | <b>(177,403)</b> | <b>(455,259)</b> | <b>179,784</b> |

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|   |                   |                  |                  |                  |
|---|-------------------|------------------|------------------|------------------|
| Nonoperating income (expenses), net                                 | (17,213)          | 3,489            | (65,318)         | (51,184)         |
| <b>PROFIT (LOSS) BEFORE INCOME TAXES AND<br/>MINORITY INTEREST</b>  | <b>(816,732)</b>  | <b>(173,914)</b> | <b>(520,577)</b> | <b>128,600</b>   |
| Income and social contribution taxes                                | -                 | -                | (246,066)        | (327,060)        |
| Minority interest   | -                 | -                | (166,884)        | (331,522)        |
| <b>LOSS BEFORE REVERSAL OF INTEREST ON<br/>SHAREHOLDERS' EQUITY</b> | <b>(816,732)</b>  | <b>(173,914)</b> | <b>(933,527)</b> | <b>(529,982)</b> |
| Reversal of interest on shareholders' equity                        | (75,468)          | (316,230)        | 24,281           | 39,838           |
| <b>LOSS FOR THE YEAR</b>  | <b>(892,200)</b>  | <b>(490,144)</b> | <b>(909,246)</b> | <b>(490,144)</b> |
| <b>LOSS PER THOUSAND SHARES - R\$</b>                               | <b>(1,347,07)</b> | <b>(0,42)</b>    |                  |                  |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELESP CELULAR PARTICIPAÇÕES S.A.

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais)

|                               | Capital<br>stock | Capital reserve<br>Special<br>goodwill<br>reserve | Share<br>premium | Accumulated<br>deficit | Total     |
|-------------------------------|------------------|---|------------------|------------------------|-----------|
| BALANCES AT DECEMBER 31, 2003 | 4,373,661        | 990,169   | 99,710           | (2,070,379)            | 3,393,161 |
| Unclaimed dividends           | -                | -   | -                | 4,364                  | 4,364     |
| Loss for the year             | -                | -   | -                | (490,144)              | (490,144) |
| BALANCES AT DECEMBER 31, 2004 | 4,373,661        | 990,169   | 99,710           | (2,556,159)            | 2,907,381 |

|   |                  |                |               |                    |                  |
|---|------------------|----------------|---------------|--------------------|------------------|
| Capital increase - Special Meeting of January 7, 2005 | 2,053,896        | (53,896)       | -             | -                  | 2,000,000        |
| Capital increase - Special Meeting of July 31, 2005   | 242,595          | (242,595)      | -             | -                  | -                |
| Regulate amount                                       | -                | -              | 8             | -                  | 8                |
| Loss for the year                                     | -                | -              | -             | (892,200)          | (892,200)        |
| <b>BALANCES AT DECEMBER 31, 2005</b>                  | <b>6,670,152</b> | <b>693,678</b> | <b>99,718</b> | <b>(3,448,359)</b> | <b>4,015,189</b> |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELESP CELULAR PARTICIPAÇÕES S.A.

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais)

|   | Company   |           | Consolidated |           |
|---|-----------|-----------|--------------|-----------|
|   | 12.31.05  | 12.31.04  | 12.31.05     | 12.31.04  |
| <b>SOURCES OF FUNDS</b>                                 |           |           |              |           |
| From operating (see below)                              | -         | -         | 971,625      | 1,308,567 |
| From shareholders:                                      |           |           |              |           |
| Capital increase  | 58        | -         | 58           | -         |
| Advances for future capital increases                   | -         | 1,999,942 | -            | 1,999,942 |
| Reserves  | 8         | -         | 8            | -         |
| From third parties:                                     |           |           |              |           |
| Loans and financing                                     | 1,384,038 | 894,094   | 2,288,542    | 1,240,563 |
| Transfer from noncurrent to current assets              | -         | -         | 307,348      | 219,873   |
| Unclaimed dividends                                     | -         | 4,364     | -            | 4,364     |
| Transfer from permanent to current assets               | -         | -         | 5,276        | 1,282     |
| Interest on shareholders' equity and dividends received | 99,824    | 980,928   | -            | -         |
| Capital stock paid up by minority shareholders          | 2,904     | 1,132     | -            | -         |



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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Noncurrent liabilities of intercompany      | -         | 499,033   | -         | -         |
| Decrease deferred and recoverable taxes     | -         | -         | 66,017    | -         |
| Decrease in noncurrent assets               | 3,103     | -         | 21,506    | -         |
| Transfer from derivatives to current assets | -         | -         | 311,395   | -         |
| Total sources                               | 1,489,935 | 4,379,493 | 3,971,775 | 4,774,591 |

USES OF FUNDS

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| From operating (see below)   | 664,906   | 683,293   | -         | -         |
| Additions to property, plant and equipment                           | -         | -         | 1,546,065 | 1,392,048 |
| Transfer from noncurrent to current liabilities                      | -         | 1,063,407 | 122       | 1,397,831 |
| Interest on shareholders' equity and dividends                       | -         | -         | -         | 509,304   |
| Increase in deferred assets  | -         | -         | 580       | 3,137     |
| Investments in subsidiaries and affiliated                           | -         | 909,838   | -         | -         |
| Goodwill paid on acquisition of subsidiaries                         | -         | 487,881   | 12,100    | 487,881   |
| Other investments  | -         | -         | 8,771     | 6,873     |
| Increase in deferred taxes   | -         | -         | -         | 126,902   |
| Increase in noncurrent assets  | 2,708     | -         | 34,536    | 61,720    |
| Decrease in noncurrent liabilities                                   | -         | -         | 20,539    | -         |
| Transfer from loans, financing and derivative to current liabilities | 694,027   | -         | 738,210   | -         |
| Transfer from current to noncurrent assets                           | 16,679    | 6,661     | -         | -         |
| Dividends proposed - minority shareholders                           | -         | -         | 46,345    | -         |
| Loss on share subscription by minority shareholders                  | -         | -         | 7,214     | -         |
| Other incoming assets  | -         | -         | -         | 3,303     |
| Total uses   | 1,378,320 | 3,151,080 | 2,414,482 | 3,988,999 |

|                             |         |           |           |         |
|-----------------------------|---------|-----------|-----------|---------|
| INCREASE IN WORKING CAPITAL | 111,615 | 1,228,413 | 1,557,293 | 785,592 |
|-----------------------------|---------|-----------|-----------|---------|

STATEMENT OF INCREASE IN WORKING CAPITAL

Current assets:

|                              |           |         |           |           |
|------------------------------|-----------|---------|-----------|-----------|
| At the beginning of the year | 765,433   | 557,228 | 4,363,351 | 4,387,584 |
| At the end of the year       | 96,164    | 765,433 | 4,628,102 | 4,363,351 |
| Increase (decrease)          | (669,269) | 208,205 | 264,751   | (24,233)  |

Current liabilities:

|                              |           |             |             |           |
|------------------------------|-----------|-------------|-------------|-----------|
| At the beginning of the year | 2,181,767 | 3,201,975   | 5,643,800   | 6,453,625 |
| At the end of the year       | 1,400,883 | 2,181,767   | 4,351,258   | 5,643,800 |
| Decrease                     | (780,884) | (1,020,208) | (1,292,542) | (809,825) |

|                             |         |           |           |         |
|-----------------------------|---------|-----------|-----------|---------|
| INCREASE IN WORKING CAPITAL | 111,615 | 1,228,413 | 1,557,293 | 785,592 |
|-----------------------------|---------|-----------|-----------|---------|

COMPOSITION OF FUNDS FROM (USED IN)  
OPERATIONS

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Loss for the year   | (892,200) | (490,144) | (909,246) | (490,144) |
| Depreciation and amortization                             | 107       | 90        | 1,166,172 | 1,048,142 |
| Minority interest   | -         | -         | 166,884   | 331,522   |
| Monetary and exchange variations on noncurrent items, net | (204,429) | (785)     | (253,207) | 39,467    |
| Net book value of permanent asset disposals               | 105       | 254       | 38,136    | 58,030    |
| Reserve for contingencies                                 | 260       | -         | 3,251     | 16,034    |
| Reserve for pension and other post-retirement benefit     | -         | -         | 125       | (2,831)   |
| Discounts from early payment of liabilities               | -         | -         | (7,425)   | -         |
| Deferred taxes  | -         | (3,874)   | -         | (10,283)  |
| Equity accounting adjustment                              | (49,526)  | (460,077) | -         | -         |
| Loss (gain) on investment subsidiaries                    | (6,647)   | (2,647)   | 15,830    | 1,271     |
| Income taxes  | -         | -         | -         | 2,743     |
| Gain on derivative contracts                              | 149,167   | 102,541   | 363,712   | 88,883    |
| Goodwill amortization                                     | 338,149   | 215,745   | 386,313   | 225,733   |
| Prescribed dividends of controlled companies              | -         | (368)     | -         | -         |
| Interest on intercompany accounts                         | -         | (44,028)  | -         | -         |
| Depreciation of shared systems                            | 108       | -         | 1,080     | -         |
| Items that do not affect the working capital              | (664,906) | (683,293) | 971,625   | 1,308,567 |

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

(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

## STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais)

|   | Consolidated |           |
|---|--------------|-----------|
|   | 12.31.05     | 12.31.04  |
| <b>OPERATING ACTIVITIES</b>   |              |           |
| Net loss  | (909,246)    | (490,144) |
| Adjustments to reconcile net loss to cash provided by operating activities: |              |           |
| Minority interest   | 166,884      | 331,522   |
| Depreciation and amortization   | 1,166,172    | 1,048,142 |
| Depreciation of shared systems  | 1,080        | -         |
| Discount on early payment of liabilities                                    | (7,425)      | -         |
| Goodwill amortization   | 386,313      | 225,733   |
| Loss on permanent asset disposals   | 34,481       | 45,865    |

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|  |                  |               |
|--|------------------|---------------|
| Loss on derivative contracts                                       | 941,142          | 913,819       |
| Increase in interest payable                                       | 32,051           | 18,131        |
| Monetary and exchange variation                                    | (388,440)        | (319,745)     |
| Provision for loss on investment                                   | 15,830           | 1,271         |
| Other nonoperating loss  | -                | 5,319         |
| Provision for doubtful accounts                                    | 569,847          | 269,075       |
| Reserve for pension plan   | 125              | (2,831)       |
| Increase in investments given in guarantee                         | (166,395)        | -             |
| Increase in trade accounts receivable                              | (861,437)        | (540,420)     |
| (Increase) decrease in inventories                                 | 196,557          | (299,214)     |
| (Increase) decrease in recoverable taxes and deferred income taxes | 99,924           | (267,678)     |
| Decrease in income and social contribution taxes                   | 3,502            | -             |
| (Increase) decrease in other current and noncurrent assets         | 73,181           | (132,735)     |
| Increase in payroll and related accruals                           | 779              | 15,071        |
| Increase (decrease) in accounts payable                            | (155,832)        | 371,085       |
| Decrease in taxes payable  | 36,578           | 105,488       |
| Increase in reserve for contingencies                              | 58,894           | 40,103        |
| (Increase) decrease in other current and noncurrent liabilities    | 8,839            | (30,567)      |
| Net cash provided by operating activities                          | 1,303,404        | 1,307,290     |
| <b>INVESTING ACTIVITIES</b>  |                  |               |
| Additions to property, plant and equipment                         | (1,546,065)      | (1,392,048)   |
| Additions to deferred assets                                       | (580)            | (3,137)       |
| Acquisition of TCO   | -                | (901,502)     |
| Cash received on sale of property, plant and equipment             | 3,655            | 12,165        |
| Other investments  | (8,771)          | (6,873)       |
| Net cash used in investing activities                              | (1,551,761)      | (2,291,395)   |
| <b>FINANCING ACTIVITIES</b>  |                  |               |
| Loans and financing:   |                  |               |
| New loans repaid   | 3,592,689        | 3,836,116     |
| Loans repaid   | (2,999,002)      | (4,858,543)   |
| Net settlement on derivatives contracts                            | (657,993)        | 113,943       |
| Interest on capital and dividends paid                             | (76,854)         | (85,344)      |
| Cash resulting from grouping of shares                             | 64,344           | -             |
| Increase in share capital  | 58               | -             |
| Premium paid on the acquisition of share fractions                 | 8                | -             |
| Advances for future capital increase                               | -                | 1,999,942     |
| Net cash provided by (used in) financing activities                | (76,750)         | 1,006,114     |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>            | <b>(325,107)</b> | <b>22,009</b> |

|                              |           |           |
|------------------------------|-----------|-----------|
| At the beginning of the year | 1,180,858 | 1,158,849 |
| At the end of the year       | 855,751   | 1,180,858 |

**SUPPLEMENTARY CASH FLOW INFORMATION**

|   |         |         |
|---|---------|---------|
| Income and social contribution taxes paid | 406,567 | 504,812 |
| Interest paid                             | 447,694 | 516,598 |

**NONCASH TRANSACTION**

|  |         |         |
|--|---------|---------|
| Goodwill on the purchase of TCO                      | 133,370 | 511,061 |
| Capitalized cost of disassembled tower and equipment | 4,853   | 39,199  |
| Transference to advance for suppliers                | 5,276   | 9,096   |
| Unclaimed dividends                                  | -       | 4,364   |

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

*(Convenience Translation into English from the Original Previously Issued in Portuguese)*

**Telesp Celular Participações S.A.  
(Vivo Participações S.A. from February 22, 2006)**

Financial Statements for the Years Ended  
December 31, 2005 and 2004 and  
Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

*(Convenience Translation into English from the Original Previously Issued in Portuguese)*

**INDEPENDENT AUDITORS' REPORT**

To the Management and Shareholders of  
Telesp Celular Participações S.A.  
(Vivo Participações S.A. from February 22, 2006)

**São Paulo - SP**

1. We have audited the individual (Company) and consolidated balance sheets of Telesp Celular Participações S.A. (Vivo Participações S.A. from February 22, 2006) and subsidiaries, as of December 31, 2005 and 2004, and the corresponding statements of loss, changes in shareholders' equity (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.

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 subsidiaries; (b) examining, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the 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 Telesp Celular Participações S.A. (Vivo Participações S.A. from February 22, 2006) and subsidiaries as of December 31, 2005 and 2004, the results of their operations, the changes in shareholders' equity (Company) and the changes in their financial position for the years then ended, in accordance with Brazilian accounting practices.

4. The statements of cash flow for the years ended December 31, 2005 and 2004 are presented for purposes of additional information and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

5. The accompanying financial statements are a translation of the financial statements originally issued in Portuguese and have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 23, 2006

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

José Domingos do Prado  
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

TELESP CELULAR PARTICIPAÇÕES S.A.  
(VIVO PARTICIPAÇÕES S.A. FROM FEBRUARY 22, 2006)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(In thousands of Brazilian reais, unless otherwise indicated)

1. OPERATION AND BACKGROUND

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

The controlling shareholders of Brasilcel N.V. are Telefónica Móviles, S.A. (50% of the total capital stock), PT Móveis, Serviços de Telecomunicações, SGPS, S.A. (49.999% of the total capital stock), and Portugal Telecom, SGPS, S.A. (0.001% of the total capital stock).

TCP is the controlling shareholder of Telesp Celular S.A. ("TC"), Global Telecom S.A. ("GT") and Tele Centro Oeste Celular Participações S.A. ("TCO"), which provide cellular telecommunications services in the States of São Paulo, Paraná, Santa Catarina and Federal District, respectively, including activities necessary or useful to the provision of

such services, in accordance with the authorizations granted to them.

The authorizations granted to TC, GT and TCO shall be in force up to August 5, 2008, April 8, 2013 and July 24, 2006, respectively, and may be renewed once for a 15-year term by means of the payment of rates of approximately 1% of operators' annual revenues.

TCO is also the controlling shareholder of the following operators:

| Operator                  | TCO<br>interest - % | Operation area                                 | Expiration date of authorization |
|---------------------------|---------------------|--|----------------------------------|
| Telegoiás Celular S.A.    | 100                 | Goiás and Tocantins                            | 10.29.08                         |
| Telemat Celular S.A.      | 100                 | Mato Grosso                                    | 03.30.09                         |
| Telems Celular S.A.       | 100                 | Mato Grosso do Sul                             | 09.28.09                         |
| Teleron Celular S.A.      | 100                 | Rondônia                                       | 07.21.09                         |
| Teleacre Celular S.A.     | 100                 | Acre   | 07.15.09                         |
| Norte Brasil Telecom S.A. | 100                 | Amazonas, Roraima, Amapá,<br>Pará and Maranhão | 11.29.13                         |

The business of the subsidiaries, including the services they may provide, is regulated by the National Telecommunications Agency (ANATEL), the telecommunications regulatory agency, in accordance with Law No. 9,472, of July 16, 1997, and respective regulations, decrees, rulings and plans.

## 2. PRESENTATION OF THE FINANCIAL STATEMENTS

The individual (Company) and consolidated financial statements are presented in thousands of Brazilian reais (except where mentioned) and have been prepared in accordance with Brazilian accounting practices, which include the accounting practices derived from Brazilian corporate law, standards applicable to concessionaries of public telecommunications services, and accounting standards and procedures established by the Brazilian Securities Commission (CVM).

The consolidated financial statements have been prepared in accordance with the rules established by CVM Instruction No. 247/96 and include the balances and transactions of the subsidiaries TC, GT and TCO and the indirect subsidiaries Telesp Celular International Ltd. and Telesp Celular Overseas Ltd.

The subsidiaries are fully consolidated. In consolidation, all intercompany balances and transactions were eliminated.

The reconciliation between the loss for the year of the Company and its subsidiaries for the years ended December 31, 2005 and 2004 is as follows:

|                                    | 2005      |
|------------------------------------|-----------|
| Loss of the Company                | (892,200) |
| Tax incentives in the subsidiaries | (7,887)   |
| Donations of direct subsidiaries   | (9,147)   |
| Donations of indirect subsidiaries | (12)      |
| Consolidated loss                  | (909,246) |

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

### 3. SUMMARY OF THE PRINCIPAL ACCOUNTING PRACTICES

#### a) Cash and cash equivalents

Are considered to be all available balances in cash and banks and all highly-liquid temporary cash investments, stated at cost plus interest accrued to the balance sheet date.

#### b) Trade accounts receivable

Amounts billed are calculated at the tariff rate in effect on the date the services were rendered. Trade accounts receivable also include services provided to customers to the balance sheet date and accounts receivable for the sale of handsets and accessories.

#### c) Provision for doubtful accounts

Provision is made for those receivables for which recovery is not considered probable.

#### d) Foreign currency transactions

Are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Gains and losses related to exchange variations on foreign currency denominated assets and liabilities are recognized in the statements of loss as they occur. Exchange variation and premiums related to foreign currency derivative contracts are calculated and recorded monthly regardless of the settlement date.

#### e) Inventories

Consist of handsets and accessories stated at the average acquisition cost. An allowance is recognized to adjust the cost of handsets and accessories to net realizable value for inventories considered obsolete or slow moving.

#### f) Prepaid expenses

Are stated at amounts disbursed for expenses that have not yet been incurred.

#### g) Other assets

Subsidies on sales of handsets to the accredited agents are deferred and recognized in results as these handsets are activated.

#### h) Investments

Permanent interests in subsidiaries are recorded by the equity method. The financial statements of indirect subsidiaries based overseas are converted at the exchange rate as of the balance sheet date. The accounting practices of subsidiaries are consistent with those applied by the Company. Other investments are recorded at historic cost.

#### i) Property, plant and equipment

Are stated at the cost of acquisition or construction, less accumulated depreciation calculated by the straight-line method based on the estimated useful lives of these assets (see Note 11). Costs incurred for repairs and maintenance that represent improvements and increases in capacity or in the useful lives of the assets are capitalized. All other routine costs are charged to results of operations as incurred. The present estimated value of costs to be incurred for

disassembled towers and equipment in leased property is capitalized and amortized over the useful life of the related equipment, not to exceed the term of the lease agreements.

j) Deferred charges

Represent preoperating expenses recorded as formation costs of GT, TCO IP and NBT, amortized using the straight-line method over a period of five years for GT and TCO IP, and ten years for NBT.

Goodwill recognized on the acquisition of Ceterp Celular S.A. by TCP on November 27, 2000 is being amortized using the straight-line method over a period of ten years.

Also include amounts paid for point of presence rights (*fundos de comércio*) relating to stores of the Company. These amounts are being amortized over the term of the related agreements.

k) Income and social contribution taxes

Are calculated and recorded based on the tax rates in effect on the date the financial statements are prepared, on an accrual basis. Deferred taxes attributable to temporary differences, tax loss carryforwards and the negative calculation base for social contribution are recorded by the subsidiaries TC and TCO to the extent it is probable that the assets will be realized.

l) Loans and financing

Loans and financing are adjusted for monetary and/or exchange variations and include accrued interest to the balance sheet date.

m) FISTEL fees

Telecommunications Inspection Fund (FISTEL) fees, paid on activation of subscribers, generated monthly throughout the year, are deferred and amortized over the customers' estimated retention period, equivalent to 24 months.

n) Reserve for contingencies

A reserve is recorded based on the opinion of management and the Company's external legal counsel relating to the probable outcome of pending cases and is restated to the balance sheet date for the probable amount of the loss, according to the nature of each contingency in which the likelihood of an unfavorable outcome is probable.

o) Pension and post-retirement benefit plans

Actuarial liabilities are calculated under the projected unit credit method and plan assets are stated at fair market value. Actuarial gains and losses are recorded in income. Deficits (actuarial obligations in excess of the plan's assets) are recognized at the end of each year. In the absence of prospects of reduction of future contributions, surpluses are not recognized (Note 27).

p) Revenue recognition

Revenues from services are recognized when services are provided, and are billed on a monthly basis. Unbilled revenues are calculated and recognized as revenues when the services are provided. Revenues from sales of prepaid cellular minutes are deferred and recognized as revenues in income as they are used.

q) Net financial expense



Represents interest and monetary and exchange variation resulting from financial investments, loans and financing obtained and granted.

r) Derivatives

The Company and its subsidiaries enter into certain foreign exchange derivative forward and swap contracts in order to hedge their exposure to fluctuations in exchange rates and interest rates in reference to their foreign currency cash flow for debt denominated in foreign currency. These derivatives are recorded at the exchange rates in effect on the date of the balance sheet and the premiums paid or received in advance are deferred for amortization over the period of the respective contracts. Gains and losses, realized and unrealized, are estimated based on the contractual conditions and recorded as net financial expense.

s) Employees' profit sharing

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

t) Loss per thousand shares

Loss per thousand shares is calculated based on the number of shares outstanding on the balance sheet date.

u) Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions, to the best of their ability, affecting the reported amount of assets and liabilities and the amounts of revenues, costs and expenses during the period reported. Actual results could differ from those estimates.

#### 4. TEMPORARY CASH INVESTMENTS

|                            | Company     |            | Consolidated |             |
|----------------------------|-------------|------------|--------------|-------------|
|                            | 12/31/ 2005 | 12/31/2004 | 12/31/ 2005  | 12/31/ 2004 |
| Temporary cash investments | -           | 93,191     | 904,153      | 1,069,532   |

Temporary cash investments refer principally to liquid fixed income investments indexed to the CDI (interbank deposit rates).

As of December 31, 2005, the subsidiary TCO had financial investments of R\$166,395, pledged in guarantee of lawsuits.

#### 5. TRADE ACCOUNTS RECEIVABLE, NET

|   | Consolidated |             |
|---|--------------|-------------|
|   | 12/31/ 2005  | 12/31/ 2004 |
| Unbilled amounts from services rendered | 247,379      | 177,214     |
| Billed amounts                          | 990,412      | 701,938     |
| Interconnection                         | 541,525      | 389,021     |
| Goods sold                              | 245,492      | 360,267     |

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|                                 |           |           |
|---------------------------------|-----------|-----------|
| Provision for doubtful accounts | (249,399) | (144,621) |
| Total                           | 1,775,409 | 1,483,819 |

There are no customers who contribute more than 10% of net accounts receivable as of December 31, 2005 and 2004, except for amounts receivable from Telecomunicações de São Paulo S.A. - Telesp, which represent approximately 11% and 11%, respectively, and Brasil Telecom S.A. - BrT, which represent approximately 13% and 11%, respectively, of net accounts receivable on those dates.

Changes in the provision for doubtful accounts were as follows:

|                           | Consolidated |           |
|---------------------------|--------------|-----------|
|                           | 2005         | 2004      |
| Beginning balance         | 144,621      | 135,841   |
| Increase in provision     | 569,847      | 269,075   |
| Write-offs and recoveries | (465,069)    | (260,295) |
| Ending balance            | 249,399      | 144,621   |

## 6. INVENTORIES

|                                | Consolidated |             |
|--------------------------------|--------------|-------------|
|                                | 12/31/ 2005  | 12/31/ 2004 |
| Digital handsets               | 298,573      | 459,791     |
| Accessories and others         | 5,273        | 26,252      |
| (-) Provision for obsolescence | (45,091)     | (30,731)    |
| Total                          | 258,755      | 455,312     |

## 7. DEFERRED AND RECOVERABLE TAXES

|  | Company     |             | Consolidated |             |
|--|-------------|-------------|--------------|-------------|
|  | 12/31/ 2005 | 12/31/ 2004 | 12/31/ 2005  | 12/31/ 2004 |
| Prepaid/recoverable income and social contribution taxes | 344,296     | 188,743     | 433,496      | 303,543     |
| IRRF (withholding income tax)                            | 1,690       | 101,162     | 78,389       | 220,945     |
| Recoverable ICMS (State VAT)                             | -           | -           | 227,712      | 245,447     |
| Recoverable PIS and COFINS (taxes on revenue)            | 37,021      | 39,981      | 167,371      | 136,950     |
| Other  | -           | -           | 3,126        | 3,221       |
| Total recoverable taxes                                  | 383,007     | 329,886     | 910,094      | 910,106     |
| Deferred tax and social contribution                     | 419         | 419         | 1,346,555    | 1,337,281   |
| ICMS on sales to be recognized                           | -           | -           | 45,239       | 21,055      |
| Total  | 383,426     | 330,305     | 2,301,888    | 2,268,442   |
| Current  | 13,400      | 118,824     | 949,115      | 871,281     |
| Noncurrent   | 370,026     | 211,481     | 1,352,773    | 1,397,161   |

Deferred income and social contribution taxes are comprised as follows:

|  | Consolidated |             |
|--|--------------|-------------|
|  | 12/31/ 2005  | 12/31/ 2004 |

|   |           |           |
|---|-----------|-----------|
| Tax credits recorded on corporate restructuring | 898,717   | 985,155   |
| Tax credits on provisions for:                  |           |           |
| Obsolescence                                    | 12,143    | 8,388     |
| Contingencies                                   | 86,418    | 74,842    |
| Doubtful accounts receivable                    | 66,255    | 42,722    |
| Customer loyalty program                        | 6,357     | 1,243     |
| Employees' profit sharing                       | 12,365    | 8,232     |
| Suppliers                                       | 58,319    | 43,136    |
| Other   | 58,107    | 15,026    |
| Tax loss carryforwards                          | 147,874   | 158,537   |
| Total deferred taxes                            | 1,346,555 | 1,337,281 |
| Current   | 477,987   | 237,924   |
| Noncurrent                                      | 868,568   | 1,099,357 |

Deferred taxes have been recorded if it is probable that they will be realized, as follows:

- a) Tax loss carryforwards: will be offset up to a limit of 30% per year of taxable income for the next few years.
- b) Tax credits recorded on corporate restructuring: consists of the net balance of goodwill and reserve for maintaining the integrity of shareholders' equity (Note 28) and is realized in proportion to the amortization of the goodwill of the subsidiaries, with terms of five to ten years. Studies by external consultants used in the corporate restructuring process supported recovery of the amount within these periods.
- c) Temporary differences: will be realized upon the payments of the accruals, effective losses on bad debts and realization of inventories.

The Company prepared technical feasibility studies, approved by the Board of Directors, which indicate full recovery of the deferred taxes recognized, as determined by CVM Instruction No. 371/02.

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

| Year                | Consolidated<br>12/31/2005 |
|---------------------|----------------------------|
| 2006                | 477,987                    |
| 2007                | 238,311                    |
| 2008                | 243,561                    |
| 2009 and thereafter | 386,696                    |
| Total               | 1,346,555                  |

The Company and its subsidiaries GT and TCO IP did not recognize deferred income and social contribution on tax loss carryforwards and temporary differences, due to the lack of projections of taxable income to be generated in the short term.

## 8. PREPAID EXPENSES

|  | Company     |             | Consolidated |             |
|--|-------------|-------------|--------------|-------------|
|  | 12/31/ 2005 | 12/31/ 2004 | 12/31/ 2005  | 12/31/ 2004 |

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|                       |       |       |         |         |
|-----------------------|-------|-------|---------|---------|
| FISTEL fees           | -     | -     | 80,556  | 103,422 |
| Rentals               | -     | -     | 9,840   | 9,323   |
| Advertising           | -     | -     | 101,826 | 63,085  |
| Financial charges     | 4,144 | 2,609 | 4,670   | 4,034   |
| Commercial incentives | -     | -     | 3,521   | 8,689   |
| Other                 | -     | -     | 11,893  | 4,801   |
| Total                 | 4,144 | 2,609 | 212,306 | 193,354 |
| Current               | 807   | 1,301 | 187,276 | 157,235 |
| Noncurrent            | 3,337 | 1,308 | 25,030  | 36,119  |

9. OTHER ASSETS

|   | Company    |            | Consolidated |             |
|---|------------|------------|--------------|-------------|
|   | 12/31/2005 | 12/31/2004 | 12/31/ 2005  | 12/31/ 2004 |
| Escrow deposits                             | -          | -          | 87,783       | 76,501      |
| Advance for purchase of shares              | -          | -          | -            | 15,584      |
| Advances to employees                       | 73         | 71         | 4,161        | 4,865       |
| Credits with suppliers                      | -          | -          | 16,911       | 33,040      |
| Advance to affiliate for purchase of shares | 14,339     | 13,612     | 32,761       | 33,162      |
| Subsidies on handset sales                  | -          | -          | 22,461       | 55,596      |
| Other                                       | 2,239      | 6,316      | 6,943        | 9,593       |
| Total                                       | 16,651     | 19,999     | 171,020      | 228,341     |
| Current                                     | 14,706     | 18,052     | 116,466      | 154,164     |
| Noncurrent                                  | 1,945      | 1,947      | 54,554       | 74,177      |

10. INVESTMENTS

a) Investments in subsidiaries

| Investee                                     | Common stock interest<br>- % | Preferred stock interest<br>- % | Total<br>interest<br>- % |
|--|------------------------------|---------------------------------|--------------------------|
| Telesp Celular S.A.                          | 100.00                       | -                               | 100.00                   |
| Global Telecom S.A.                          | 100.00                       | 100.00                          | 100.00                   |
| Tele Centro Oeste Celular Participações S.A. | 90.59                        | 32.76                           | 52.47                    |

b) Number of shares held

| Investee                                     | In thousands |           | Total  |
|--|--------------|-----------|--------|
|  | Common       | Preferred |        |
| Telesp Celular S.A.                          | 83,155       | -         | 83,155 |
| Global Telecom S.A.                          | 3,810        | 7,621     | 11,431 |
| Tele Centro Oeste Celular Participações S.A. | 40,161       | 28,084    | 68,245 |

c) Information on subsidiaries

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| Investee                                     | Shareholders' equity |             | Net income (loss)<br>for the years ended<br>December 31, |             |
|--|----------------------|-------------|--|-------------|
|  | 12/31/ 2005          | 12/31/ 2004 | 12/31/ 2005  | 12/31/ 2004 |
| Telesp Celular S.A.                          | 3,052,193            | 2,966,517   | 130,853  | 461,685     |
| Global Telecom S.A.                          | 844,201              | 1,111,313   | (270,635)  | (180,348)   |
| Tele Centro Oeste Celular Participações S.A. | 2,812,921            | 2,441,502   | 339,146  | 507,051     |

d) Components and changes

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

|  | Company     |             | Consolidated |             |
|--|-------------|-------------|--------------|-------------|
|  | 12/31/ 2005 | 12/31/ 2004 | 12/31/ 2005  | 12/31/ 2004 |
| Investments in subsidiaries              | 5,064,501   | 5,059,262   | -            | -           |
| Goodwill on investment acquisitions, net | 1,869,387   | 2,397,880   | 1,999,716    | 2,498,874   |
| Advance for future capital increase      | 586,625     | 517,148     | 12,908       | 5,704       |
| Provision for investment losses (*)      | (380,541)   | (449,615)   | (462,523)    | (449,615)   |
| Other investments                        | 104         | 103         | 110          | 1,464       |
| Balance of investments                   | 7,140,076   | 7,524,778   | 1,550,211    | 2,056,427   |

(\*) Provisions for investment losses were recorded due to GT's accumulated deficit and indebtedness as of December 31, 2002 and 2001.

The changes in investment balances of the subsidiaries for the years ended December 31, 2005 and 2004 are as follows:

| Investments in subsidiaries   | TC        | GT        | 2005      |           | 2004      |
|---|-----------|-----------|-----------|-----------|-----------|
|   |           |           | TCO       | Total     | Total     |
| Balance at the beginning of the year                                    | 2,966,517 | 1,111,313 | 981,432   | 5,059,262 | 4,647,772 |
| Increase in holding   | -         | -         | 48,890    | 48,890    | 927,784   |
| Donations   | 3,488     | 3,523     | 2,136     | 9,147     | -         |
| Equity method of accounting (*)   | 130,853   | (270,635) | 180,161   | 40,379    | 460,077   |
| Distribution of interest on shareholders' equity                        | (48,665)  | -         | (26,803)  | (75,468)  | (316,230) |
| Participation gains   | -         | -         | 6,647     | 6,647     | 4,189     |
| Prescribed dividends and interest on shareholders' equity in subsidiary | -         | -         | -         | -         | 368       |
| Distribution of dividends   | -         | -         | (24,356)  | (24,356)  | (664,698) |
| Balance as of December 31   | 3,052,193 | 844,201   | 1,168,107 | 5,064,501 | 5,059,262 |

(\*) The equity accounting for the year comprises: (i) result of subsidiaries - R\$40,379; and (ii) donations - R\$9,147.

| Goodwill on acquisition of investments, net | GT | 2005 |       | 2004  |
|---|----|------|-------|-------|
|   |    | TCO  | Total | Total |
|   |    |      |       |       |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Balance at the beginning of the year             | 1,077,020 | 1,320,860 | 2,397,880 | 2,638,076 |
| Increase in goodwill - purchase of participation | -         | 12,100    | 12,100    | 487,881   |
| Transfer of goodwill for TCO                     | -         | (133,370) | (133,370) | -         |
| Amortization of goodwill                         | (125,925) | (281,298) | (407,223) | (215,745) |
| Transfer of goodwill to special reserve          | -         | -         | -         | (511,061) |
| Write-off of goodwill                            | -         | -         | -         | (1,271)   |
| Balance as of December 31                        | 951,095   | 918,292   | 1,869,387 | 2,397,880 |

|  |  |          |          |
|--|--|----------|----------|
| Advance for future capital increase - TCO  |  | 2005     | 2004     |
| Balance at the beginning of the year   |  | 517,148  | 25,436   |
| Increase in TCO capital by tax benefit realized                                      |  | (63,893) | (19,077) |
| Advance for future capital increase originated by tax benefit - restructuring of TCP |  | 133,370  | 511,061  |
| Tax effect   |  | -        | (272)    |
| Balance as of December 31  |  | 586,625  | 517,148  |

|                                      |  |           |           |
|--------------------------------------|--|-----------|-----------|
| Reserve for losses - GT              |  | 2005      | 2004      |
| Balance at the beginning of the year |  | (449,615) | (449,615) |
| Amortization of losses               |  | 69,074    | -         |
| Balance as of December 31            |  | (380,541) | (449,615) |

As from January 1, 2005, the goodwill paid on acquisitions of GT based on future profitability, totaling R\$1,077,020, is being amortized over a ten-year period as from the acquisition date.

TC has investments in Telesp Celular International Ltd. and Telesp Celular Overseas Ltd., companies located abroad, for the purpose of obtaining and passing on funding through international loans. These subsidiaries are dormant.

On May 31, 2004, the tax benefit derived from the goodwill paid on the acquisition of an additional interest in TCO was transferred to that company and its subsidiaries. As a result, R\$511,061 was transferred as an advance for future capital increase, since shares will be issued in favor of TCP when this benefit is realized by TCO and its subsidiaries. The remaining goodwill, amounting to R\$992,060, was attributed to future profitability and is being amortized over five years.

On August 31, 2005, the tax benefit derived from the goodwill paid on the acquisition of TCO was transferred to that company. As a result, R\$133,370 was transferred as an advance for future capital increase, since shares will be issued in favor of TCP when this benefit is realized by TCO. The remaining goodwill, amounting to R\$392,265, was attributed to future profitability and is being amortized over five years.

## 11. PROPERTY, PLANT AND EQUIPMENT, NET

|                        | Annual depreciation rates - % | Cost      | Consolidated<br>12/31/2005<br>Accumulated depreciation | Net book value | 12/31/2004<br>Net book value |
|------------------------|-------------------------------|-----------|--|----------------|------------------------------|
| Transmission equipment | 10.00 to 20.00                | 4,150,245 | (2,394,115)  | 1,756,130      | 1,530,834                    |

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|                          |                |            |             |           |           |
|--------------------------|----------------|------------|-------------|-----------|-----------|
| Switching equipment      | 10.00 to 20.00 | 2,022,145  | (941,615)   | 1,080,530 | 892,914   |
| Infrastructure           | 4.00 to 20.00  | 1,396,830  | (621,741)   | 775,089   | 771,076   |
| Land                     | -              | 47,492     | -           | 47,492    | 48,264    |
| Software use rights      | 20.00          | 1,786,287  | (922,820)   | 863,467   | 539,667   |
| Buildings                | 2.86 to 4.00   | 195,123    | (40,382)    | 154,741   | 136,315   |
| Handsets                 | 66.67          | 512,807    | (386,098)   | 126,709   | 120,228   |
| Concession license       | 6.67           | 976,476    | (496,724)   | 479,752   | 588,252   |
| Other assets             | 6.00 to 20.00  | 675,559    | (309,393)   | 366,166   | 184,418   |
| Construction in progress | -              | 343,333    | -           | 343,333   | 791,035   |
| Total                    |                | 12,106,297 | (6,112,888) | 5,993,409 | 5,603,003 |

In the years ended 2005 and 2004, financial expenses incurred on loans, which are financing the construction in progress, were capitalized by the subsidiary GT in the amount of R\$6,967 (R\$6,761 as of December 31, 2004).

## 12. DEFERRED ASSETS, NET

|   | Annual amortization<br>rates - % | Consolidated |             |
|---|----------------------------------|--------------|-------------|
|   |                                  | 12/31/ 2005  | 12/31/ 2004 |
| Preoperating costs:                                   |                                  |              |             |
| Amortization of licenses                              | 10                               | 80,496       | 80,496      |
| Financial expenses                                    | 10                               | 201,131      | 201,131     |
| General and administrative expenses                   | 10                               | 69,960       | 71,624      |
|   |                                  | 351,587      | 353,251     |
| Goodwill - Ceterp Celular S.A.                        | 10                               | 84,265       | 84,265      |
| Point of presence rights ( <i>fundo de comércio</i> ) | (*)                              | 16,231       | 15,247      |
|   |                                  | 452,083      | 452,763     |
| Accumulated amortization:                             |                                  |              |             |
| Preoperating expenses                                 |                                  | (221,012)    | (186,804)   |
| Goodwill - Ceterp Celular S.A.                        |                                  | (42,834)     | (34,408)    |
| Point of presence rights ( <i>fundo de comércio</i> ) |                                  | (10,937)     | (7,686)     |
|   |                                  | (274,783)    | (228,898)   |
| Total   |                                  | 177,300      | 223,865     |

(\*) In accordance with the term of the agreement.

## 13. TRADE ACCOUNTS PAYABLE

|                                | Company     |            | Consolidated |             |
|--------------------------------|-------------|------------|--------------|-------------|
|                                | 12/31/ 2005 | 12/31/2004 | 12/31/ 2005  | 12/31/ 2004 |
| Suppliers                      | 24,803      | 16,305     | 1,094,558    | 1,331,526   |
| Interconnection                | -           | -          | 102,668      | 98,573      |
| SMP transfer (*)               | -           | -          | 283,126      | 200,458     |
| Technical assistance (Note 29) | -           | -          | 25,978       | 33,709      |
| Other                          | 131         | 113        | 29,947       | 28,266      |
| Total                          | 24,934      | 16,418     | 1,536,277    | 1,692,532   |

(\*) The amounts to be passed on (Personal Mobile Service) (SMP) refer to the VC2 and VC3 (long distance) calls and interconnection charges billed to the Company's clients and passed on to the long-distance operators.

## 14. TAXES PAYABLE

|                                      | Company    |            | Consolidated |             |
|--------------------------------------|------------|------------|--------------|-------------|
|                                      | 12/31/2005 | 12/31/2004 | 12/31/ 2005  | 12/31/ 2004 |
| ICMS                                 | -          | -          | 416,507      | 368,593     |
| Income and social contribution taxes | -          | -          | 33,218       | 29,716      |
| PIS and COFINS                       | 7,474      | 5,090      | 68,853       | 78,412      |
| FISTEL fees                          | -          | -          | 13,930       | 20,081      |
| FUST and FUNTTEL                     | -          | -          | 4,460        | 4,470       |
| CIDE                                 | -          | -          | 4,021        | 4,021       |
| Other taxes                          | 216        | 381        | 31,799       | 27,415      |
| Total                                | 7,690      | 5,471      | 572,788      | 532,708     |
| Current                              | 7,690      | 5,471      | 403,210      | 343,367     |
| Noncurrent                           | -          | -          | 169,578      | 189,341     |

Of the long-term portion, R\$165,175 refers to the "ICMS - Programa Paraná Mais Emprego", an agreement made with the State of Paraná Government for deferral of ICMS payments. This agreement stipulates the ICMS due date as the 49th month following that in which the ICMS is determined.

## 15. LOANS AND FINANCING

## a) Composition of debt

| Description             | Currency | Annual interest                     | Maturity date      | Company     |             | Consolidated |             |
|-------------------------|----------|-------------------------------------|--------------------|-------------|-------------|--------------|-------------|
|                         |          |                                     |                    | 12/31/ 2005 | 12/31/ 2004 | 12/31/ 2005  | 12/31/ 2004 |
| Financial institutions: |          |                                     |                    |             |             |              |             |
| Resolution No. 2,770    | US\$     | 1% p.y. to 9.8% p.y.                | 02/2006 to 01/2008 | 1,173,390   | 1,455,484   | 1,940,082    | 1,738,126   |
| Resolution No. 2,770    | ¥        | 0% to 2.98% p.y.                    | 04/2006 to 12/2007 | 204,537     | 77,110      | 352,575      | 177,068     |
| Debentures              | R\$      | 103.3% of CDI to 104.4% of CDI      | 08/2008 to 05/2015 | 1,500,000   | 500,000     | 1,500,000    | 500,000     |
| Compror                 | US\$     | 1% to 6.25% p.y.                    | 02/2006 to 01/2008 | -           | -           | 168,749      | 103,841     |
| Compror                 | ¥        | 0,7% p.y. to 2.75% p.y.             | 01/2006 to 12/2007 | -           | -           | 91,875       | -           |
| BNDES                   | URTJLP   | URTJLP + 3.6% p.y. to 4.6% p.y. (a) | 01/2006 to 06/2011 | -           | -           | 267,714      | 366,537     |
| BNDES                   | UMBNDDES |                                     |                    | -           | -           | 48,327       | 74,981      |



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|  |      |  |                                  |           |           |           |           |
|--|------|--|----------------------------------|-----------|-----------|-----------|-----------|
| BNDES  | R\$  | 3.5% p.y. to 4.6%<br>p.y.<br>100% Selic              | 10/2007 to<br>07/2011<br>12/2005 | -         | -         | -         | 152,377   |
| Commercial paper                             | US\$ | Libor + 1.75% p.y. to<br>6.30% p.y. to 6.55%<br>p.y. | 07/2007 to<br>12/2007            | -         | -         | 491,547   | 238,896   |
| Promissory notes                             | R\$  | 101.6% of CDI  | 05/2005                          | -         | 1,000,000 | -         | 1,000,000 |
| Unibanco IGP-M                               | R\$  | IGP-M + 9% p.y. to<br>9.45% p.y.                     | 09/2007 to<br>11/2007            | 110,441   | -         | 115,264   | -         |
| Export Development<br>Canada - EDC           | US\$ | Libor + 5% p.y.                                      | 12/2006                          | -         | -         | 23,643    | 71,158    |
| ICMS Teleprodurizir<br>(b)                   | R\$  | 0.02% p.y.   | 10/2012                          | -         | -         | -         | 15,159    |
| Other  | R\$  | Column 27 FGV  | 10/2008                          | -         | -         | 1,292     | 1,523     |
| Suppliers-<br>NEC do Brasil                  | US\$ | 7.3% p.y.  | 11/2005                          | -         | -         | -         | 7,192     |
| Affiliated<br>companies:<br>Commercial paper | US\$ | Libor + 5% p.y.                                      | 07/2005                          | -         | -         | -         | 318,528   |
| Investment<br>acquisition - TCO              | R\$  | CDI + 1% p.y.  | -                                | 10,696    | 53,484    | 10,697    | 53,484    |
| Accrual interest                             |      |  |                                  | 132,765   | 117,209   | 181,272   | 144,303   |
| Total  |      |  |                                  | 3,131,829 | 3,203,287 | 5,193,037 | 4,963,173 |
| Current                                      |      |  |                                  | 1,066,051 | 1,909,640 | 1,546,935 | 2,896,102 |
| Noncurrent                                   |      |  |                                  | 2,065,778 | 1,293,647 | 3,646,102 | 2,067,071 |

(a) In the event that the TJLP (long-term interest rate) exceeds 10% per year, the spread increases to 6%.

(b) In August 2005 a prepayment was made with the discount resulting of the benefit from the "Teleprodurizir Program", a cooperation agreement with the State of Goiás Government relating to call center implementation.

b) Repayment schedule

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

| Year                | 12/31/2005 |              |
|---------------------|------------|--------------|
|                     | Company    | Consolidated |
| 2007                | 548,334    | 2,032,079    |
| 2008                | 517,444    | 558,091      |
| 2009                | -          | 22,253       |
| 2010                | -          | 22,253       |
| 2011                | -          | 11,426       |
| 2011 and thereafter | 1,000,000  | 1,000,000    |
| Total               | 2,065,778  | 3,646,102    |

c) Restrictive covenants

GT has loans and financings with the National Economic and Social Development Bank (BNDES), the balance of which as of December 31, 2005 was R\$232,536 (R\$304,305 as of December 31, 2004). According to the contracts, a number of economic and financial ratios should be calculated annually. The subsidiary GT did not comply with the "Total Net Debt/EBITDA" ratio as of December 31, 2005. A waiver has already been obtained from the bank for noncompliance with this obligation up to December 31, 2006.

TCO and its subsidiaries have loans from BNDES and Export Development Canada - EDC, the balances of which as of December 31, 2005 were R\$83,505 and R\$23,643 (R\$137,213 and R\$71,158 as of December 31, 2004), respectively. As of that date, the various economic and financial ratios established in the contracts with EDC had been complied with. In relation to the contracts with the BNDES, the borrower did not comply with the "EBITDA Margin" ratio (EBITDA over net operating income) as of December 31, 2005. A waiver has already been obtained from the bank for noncompliance with this obligation up to December 31, 2006.

#### d) Derivatives

As of December 31, 2005, the Company and its subsidiaries had exchange derivative contracts in the amounts of US\$1,189,046 thousand, ¥22,508,949 thousand and €2,482 thousand, (US\$1,078,180 thousand, ¥6,879,947 thousand and €25,247 thousand as of December 31, 2004), to hedge all their foreign exchange liabilities. As of December 31, 2005, the Company and its subsidiaries had recorded an accumulated loss of R\$310,086 (R\$26,935 as of December 31, 2004) on these derivative contracts, represented by an asset balance as follows:

| Description            | 2005      | 2004      |
|------------------------|-----------|-----------|
| Current assets         | 300,662   | 7,804     |
| Noncurrent assets      | 5,354     | 385,296   |
| Total                  | 306,016   | 393,100   |
| Current liabilities    | (321,686) | (266,200) |
| Noncurrent liabilities | (294,416) | (153,835) |
| Total                  | (616,102) | (420,035) |
| Accumulated loss       | (310,086) | (26,935)  |

#### e) Collateral

Loans and financing of GT, in local currency, amounting to R\$232,535, represent loans guaranteed by pledging accounts receivable, which can be withheld optionally up to a limit of 300% of the monthly installment.

TCO has granted the following security interests:

| Banks               | Collateral  |
|---------------------|---|
| BNDES TCO Operators | 15% of receivables and CDBs (bank deposit certificates) equivalent to the amount of the next installment payable.   |
| BNDES NBT           | 100% of receivables and CDBs equivalent to the amount of the next installment payable during the first year and two installments payable in the remaining period. |

#### f) Debentures

On August 1, 2004 the first public issue of debentures was renegotiated, comprising 5,000 simple unsecured debentures, not convertible into shares, with a nominal unit value of R\$100.00 maturing on August 1, 2008. The

renegotiation was for the whole of the original issue, which occurred on August 1, 2003, at a rate of 104.6% of the CDI, and the extension of the term (renegotiated to August 1, 2007) was simultaneous with the reduction of the rate to 104.4% of the CDI.

In the ambit of the First Distribution of Marketable Securities Program for R\$2,000,000 announced on August 20, 2004, the Company issued debentures, on May 1, 2005, in the amount of R\$1,000,000 with a duration of ten years as from the issue date, May 1, 2005.

The offer consisted of the issue of 100,000 simple unsecured debentures, not convertible into shares, with a nominal unit value of R\$10, totaling R\$1,000,000, in two series, R\$200,000, in the first series, and R\$800,000, with final maturity on May 1, 2015. The debentures yield interest, with six monthly payments, corresponding to 103.3% (first series) and 104.2% (second series) of the accumulated average daily one-day ID (interfinancial deposits rate), outside the group (“extragrupo”) (Taxas DI), calculated and published by the Clearing House for Custody and Settlement (CETIP).

Remuneration of the debentures is scheduled for renegotiation on May 1, 2009 (first series) and May 1, 2010 (second series). Conservatively, the Company included in the above-mentioned consolidated long-term maturities schedule the principal of the debentures in 2009 and 2010, the dates for renegotiation of the remuneration of the two series.

## 16. OTHER LIABILITIES

|  | Company    |            | Consolidated |             |
|--|------------|------------|--------------|-------------|
|  | 12/31/2005 | 12/31/2004 | 12/31/ 2005  | 12/31/ 2004 |
| Prepaid services to be provided          | -          | -          | 121,865      | 102,158     |
| Accrual for customer loyalty program (a) | -          | -          | 21,311       | 8,393       |
| Intercompany liabilities                 | 164        | 20,997     | 6,007        | 23,902      |
| Provision for pension fund               | -          | -          | 483          | 358         |
| Share grouping (b)                       | 22,513     | -          | 64,344       | -           |
| Other                                    | 97         | -          | 45,361       | 39,277      |
| Total                                    | 22,774     | 20,997     | 259,371      | 174,088     |
| Current                                  | 22,774     | 20,997     | 215,285      | 134,695     |
| Noncurrent                               | -          | -          | 44,086       | 39,393      |

(a) The Company and its subsidiaries have loyalty programs, in which calls are transformed into points for future exchange for handsets. The accumulated points, net of redemptions, are provisioned, considering historic redemption data, points generated and the average cost of a point.

(b) Refers to the credit made available to shareholders who are beneficiaries of the excess shares resulting from the reverse split of the Company’s share capital (Note 18).

## 17. RESERVE FOR CONTINGENCIES

The Company and its subsidiaries are parties to certain lawsuits involving labor, tax and civil matters. Management has recognized reserves for cases in which the likelihood of an unfavorable outcome is considered probable by its legal counsel.

Components of the reserve are as follows:

|                | Company    |            | Consolidated |             |
|----------------|------------|------------|--------------|-------------|
|                | 12/31 2005 | 12/31 2004 | 12/31 2005   | 12/31/ 2004 |
| Telebrás - TCO | -          | -          | 147,856      | 139,465     |
| Labor          | 260        | -          | 22,288       | 17,982      |
| Civil          | -          | -          | 40,807       | 13,434      |
| Tax            | 66,946     | 58,987     | 167,674      | 148,849     |
| Total          | 67,206     | 58,987     | 378,625      | 319,730     |
| Current        | 66,946     | 58,987     | 170,988      | 124,296     |
| Noncurrent     | 260        | -          | 207,637      | 195,434     |

The changes in the reserve for contingencies as of December 31, 2005 are as follows:

|  | 2005    |              |
|--|---------|--------------|
|  | Company | Consolidated |
| Beginning balance                      | 58,987  | 319,730      |
| Additional provision, net of reversals | 260     | 45,519       |
| Monetary variation                     | 7,959   | 23,575       |
| Payments                               | -       | (10,199)     |
| End of the year                        | 67,206  | 378,625      |

#### 17.1. Telebrás - TCO

Correspond to original loans from Telecomunicações Brasileiras S.A. - Telebrás, which, according to Annex II of the Spin-off Report of February 28, 1998, approved at the General Meeting of May 1998, should have been attributed to the respective holding company of Telegoiás Celular S.A. and Telebrás Celular S.A.

As it considered that there was a mistake in the allocation of the respective loans at the time of the spin-off, the Company suspended payments and began to restate the debt in accordance with the variation of the IGP-M (general market price index) rate plus 6% interest per annum.

In June 1999, the Company filed a suit requesting a statement that the assets corresponding to these liabilities, plus accessories of these assets, are its property, also claiming compensation for the amounts paid.

On August 1, 2001, a verdict was given against the Company's claims, but, on October 8, 2001, the Company filed an appeal, which was also denied, maintaining the original verdict. The Company filed a new appeal, which is awaiting a decision by the Supreme Court of Justice (STJ).

#### 17.2. Tax claims

##### 17.2.1. Probable losses

###### a) COFINS

The subsidiary Telesp Celular S.A. was assessed (suit No. 19515,000,700/2003-97) for having offset COFINS, in January and February 2000, with credits derived from the overpayment of the excess of one third of the COFINS paid in 1999, after offsetting against CSLL (Social Contribution Tax on Net Profit). The amount reserved as of December

31, 2005 is R\$24,671 (R\$24,671 as of December 31, 2004).

The Company's management recorded a provision of R\$2,684 as of December 31, 2005, referring to various tax suits, based on the opinion of their external legal counsel.

#### 17.2.2. Possible losses

Based on the opinion of its legal counsel and tax advisers, management believes that the resolution of the matters listed below will not have a material adverse effect on its financial position and, except for PIS and COFINS (item b) below, has not recorded provisions in the financial statements as of December 31, 2005.

##### a) ICMS

The subsidiaries Global Telecom S.A. and TCO and the indirect subsidiaries Teleacre, Telems, Telemat and Telegoiás received tax assessments totaling R\$57,362, mainly in respect of: (i) ICMS on occasional or complementary services that do not constitute telecommunications services; (ii) ICMS on international calls, made from Brazil; (iii) failure to proportionally reverse an ICMS tax credit on the acquisition of permanent assets used in providing communications services and/or exempt or untaxed outgoing goods; (iv) ICMS on the unremunerated provision of telecommunications services, consisting of the donation of credits to be used under prepaid service plans; (v) failure to include in the ICMS calculation the base fines and arrears interest charged to defaulting clients; (vi) alleged failure to comply with supplementary obligations; and (vii) others relating to the sale of goods.

##### b) PIS and COFINS

###### b.1) Law No. 9,718/98

On November 27, 1998, the PIS and COFINS calculation was changed by Law No. 9,718/98, which: (i) increased the COFINS rate from 2% to 3%; (ii) authorized the deduction of up to one third of the COFINS amount from the CSLL; and (iii) indirectly increased COFINS and PIS (social integration program) due by the subsidiaries, requiring the inclusion of revenues in excess of billing in their calculation bases.

On November 9, 2005, the Plenary Session of the Federal Supreme Court took a position in respect of the changes in the PIS and COFINS calculation bases introduced by Law No. 9,718/98, the subject of numerous lawsuits brought by taxpayers in general and by the Company. In the consideration of Extraordinary Appeals No. 357,950, No. 390,840, No. 358,273 and No. 346,084, it declared unconstitutional paragraph 1 of article 3 of the above-mentioned Law, which had determined that these contributions would be levied not only on billing, but on "all the revenues received by the corporate entity, irrespective of the type of activity exercised and the accounting classification adopted for the revenues".

In light of this declaration of the Plenary Session of the Federal Supreme Court, the firm that represents the Company's interests in this legal dispute reconsidered the classification of the probability of success in respect of the widening of the PIS and COFINS calculation bases from possible to remote loss.

The classification of the probability of success in the legal dispute in respect of the increase in the COFINS rate continues to be possible loss. Conservatively, management maintained the provision of the other companies, amounting to R\$140,319 as of December 31, 2005, and will await the final decision in these cases.

As a result of the changes introduced by Laws No. 10,637/02 and No. 10,833/03, the Company and its direct and indirect subsidiaries are now including revenues in excess of billing in the PIS and COFINS calculation bases.

###### b.2) Increase in the calculation base

The subsidiary Telesp Celular S.A. received assessments (suits No. 19515,000701/2003-28 and No. 19515,000699/2003-97) amounting to R\$2,365 (PIS (social integration program) - R\$421 and COFINS - R\$1,944), as a result of the increase in the PIS and COFINS calculation bases introduced by Law No. 9,718/98. These assessments are being challenged by the subsidiary in administrative proceedings.

b.3) CIDE

Refers to challenging the levying of CIDE (economic intervention contribution) on remittances of funds abroad arising from technology transfer contracts, brand and software licensing, etc. This claim involves an amount of R\$27,992.

c) IRPJ (corporate income tax), IRRF and CSLL

The indirect subsidiaries Telems and Telemat received tax assessments amounting to R\$46,924, in which the amount paid to FINOR in the course of calendar year 1998 was not recognized as an investment of the tax due in a tax subsidy program, but as an investment from its own resources and/or a voluntary subscription, and therefore subject to income tax, pursuant to article 4 of Law No. 9,532/97. The validity of this assessment is being challenged by the subsidiaries.

17.3. Labor and civil

Include several labor and civil claims, and a reserve was posted as shown previously, which is considered to be sufficient to cover the probable losses on these cases.

In relation to claims in which a loss is classified as possible, the amount involved is R\$84,728 for the civil claims and R\$39,995 for the labor claims, as follows:

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

18. SHAREHOLDERS' EQUITY

a) Capital

On January 7, 2005, the Company increased its capital by R\$2,053,896, of which R\$53,896 refers to the special goodwill reserve realized in prior years, with the issue of 410,779,174 thousand new shares, comprising 143,513,066 thousand common shares and 267,266,108 thousand preferred shares.

In the General and Extraordinary Shareholders' Meeting held on April 1, 2005, a reverse split of 1,582,563,526,803 book-entry shares, without par value, was approved, comprising 552,896,931,154 common shares and 1,029,666,595,649 preferred shares, representing share capital, in the proportion of 2,500 shares to 1 share of the same type. Share capital now comprises 633,025,410 book-entry shares, without par value, of which 221,158,772 are common shares and 411,866,638 are preferred shares.

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On July 29, 2005, the Company advised the shareholders of a capital increase of R\$242,595,157, corresponding to the tax benefit of the incorporated goodwill, effectively realized during previous fiscal years. The capital was increased from R\$6,427,557,341 to R\$6,670,152,498, with the issue of 29,298,932 new common shares, guaranteeing preemptive rights as established in article 171 of Law No. 6,404/76, and establishing that funds arising from the exercise of preemptive rights were credited to Portelcom Participações S.A.

The capital as of December 31, 2005 and 2004 comprises shares without par value, as follows:

|                  | Thousands of shares |               |
|------------------|---------------------|---------------|
|                  | 12/31/ 2005         | 12/31/2004    |
| Common shares    | 250,458             | 409,383,864   |
| Preferred shares | 411,867             | 762,400,488   |
| Total            | 662,325             | 1,171,784,352 |

b) Interest on shareholders' equity and dividends

The preferred shares do not have voting rights, except in the cases stipulated in articles 9 and 10 of the bylaws. They are, however, assured priority in the reimbursement of capital, without premium, the right to participate in the dividend to be distributed, corresponding to a minimum of 25% of net income for the year, calculated in accordance with article 202 of corporate law, and priority in receiving minimum noncumulative dividends equivalent to the higher of the following amounts:

b.1) 6% per year on the amount resulting from dividing the paid-up capital by the total number of the Company's shares.

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

As from the General Shareholders' Meeting held on March 27, 2004, the preferred shares are entitled to full voting rights, in accordance with article 111, paragraph 1, of Law No. 6,404/76, since the minimum dividends were not paid on the preferred shares for three consecutive years.

c) Special goodwill reserve

This reserve represents a special goodwill reserve formed as a result of the Company's corporate restructuring, which will be capitalized in favor of the controlling shareholder at the time of effective realization of the tax benefit.

19. NET OPERATING REVENUE

|                         | Consolidated |           |
|-------------------------|--------------|-----------|
|                         | 2005         | 2004      |
| Subscription            | 173,795      | 242,588   |
| Usage charges           | 4,294,935    | 3,755,598 |
| Additional call charges | 161,572      | 113,320   |
| Interconnection         | 2,960,179    | 3,142,070 |

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|  |             |             |
|--|-------------|-------------|
| Data services  | 501,135     | 369,416     |
| Other services   | 177,746     | 179,265     |
| Total gross revenue from service                             | 8,269,362   | 7,802,257   |
| ICMS   | (1,352,615) | (1,170,662) |
| PIS and COFINS   | (297,095)   | (280,896)   |
| ISS (service tax)  | (2,695)     | (2,416)     |
| Discounts granted  | (256,004)   | (182,653)   |
| Net operating revenue from services                          | 6,360,953   | 6,165,630   |
| Sale of handsets and accessories                             | 1,985,514   | 1,953,366   |
| ICMS   | (161,009)   | (186,742)   |
| PIS and COFINS   | (129,768)   | (135,749)   |
| Discounts granted  | (496,043)   | (349,081)   |
| Returns of goods   | (86,581)    | (106,397)   |
| Net operating revenue from sales of handsets and accessories | 1,112,113   | 1,175,397   |
| Total net operating revenue                                  | 7,473,066   | 7,341,027   |

There are no customers that contributed more than 10% of the gross operating revenue during the years ended December 31, 2005 and 2004, except for Telecomunicações de São Paulo S.A. - Telesp, a fixed line service provider, which contributed approximately 15% and 18%, respectively, and Brasil Telecom S.A. - BrT, a fixed line service provider, which contributed approximately 10% and 11%, respectively, mainly in relation to interconnection.

## 20. COST OF SERVICES AND GOODS

|                                      | Consolidated |             |
|--------------------------------------|--------------|-------------|
|                                      | 2005         | 2004        |
| Personnel                            | (63,242)     | (59,308)    |
| Materials                            | (7,447)      | (6,591)     |
| Outside services                     | (198,598)    | (173,128)   |
| Leased lines                         | (133,984)    | (119,684)   |
| Rent, insurance and condominium fees | (96,981)     | (90,362)    |
| Interconnection                      | (158,673)    | (222,582)   |
| Taxes and contributions              | (334,176)    | (190,479)   |
| Depreciation and amortization        | (776,397)    | (728,907)   |
| Other                                | (979)        | (716)       |
| Cost of services                     | (1,770,477)  | (1,591,757) |
| Cost of products sold                | (1,587,028)  | (1,734,445) |
| Total                                | (3,357,505)  | (3,326,202) |

## 21. SELLING EXPENSES

|                  | Consolidated |           |
|------------------|--------------|-----------|
|                  | 2005         | 2004      |
| Personnel        | (205,543)    | (187,814) |
| Materials        | (34,565)     | (44,579)  |
| Outside services | (1,179,114)  | (898,969) |



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|                                      |             |             |
|--------------------------------------|-------------|-------------|
| Advertising                          | (318,329)   | (308,940)   |
| Rent, insurance and condominium fees | (42,287)    | (34,519)    |
| Taxes and contributions              | (1,470)     | (1,534)     |
| Depreciation and amortization        | (201,136)   | (148,545)   |
| Provision for doubtful accounts      | (569,847)   | (269,075)   |
| Other                                | (74,255)    | (15,336)    |
| Total                                | (2,626,546) | (1,909,311) |

22. GENERAL AND ADMINISTRATIVE EXPENSES

|                                      | Company |         | Consolidated |           |
|--------------------------------------|---------|---------|--------------|-----------|
|                                      | 2005    | 2004    | 2005         | 2004      |
| Personnel                            | (2,933) | (4,034) | (139,506)    | (138,502) |
| Materials                            | (6)     | (10)    | (7,924)      | (6,768)   |
| Outside services                     | (4,647) | (3,779) | (289,319)    | (266,956) |
| Rent, insurance and condominium fees | (272)   | (83)    | (47,454)     | (40,885)  |
| Taxes and contributions              | (333)   | (146)   | (5,392)      | (12,194)  |
| Depreciation and amortization        | (107)   | (90)    | (149,517)    | (131,321) |
| Other                                | (156)   | (23)    | (20,243)     | (23,965)  |
| Total                                | (8,454) | (8,165) | (659,355)    | (620,591) |

23. OTHER OPERATING EXPENSES, NET

|                                  | Company   |           | Consolidated |           |
|----------------------------------|-----------|-----------|--------------|-----------|
|                                  | 2005      | 2004      | 2005         | 2004      |
| Income:                          |           |           |              |           |
| Fees                             | -         | -         | 68,683       | 72,417    |
| Recovered expenses               | 9,545     | 137       | 67,016       | 51,615    |
| Provision reversals              | -         | -         | 15,847       | 16,975    |
| Shared infrastructure/EILD       | -         | -         | 24,538       | 17,680    |
| Commercial incentives            | -         | -         | 89,675       | 64,353    |
| Other                            | 86        | 4,894     | 16,445       | 17,870    |
| Total                            | 9,631     | 5,031     | 282,204      | 240,910   |
| Expenses:                        |           |           |              |           |
| FUST fees                        | -         | -         | (33,553)     | (29,973)  |
| FUNTTEL                          | -         | -         | (16,776)     | (14,854)  |
| ICMS on the expenses             | -         | -         | (31,615)     | (3,804)   |
| CIDE                             | (198)     | -         | (3,939)      | (1,176)   |
| PIS and COFINS on other revenue  | (311)     | (770)     | (34,561)     | (30,664)  |
| Other taxes and contributions    | (818)     | (365)     | (16,761)     | (25,513)  |
| Reserve for contingencies        | (260)     | (2,002)   | (45,891)     | (29,462)  |
| Amortization of deferred charges | -         | -         | (39,122)     | (39,369)  |
| Goodwill amortization            | (338,149) | (215,745) | (386,313)    | (225,733) |
| Other                            | (552)     | -         | (16,697)     | (10,261)  |
| Total                            | (340,288) | (218,882) | (625,228)    | (410,809) |

## 24. NET FINANCIAL EXPENSES

|                                     | Company   |             | Consolidated |             |
|-------------------------------------|-----------|-------------|--------------|-------------|
|                                     | 2005      | 2004        | 2005         | 2004        |
| Income:                             |           |             |              |             |
| Financial income                    | 44,806    | 70,541      | 281,055      | 252,497     |
| Foreign currency exchange variation | 179,399   | 264,135     | 451,512      | 397,715     |
| PIS/COFINS on financial income      | (5,321)   | (4,219)     | (19,949)     | (29,247)    |
| Total                               | 218,884   | 330,457     | 712,618      | 620,965     |
| Expense:                            |           |             |              |             |
| Financial expense                   | (362,621) | (435,134)   | (615,483)    | (708,024)   |
| Monetary/exchange variation         | (19,803)  | (29,295)    | (73,607)     | (94,524)    |
| Losses on derivative contracts, net | (421,862) | (597,722)   | (941,142)    | (913,819)   |
| Total                               | (804,286) | (1,062,151) | (1,630,232)  | (1,716,367) |

## 25. INCOME TAXES

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

|                                  | Consolidated |           |
|----------------------------------|--------------|-----------|
|                                  | 2005         | 2004      |
| Income tax                       | (250,815)    | (256,502) |
| Social contribution tax          | (90,963)     | (93,572)  |
| Deferred income tax              | 70,321       | 16,922    |
| Deferred social contribution tax | 25,391       | 6,092     |
| Total                            | (246,066)    | (327,060) |

A reconciliation of the taxes on income reported, eliminating the effects of the goodwill tax benefit, and the amounts calculated at the combined statutory rate of 34% is as follows:

|  | Company   |           | Consolidated |          |
|--|-----------|-----------|--------------|----------|
|  | 2005      | 2004      | 2005         | 2004     |
| Loss before taxes  | (816,732) | (173,914) | (520,577)    | 128,600  |
| Tax income (expense) at combined statutory rate          | 277,689   | 59,131    | 176,996      | (43,724) |
| Permanent additions:                                     |           |           |              |          |
| Nondeductible expenses - amortization of goodwill        | (114,971) | -         | (131,346)    | -        |
| Other nondeductible expenses                             | (262)     | (149)     | (35,879)     | (13,981) |
| Other additions  | -         | -         | -            | (1,068)  |
| Permanent exclusions:                                    |           |           |              |          |
| Interest on shareholders' equity credited - subsidiaries | 16,839    | 156,424   | -            | -        |

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Other exclusions                                | -         | -         | 14,691    | 9,339     |
| Tax loss and unrecognized temporary differences | (179,295) | (215,406) | (270,528) | (277,626) |
| Tax expense                                     | -         | -         | (246,066) | (327,060) |

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

### a) Risk considerations

The major market risks to which the Company and TC, GT and TCO are exposed in conducting their businesses are:

- **Credit risk:** derived from the potential difficulty in collecting amounts from telecommunications services provided to customers, and the sales of handsets by the distribution network, together with the risks relating to investments and swap operations.
- **Interest rate risk:** derived from the portion of the debt and liability positions in derivatives contracted at floating rates and involves the risk of financial expenses rising due to an unfavorable movement in interest rates (principally Libor, TJLP (long-term interest rate) and CDI).
- **Currency risk:** derived from the possibility of the Company and its subsidiaries incurring losses on account of fluctuations in exchange rates that increase the balances of foreign currency denominated loan and financing liabilities.

The Company and its subsidiaries take an active posture in managing the various risks to which they are subject, by means of a wide-ranging set of operational initiatives, procedures and policies that enable the risks inherent in their businesses to be mitigated.

#### Credit risk

The credit risk of providing telecommunications services is minimized by a strict control of the customer base and active management of default by means of clear policies relating to selling postpaid handsets. As of December 31, 2005, TC, GT and TCO and their subsidiaries had 83%, 87% and 86% (83%, 88% and 84% as of December 31, 2004), respectively, of their customer base under the prepaid system, which requires prepaid loading and, therefore, reduces credit risk.

The credit risk on the sale of handsets is managed by means of a conservative credit policy, using modern management methods that involve applying credit scoring techniques, balance sheet analysis and consulting commercial databases, together with the automatic control of sales integrated with the SAP ERP software distribution module.

The Company and its subsidiaries are also subject to credit risk derived from its investments and receivables from swap operations. The Company and its subsidiaries spread this risk by using various recognized financial institutions.

#### Interest rate risk

The Company and its subsidiaries are exposed to the risk of a rise in interest rates, especially the combination of interest rates associated with the cost of the CDI, due to the liability portion of the derivative operations (exchange derivatives) and of loans contracted in Brazilian reais. However, the balance of financial investments, also indexed to the CDI, partially neutralizes this effect.

The Company and its subsidiaries are also exposed to fluctuations in the TJLP, as a result of the loans contracted from the BNDES. As of December 31, 2005, the principal of these loans amounted to R\$267,714 (R\$366,537 as of December 31, 2004). The Company and its subsidiaries have not entered into derivatives to hedge the TJLP risk.

Loans contracted in foreign currency are also exposed to the risk of a rise in the interest rates (Libor) associated with foreign loans. As of December 31, 2005, these loans totaled US\$130,101 thousand (US\$146,808 thousand as of December 31, 2004) of principal.

Of the total loans and financing associated with variable foreign interest rates (Libor), US\$120,000 thousand have protection against interest rate variations (Libor) through derivatives (interest rate swap). The Company and its subsidiaries continue to monitor the market interest rates in order to evaluate the eventual need to contract other derivatives to protect against the risk of volatility of variable foreign rates for the remaining amount.

### Currency risk

The Company and its subsidiaries use derivative instruments to protect against currency risk on foreign currency-denominated loans. The instruments normally used are swap options and forward contracts.

The following table summarizes the net exposure of the Company and its subsidiaries to the exchange rates as of December 31, 2005:

|                                   | US\$        | In thousands of |              |
|-----------------------------------|-------------|-----------------|--------------|
|                                   |             | €               | ¥            |
| Loans and financing               | (1,163,978) | -               | (22,508,949) |
| Loans and financing - UMBNDES (*) | (20,882)    | -               | -            |
| Derivative contracts              | 1,189,046   | 2,482           | 22,508,949   |
| Other obligations                 | (1,346)     | (9,408)         | -            |
| Total                             | (2,840)     | (6,926)         | -            |

(\*) UMBNDES is a monetary unit calculated by the BNDES, composed of a basket of foreign currencies, principally the U.S. dollar, which is the reason why the Company and its subsidiaries take it into consideration in analyzing the risk coverage in relation to variations in the exchange rates.

### b) Derivative contracts

The Company and its subsidiaries record gains and losses on derivative contracts as net financial income or expenses.

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

|                      | Book value  | Market value | Unrealized losses |
|----------------------|-------------|--------------|-------------------|
| Loans and financing  | (5,193,037) | (5,224,017)  | (30,980)          |
| Derivative contracts | (310,086)   | (372,496)    | (62,410)          |
| Other obligations    | (29,129)    | (29,129)     | -                 |
| Total                | (5,532,252) | (5,625,642)  | (93,390)          |

### c) Market value of financial instruments

The market value of the loans and financing, swap and forward contracts was established based on the discounted cash flow method, using available interest rate projections.

The market values are calculated at a specific time based on information available and in-house valuation methodologies, and, therefore, the estimates indicated do not necessarily represent market realization values. The use of different assumptions could significantly affect the estimates.

## 27. POST-RETIREMENT BENEFIT PLANS

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

- a) PBS-A: defined-benefit multisponsored plan, for participants that were previously assisted and had such status on January 31, 2000.
- b) PBS-Telesp Celular and PBS-TCO: defined-benefit retirement plans sponsored individually by the companies.
- c) PAMA: multisponsored healthcare plan for retired employees and their dependents, on a shared cost basis.

The contributions to the PBS-Telesp Celular and PBS-TCO Plans are determined based on actuarial valuations prepared by independent actuaries, in accordance with the regulations in effect in Brazil. Cost is determined using the capitalization method and the contribution due by the sponsor is 13.5% of the payroll for the employees participating in the Plan, of which 12% is used to financing the PBS-Telesp Celular and PBS-TCO Plans and 1.5% for the PAMA Plan. In the year ended December 31, 2005, the contributions to these plans were R\$0 (R\$9 as of December 31, 2004).

d) TCP Prev and TCO Prev Plans: these are individual defined and variable contribution plans, introduced by SISTEL in August 2000. The Company bears the risk of death and disability of the participants in both the plans, and in the TCO Prev Plan some participants previously covered by the PBS-TCO Plan are entitled to retirement benefits for life (paid-up benefit), in addition to the defined contribution benefits. The Company's contributions to the TCP Prev and TCO Prev Plans are equal to those of the participants, varying between 1% and 8% of the participant's salary, according to the percentage chosen by the participant. In the year ended December 31, 2005 the contributions to these plans amounted to R\$7,637 (R\$4,012 as of December 31, 2004).

The actuarial valuation of the plans was made in 2005 and 2004, based on the register of the participants as of September 2005 and 2004, respectively, and the projected unit credit method was adopted, with immediate recognition of the actuarial gains and losses generated in each year. The plans' assets are stated as of November 30, 2005 and 2004, respectively, and for the multisponsored plans (PAMA and PBS-A), the apportionment of the plans' assets was based on the actuarial liabilities of the Company in relation to the total actuarial liabilities of the plan. The total liability recognized as of December 31, 2005 was R\$483.

A number of claims were made through civil suit No. 04/081,668-0, brought by ASTEL against SISTEL, citing Telefônica and Telesp Celular, as well as SISTEL, which are summarized as follows: (i) that SISTEL should be prohibited from collecting from retired employees and other participants any contributions referring to PAMA - Retired Employees' Healthcare Plan ("Plano de Assistência Médica aos Aposentados"), and they should only pay "a reasonable amount for the use made", which should be limited to 1% of the monthly remuneration of the participant; (ii) that SISTEL should re-enroll in PAMA, without any restrictions, retired employees and participants whose enrollment has been suspended for default, as well as those who could not withstand pricing pressures and asked for cancellation of their enrollment in PAMA or joined the PCE (Special Coverage Plan), if they so wish, also without restrictions; (iii) that SISTEL should reassess the economic needs of PAMA, including the amounts of the monthly contributions of the sponsors Telefônica and Telesp Celular; (iv) that the sponsors' contribution should be calculated based on the payroll of all its employees, in accordance with the previous provision of the bylaws, and not on a

percentage of the payroll of the active participants of the PBS; (v) that SISTEL should reestablish the accreditation of all the hospitals, clinics and laboratories that had been cancelled; (vi) that a review of the accounting distribution of the equity should be made, so as to attribute to PAMA the amounts relating to the reduction factor of the additional payments, as above, and that until this review has been made, SISTEL should be prohibited from any spin-off of the net equity of the PBS-A Plan or any other plan managed by SISTEL; (vii) that SISTEL and the sponsors should reverse the “transfer of equity from the main substratum intended to guarantee PBS-2 and PAMA, illegally taken across to the Visão Plan of Telesp and the Visão Prev of Telesp Celular”; and (viii) granting of advance relief in respect of items “a”, “b” and “e”.

Through its actuarial advisers, Telesp Celular prepared a study considering the impacts described above, accordingly, the change in the cost formulas as claimed by the ASTEL civil suit represents an additional burden on the provisions of Telesp Celular amounting to R\$824.

Based on the opinions of its legal counsel and tax advisers, Management believes that at this time there is no risk of payment, and as of December 31, 2005, the probability of loss was classified as possible.

We show below the breakdown of the provision for the defined benefit retirement plans and healthcare plan for retired employees as of December 31, 2005 and 2004, as well as the other information required by CVM Resolution No. 371/00 on these plans:

| Plan       | 2005 | 2004 |
|------------|------|------|
| PAMA - TCP | 225  | 191  |
| PAMA - TCO | 258  | 167  |
| Total      | 483  | 358  |

## TCP

### 1) Reconciliation of funded status

|                           |               | 2005     |          |           |
|---------------------------|---------------|----------|----------|-----------|
|                           | TCP Prev (ii) | PAMA (i) | PBS (ii) | PBS-A (i) |
| Benefit obligation        | 3,060         | 759      | 9,376    | 6,574     |
| Fair value of plan assets | (5,993)       | (534)    | (10,849) | (8,517)   |
| Funded status             | (2,933)       | 225      | (1,473)  | (1,943)   |

|                           |               | 2005     |          |           |
|---------------------------|---------------|----------|----------|-----------|
|                           | TCP Prev (ii) | PAMA (i) | PBS (ii) | PBS-A (i) |
| Benefit obligation        | 1,725         | 762      | 8,624    | 6,047     |
| Fair value of plan assets | (3,644)       | (571)    | (9,706)  | (7,864)   |
| Funded status             | (1,919)       | 191      | (1,082)  | (1,817)   |

(i) Refers to the Company’s proportional participation in assets and liabilities of the multisponsored plans - PAMA and PBS-A.

(ii) Although TCP Prev, PBS and PBS-A showed surpluses, as of December 31, 2005, no assets were recognized by the sponsor due to the lack of prospects of making use of this surplus.

### 2) Change in net actuarial liability (asset)

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|   |          | 2005 |         |         |
|---|----------|------|---------|---------|
|   | TCP Prev | PAMA | PBS     | PBS-A   |
| Net actuarial (asset) liability as of December 31, 2004 | (1,919)  | 191  | (1,082) | (1,817) |
| Current service cost                                    | 445      | 87   | 938     | 654     |
| Sponsor's contribution for the year                     | -        | (1)  | (5)     | -       |
| Recognized actuarial losses (gains) for the year        | 890      | (38) | 656     | 396     |
| Gains for the year                                      | (2,349)  | (14) | (1,980) | (1,176) |
| Net actuarial (asset) liability as of December 31, 2005 | (2,933)  | 225  | (1,473) | (1,943) |

3) Change in benefit obligation

|  |          | 2005 |       |       |
|--|----------|------|-------|-------|
|  | TCP Prev | PAMA | PBS   | PBS-A |
| Benefit obligation as of December 31, 2004 | 1,725    | 762  | 8,624 | 6,047 |
| Current service cost                       | 267      | 3    | 4     | -     |
| Interest cost                              | 178      | 84   | 934   | 654   |
| Benefits paid for the year                 | -        | (52) | (842) | (523) |
| Actuarial (gains) losses for the year      | 890      | (38) | 656   | 396   |
| Benefit obligation as of December 31, 2005 | 3,060    | 759  | 9,376 | 6,574 |

4) Change in plan assets

|   |          | 2005  |          |         |
|---|----------|-------|----------|---------|
|   | TCP Prev | PAMA  | PBS      | PBS-A   |
| Fair value of plan assets as of December 31, 2004   | (3,644)  | (571) | (9,706)  | (7,864) |
| Benefits paid for the year                          | -        | 52    | 842      | 523     |
| Sponsor's and employees' contributions for the year | -        | (1)   | (5)      | -       |
| Return on plan assets for the year                  | (2,349)  | (14)  | (1,980)  | (1,176) |
| Fair value of plan assets as of December 31, 2005   | (5,993)  | (534) | (10,849) | (8,517) |

5) Estimated expenses for 2006

|  |          | 2005 |         |         |
|--|----------|------|---------|---------|
|  | TCP Prev | PAMA | PBS     | PBS-A   |
| Service cost                           | 438      | 4    | 5       | -       |
| Interest cost on actuarial liabilities | 320      | 84   | 1,017   | 712     |
| Expected return on assets              | (743)    | (67) | (1,351) | (1,033) |
| Employees' contributions               | (3,072)  | -    | (1)     | -       |
| Total                                  | (3,057)  | 21   | (330)   | (321)   |

TCO

1) Reconciliation of funded status

|                           |          | 2005  |         |         |
|---------------------------|----------|-------|---------|---------|
|                           | TCP Prev | PAMA  | PBS     | PBS-A   |
| Benefit obligation        | 39,832   | 871   | 1,962   | 3,450   |
| Fair value of plan assets | (54,329) | (613) | (2,210) | (4,469) |
| Funded status             | (14,497) | 258   | (248)   | (1,019) |

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|                           |               | 2004     |              |           |
|---------------------------|---------------|----------|--------------|-----------|
|                           | TCO Prev (ii) | PAMA (i) | PBS-TCO (ii) | PBS-A (i) |
| Benefit obligation        | 40,545        | 665      | 1,808        | 3,183     |
| Fair value of plan assets | (41,635)      | (498)    | (1,931)      | (4,139)   |
| Funded status             | (1,090)       | 167      | (123)        | (956)     |

2) Change in net actuarial liability (asset)

|   |               | 2005     |              |           |
|---|---------------|----------|--------------|-----------|
|   | TCO Prev (ii) | PAMA (i) | PBS-TCO (ii) | PBS-A (i) |
| Net actuarial (asset) liability as of December 31, 2004 | (1,090)       | 167      | (123)        | (956)     |
| Current service cost                                    | 5,757         | 74       | 199          | 346       |
| Recognized actuarial losses Gains for the year          | (5,595)       | 190      | 102          | 171       |
| Sponsor's contribution for the year                     | (712)         | 1        | (3)          | -         |
| Gains for the year                                      | (12,857)      | (174)    | (423)        | (580)     |
| Net actuarial (asset) liability as of December 31, 2005 | (14,497)      | 258      | (248)        | (1,019)   |

3) Change in benefit obligation

|  |               | TCO PREV (ii) |              |           |
|--|---------------|---------------|--------------|-----------|
|  | TCO Prev (ii) | PAMA (i)      | PBS-TCO (ii) | PBS-A (i) |
| Benefit obligation as of December 31, 2004 | 40,545        | 665           | 1,808        | 3,183     |
| Current service cost                       | 1,219         | 1             | 3            | -         |
| Interest cost                              | 4,538         | 73            | 196          | 346       |
| Benefits paid for the year                 | (875)         | (58)          | (147)        | (250)     |
| Actuarial (gains) losses for the year      | (5,595)       | 190           | 102          | 171       |
| Benefit obligation as of December 31, 2005 | 39,832        | 871           | 1,962        | 3,450     |

4) Change in plan assets

|   |               | 2005     |              |           |
|---|---------------|----------|--------------|-----------|
|   | TCO Prev (ii) | PAMA (i) | PBS-TCO (ii) | PBS-A (i) |
| Fair value of plan assets as of December 31, 2004   | (41,635)      | (498)    | (1,931)      | (4,139)   |
| Benefits paid for the year                          | 875           | 58       | 147          | 250       |
| Sponsor's and employees' contributions for the year | (712)         | 1        | (3)          | -         |
| Return on plan assets for the year                  | (12,857)      | (174)    | (423)        | (580)     |
| Fair value of plan assets as of December 31, 2005   | (54,329)      | (613)    | (2,210)      | (4,469)   |

5) Estimated expenses for 2006

|              | TCO Prev (ii) | PAMA (i) | PBS-TCO (ii) | PBS-A (i) |
|--------------|---------------|----------|--------------|-----------|
| Service cost | (581)         | (2)      | (3)          | -         |



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|  |         |      |       |       |
|--|---------|------|-------|-------|
| Interest cost on actuarial liabilities | (4,445) | (97) | (213) | (375) |
| Expected return on assets              | 7,562   | 77   | 275   | 544   |
| Employees' contributions               | -       | -    | -     | -     |
| Total                                  | 2,536   | (22) | 59    | 169   |

(i) Refers to the Company's proportional participation in assets and liabilities of the multisponsored plans - PAMA and PBS-A.

(ii) Although TCO Prev, PBS-TCO and PBS-A showed surpluses, as of December 31, 2005, no assets were recognized by the sponsor due to the lack of prospects of making use of this surplus.

6) Actuarial assumptions

|   | TCP Prev and<br>TCO Prev                      | 2005                 |  |  |
|---|---|----------------------|--|--|
|   |   | PAMA                 | PBS  | PBS-A  |
| Discount rate used at current value of<br>actuarial liabilities | 11.30% p.y.                                   | 11.30% p.y.          | 11.30% p.y.                                      | 11.30% p.y.                                      |
| Estimated return rate on plan assets                            | 13.93% p.y.                                   | 12.88% p.y.          | 12.89% p.y.                                      | 12.53% p.y.                                      |
| Future salary growth rate                                       | 7.10% p.y.                                    | 7.10% p.y.           | 7.10% p.y.                                       | 7.10% p.y.                                       |
| Medical costs growth rate                                       | -   | 8.15% p.y.           | -  | -  |
| Benefits growth rate  | 5.00% p.y.                                    | 5.00% p.y.           | 5.00% p.y.                                       | 5.00% p.y.                                       |
| Mortality table   | UP94 with<br>2 years and<br>segregated by sex | UP94 with<br>2 years | UP94 with<br>2 years and<br>segregated by<br>sex | UP94 with<br>2 years and<br>segregated by<br>sex |
| Disability table  | Mercer<br>disability                          | Mercer<br>disability | Mercer<br>disability                             | -  |

28. CORPORATE RESTRUCTURING

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

The financial statements maintained for the companies' corporate and tax purposes record specific accounts related to the goodwill, the related reserve and the respective amortization, reversal and tax credit, the balances of which are as follows:

|                          | Amounts on the<br>date of merger | Consolidated |             |
|--------------------------|----------------------------------|--------------|-------------|
|                          |                                  | 12/31/2005   | 12/31/2004  |
| Balance sheet:           |                                  |              |             |
| Incorporated goodwill    | 3,192,738                        | 1,250,488    | 1,569,762   |
| Provision                | (2,127,694)                      | (825,324)    | (1,036,044) |
| Amount                   | 1,065,044                        | 425,164      | 533,718     |
|                          |                                  | 2005         | 2004        |
| Statement of operations: |                                  |              |             |

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|                          |           |           |
|--------------------------|-----------|-----------|
| Amortization of goodwill | 319,274   | 319,274   |
| Reversal of provision    | (210,720) | (210,720) |
| Tax benefit              | (108,554) | (108,554) |
| Net effect on net income | -         | -         |

The Board of Directors of the Company and TCO approved two corporate restructurings as follows:

a) First corporate restructuring

On May 13, 2004, the Boards of the TCO and TCP approved a corporate restructuring for the purpose of transferring to TCO and its subsidiaries the goodwill paid by TCP on the acquisition of a controlling interest in TCO, which, on May 31, 2004, amounted to R\$1,503,121.

Prior to the incorporation of goodwill by TCO a reserve had been constituted to maintain the shareholders' equity of that company in the amount of R\$992,060. Thus, net assets incorporated by TCO amounted to R\$511,061, which, in essence, represents the tax benefit derived from the deductibility of the goodwill when incorporated by TCO and its subsidiaries.

As of June 30, 2004 the transfer of part of the net assets of TCO to its subsidiaries was approved, based on appraisal reports prepared by independent specialists, as described below:

| Company        | Goodwill  | Reserve to maintain shareholders' equity | Net amount |
|----------------|-----------|--|------------|
| Telemat        | 248,558   | (164,048)                                | 84,510     |
| Telegoiás      | 352,025   | (232,336)                                | 119,689    |
| Telems         | 144,078   | (95,092)                                 | 48,986     |
| Teleron        | 68,775    | (45,392)                                 | 23,383     |
| Teleacre       | 29,353    | (19,373)                                 | 9,980      |
| Total spin-off | 842,789   | (556,241)                                | 286,548    |
| TCO balance    | 660,332   | (435,819)                                | 224,513    |
| Total          | 1,503,121 | (992,060)                                | 511,061    |

Concurrently with the transfer of a portion of the net assets to TCO's subsidiaries, a proposal was approved to incorporate the shares of TCO's subsidiaries held by minority shareholders, who received TCO shares in a proportion established by a valuation at market values prepared by independent experts. The transfer of the interests in TCO subsidiaries resulted in an increase of R\$28,555 in the capital of TCO.

The accounting records of the companies maintained for corporate and tax purposes have specific accounts relating to the goodwill and provision merged and corresponding amortization, reversal and tax credit, the balances of which are as follows:

|                       | Amounts on the date of merger | Consolidated 12/31/ 2005 | Consolidated 12/31/ 2004 |
|-----------------------|-------------------------------|--------------------------|--------------------------|
| First restructuring:  |                               |                          |                          |
| Balance sheet:        |                               |                          |                          |
| Incorporated goodwill | 1,503,121                     | 1,033,227                | 1,327,756                |
| Provision             | (992,060)                     | (681,930)                | (876,319)                |
| Amount                | 511,061                       | 351,297                  | 451,437                  |
|                       |                               | 2005                     | 2004                     |

|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Statement of operations:          |           |           |
| Amortization of goodwill          | 294,529   | 239,903   |
| Reversal of provision             | (194,389) | (158,336) |
| Tax benefit                       | (100,140) | (81,567)  |
| Net effect on net income          | -         | -         |
| b) Second corporate restructuring |           |           |

On August 31, 2005 the Boards of Directors of TCO and TCP approved a corporate restructuring with a view to transferring to TCO the goodwill paid by TCP in the acquisition of TCO's shares through a Voluntary Public Offering on October 8, 2004, the value of which on July 31, 2005 was R\$392,265.

Prior to the incorporation of goodwill by TCO, a reserve had been constituted to maintain the shareholders' equity of that company in the amount of R\$258,895. Thus, net assets incorporated by TCO amounted to R\$133,370, which, in essence, represents the tax benefit derived from the deductibility of the above-mentioned goodwill when incorporated by TCO.

The incorporated net asset amount will be amortized over an estimated period of five years and is offset by a special goodwill reserve to be transferred to the capital account in favor of TCP when the tax benefit is effectively realized, with a guarantee to the remainder of the shareholders of participation in these increases in capital, in which case the funds received will be paid to TCP.

|                          | Amounts on the<br>date of merger | Consolidated<br>12/31/2005 |
|--------------------------|----------------------------------|----------------------------|
| Second restructuring:    |                                  |                            |
| Balance sheet:           |                                  |                            |
| Incorporated goodwill    | 392,265                          | 359,576                    |
| Provision                | (258,895)                        | (237,320)                  |
| Amount                   | 133,370                          | 122,256                    |
|                          |                                  | 2005                       |
| Statement of operations: |                                  |                            |
| Amortization of goodwill |                                  | 32,689                     |
| Reversal of provision    |                                  | (21,575)                   |
| Tax benefit              |                                  | (11,114)                   |
| Net effect on net income |                                  | -                          |

## 29. TRANSACTIONS WITH RELATED PARTIES

The principal transactions with unconsolidated related parties are as follows:

a) Use of network and long-distance (roaming) cellular communication: these transactions involve companies owned by the same controlling group: Telecomunicações de São Paulo S.A. - Telesp, Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A. and Celular CRT S.A. Some of these transactions were established based on contracts signed by Telebrás with the concessionaire operators during the period prior to privatization, and the conditions were regulated by ANATEL. These transactions also include call-center services to Telecomunicações Móveis Nacionais - TMN customers in connection with roaming services in the Company's network.

- b) Technical assistance: refers to the provision of corporate management advisory services by PT SGPS, calculated based on a percentage of the net services revenue, monetarily restated in accordance with the currency variation.
- c) Loans and financing: represent loans between companies in the Portugal Telecom Group, in accordance with Note 15.
- d) Corporate services: these are passed on to the subsidiaries at the cost effectively incurred for these services.
- e) Call-center services: provided by Mobitel S.A. - Dedic to users of the telecommunications services of the subsidiaries TC and GT, contracted for 12 months, renewable for the same period.
- f) Systems development and maintenance services: provided by PT Inovação.

We set forth below a summary of the balances and transactions with unconsolidated related parties:

|   | Consolidated |             |
|---|--------------|-------------|
|   | 12/31/ 2005  | 12/31/ 2004 |
| Assets:   |              |             |
| Trade accounts receivable, net                  | 198,720      | 168,634     |
| Receivable from Group companies                 | 32,761       | 33,162      |
| Liabilities:                                    |              |             |
| Trade accounts payable                          | 152,435      | 349,860     |
| Loans and financing                             | 585          | 329,382     |
| Technical assistance                            | 19,020       | 33,709      |
| Intercompany liabilities                        | 6,007        | 23,902      |
| Revenues-                                       |              |             |
| Net operating revenue:                          |              |             |
| Telecomunicações de São Paulo S.A. - Telesp     | 1,631,402    | 1,758,914   |
| Telefônica Publicidade e Informação Ltda. - TPI | 2            | -           |
| Telecomunicações Móveis Nacionais - TMN         | -            | 29          |
| Balance as of December 31                       | 1,631,404    | 1,758,943   |
| Expenses-                                       |              |             |
| Cost of services provided-                      |              |             |
| Telecomunicações de São Paulo S.A. - Telesp     | (221,756)    | (288,127)   |
| Balance as of December 31                       | (221,756)    | (288,127)   |
| Selling expenses:                               |              |             |
| Telecomunicações de São Paulo S.A. - Telesp     | -            | (15,160)    |
| Terra Brasil S.A.                               | (118)        | -           |
| Atento do Brasil S.A.                           | (112,969)    | (41,616)    |
| Mobitel S.A. - Dedic                            | (183,511)    | (141,870)   |
| Balance as of December 31                       | (296,598)    | (198,646)   |

|  | Consolidated |             |
|--|--------------|-------------|
|  | 12/31/ 2005  | 12/31/ 2004 |

General and administrative expenses:

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|  |          |           |
|--|----------|-----------|
| Portugal Telecom SGPS S.A.                               | (39,431) | (54,635)  |
| Portugal Telecom Inovação                                | -        | 1,556     |
| Primesys Soluções Empresariais S.A.                      | (13,920) | (18,839)  |
| Portugal Telecom Inovação - Brasil                       | (309)    | (9,131)   |
| Telecomunicações de São Paulo S.A. - Telesp              | -        | (2,637)   |
| Telefónica Comunicaciones Personales UNIFON              | (168)    | -         |
| Telefônica Gestão de Serviços Compartilhados T- Gestiona | (12,196) | -         |
| Telefônica S.A.  | -        | (106)     |
| Terra Brasil S.A.  | (118)    | (269)     |
| Terra Empresas Brasil                                    | (5,980)  | -         |
| Telefónica Mobile Solutions                              | (463)    | (234)     |
| Telefónica Móviles Espanha                               | (29)     | (15)      |
| Balance as of December 31                                | (72,614) | (84,310)  |
| Other operating revenue-                                 |          |           |
| Telefônica Empresas Brasil                               | 491      | -         |
| Balance as of December 31                                | 491      | -         |
| Finance income (expense), net:                           |          |           |
| Portugal Telecom International Finance BV                | (78)     | (141,673) |
| Portugal Telecom SGPS S.A.                               | 14,184   | 8,106     |
| Portugal Telecom Inovação - Brasil                       | -        | (1,479)   |
| PT Prime Tradecom S.A.                                   | -        | 3         |
| Telefônica Gestão de Serviços Compartilhados T- Gestiona | 2        | -         |
| Atento Brasil S.A.                                       | 5        | -         |
| Mobitel S.A. - Dedic                                     | 11       | -         |
| Balance as of December 31                                | 14,124   | (135,043) |
| Recovery of expenses from joint venture, proportional:   |          |           |
| Celular CRT Participações S.A.                           | 30,873   | 26,009    |
| Tele Leste Celular Participações S.A.                    | 13,752   | 11,731    |
| Tele Sudeste Celular Participações S.A.                  | 51,802   | 47,766    |
| Balance as of December 31                                | 96,427   | 85,506    |
| Expenses from joint venture, proportional:               |          |           |
| Celular CRT Participações S.A.                           | (7,726)  | (6,406)   |
| Tele Leste Celular Participações S.A.                    | (5,972)  | (6,325)   |
| Tele Sudeste Celular Participações S.A.                  | (50,867) | (54,395)  |
| Balance as of December 31                                | (64,565) | (67,126)  |

### 30. DIRECTORS' FEES

During 2005 and 2004, directors' fees totaled R\$4,767 and R\$5,780, consolidated, and R\$945 and R\$1,334, Company, respectively, and were appropriated as expense.

### 31. INSURANCE (CONSOLIDATED)

The Company and its subsidiaries have a policy of monitoring the risks inherent to their operations. Accordingly, as of December 31, 2005, the companies had insurance policies in effect to cover operating risks, third-party liability, health, etc. The management of the Company and its subsidiaries considers that the amounts are sufficient to cover possible losses. The principal assets, liabilities or interests covered by insurance are shown below:

| Type                        | Amounts insured   |
|-----------------------------|---|
| Operating risks             | R\$10,036,745   |
| General civil liability     | R\$7,560  |
| Vehicle (officers fleet)    | FIPE table - 100% - R\$250 for bodily harm and R\$50 for damage to property |
| Vehicle (operational fleet) | R\$250 for bodily harm and R\$50 for damage to property                     |

### 32. AMERICAN DEPOSITARY RECEIPTS - ADR PROGRAM

On November 16, 1998, the Company began trading ADRs with the following characteristics on the New York Stock Exchange - NYSE:

- Type of share: preferred.
- Each ADR represents one preferred share.
- The shares are traded as ADRs under the symbol “TCP”, on the NYSE.
- Foreign depository bank: The Bank of New York.
- Custodian bank in Brazil: Banco Itaú S.A.

### 33. SUBSEQUENT EVENTS

In an extraordinary meeting held on February 6, 2006, the Board of Directors approved a proposal to reduce the Company’s capital from the current R\$6,670,152 to R\$3,522,370, a reduction amounting to R\$3,147,782, equivalent to the amount of the Company’s losses recorded in the balance sheet prepared as of September 30, 2005, with no change in the number of capital shares, as TCP shares have no par value, in order to absorb losses in accordance with the terms of article 173 of Law No. 6,404/76.

The objective of the proposed reduction of capital is to make it possible to bring forward the payment of dividends to all the Company’s shareholders as soon as TCP starts recording profits, also bearing in mind the intended implementation of the corporate restructuring involving the Company, pursuant to the terms of the Material Fact dated December 4, 2005, justifying its approval. The value of the Company’s share capital prior to the merger foreseen in the protocol approved by the Board in a meeting held on December 4, 2005, and approved by the shareholders in the meeting held on February 22, 2006, is R\$3,522,370, and, consequently, the final share capital of TCP after the corporate restructuring is R\$6,153,507 comprising 1,426,412 shares, of which 509,226 are common shares and 917,186 are preferred shares, as published in the relevant fact and shown in the protocol.

On December 4, 2005, the Company’s Board of Directors approved the merger of the shares of TCO for its conversion into a wholly owned subsidiary of TCP and the merger of the companies Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. into TCP (“Corporate Restructuring”).

On January 11, 2006 the Managing Council of ANATEL approved the corporate restructuring of Vivo Group.

On February 22, 2006 the General Meeting approved the merger of Celular CRT Participações S.A. ("CRTPart"), Tele Sudeste Celular Participações S.A. ("TSD") and Tele Leste Celular Participações S.A. ("TLE") by the Company and the merger of the shares of TCO for its conversion into a wholly owned subsidiary of TCP, as previously proposed by the Board of Directors and communicated to the market through a relevant fact.

The shareholders of the companies will receive TCP shares for each share in accordance with the table below:

|   | Shares |
|---|--------|
| New TCP shares issued in substitution for each TCO share of the same type merged        | 3.0830 |
| New TCP shares issued in substitution for each TSD share of the same type cancelled     | 3.2879 |
| New TCP shares issued in substitution for each TLE share of the same type cancelled     | 3.8998 |
| New TCP shares issued in substitution for each CRTPart share of the same type cancelled | 7.0294 |

Since Tele Centro Oeste Celular Participações S.A. will become a wholly-owned subsidiary of TCP, its registration with the CVM, the São Paulo Stock Exchange (BOVESPA), the Securities and Exchange Commission - SEC and the NYSE will be cancelled. The changing of the Company's name to Vivo Participações S.A. was also approved.

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### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized,

Date: March 27, 2006

TELESP CELLULAR PARTICIPAÇÕES S.A.

By: */s/ Paulo Cesar Pereira*  
Teixeira

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**Paulo Cesar Pereira Teixeira**  
**Investor Relations Officer**

### FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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