TELESP CELLULAR HOLDING CO /ADR/
Form F-3/A
November 09, 2004

As filed with the Securities and Exchange Commission on November 9, 2004

Registration No. 333-119695

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1
to
Form F-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Telesp Celular Participações S.A.

(Exact name of Registrant as specified in its charter)

Telesp Cellular Holding Company

(Translation of the Registrant s name in English)

The Federative Republic of Brazil	**Not Applicable**
(Jurisdiction of incorporation)	*(I.R.S. Employer Identification No.)*

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

CT Corporation System

111 Eighth Avenue, 13th Floor
New York, NY 10011
(212) 894-8400
(Name, address and telephone number of agent for service)

Copies to:

S. Todd Crider, Esq.

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 (the Securities Act), please check the following box. o

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Preferred shares, no par value(3)	U.S.$222,696,711	U.S.$28,216
Preferred share rights and American depositary share rights(4)(5)	Not applicable	None

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Previously paid.

(3) Includes preferred shares that may be offered and sold in the United States, including preferred shares in the form of American Depositary Shares, each of which represents 2,500 preferred shares of the Registrant and which are evidenced by American Depositary Receipts. The American Depositary Shares have been registered under a separate registration statement on Form F-6 (Registration No. 33-100644).

(4) No separate consideration will be received for the preferred share rights or the American Depositary Share rights.

(5) The American Depositary Share rights will be evidenced by American Depositary Share rights certificates.

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

PROSPECTUS

Rights Offering of 267,266,107,676 Preferred Shares

in the form of preferred shares or American depositary shares

Telesp Celular Participações S.A.

(Telesp Cellular Holding Company)

In this rights offering, Telesp Celular Participações S.A., or TCP, is offering:

holders of its preferred shares preemptive rights to subscribe for new preferred shares; and

holders of American depositary shares, or ADSs, each representing 2,500 preferred shares of TCP, preemptive rights to subscribe for new ADSs.

Offering to holders of ADSs

We will grant 0.350558679 transferable ADS rights for every ADS you own of record on November 17, 2004. One ADS right will entitle you to purchase one new ADS at U.S.$4.63 per ADS, which is the ADS subscription price of R$12.50 per ADS, translated into U.S. dollars at the Federal Reserve Bank of New York s noon buying rate of R$2.8330 = U.S.$1.00 on November 8, 2004, plus an additional 5% for potential fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar, conversion expenses, ADS issuance fees of the depositary and financial transactions taxes in Brazil. Any excess in the amount paid by you will be returned to you without interest. You will also have the opportunity to purchase additional ADSs in the proportions described in this prospectus at the same price if not all of the preferred share rights and ADS rights are exercised. You will bear the risk of exchange rate fluctuations between the U.S. dollar and the Brazilian *real* relating to the exercise of your ADS rights. **Rights to subscribe for ADSs will expire at 5:00 p.m. (New York City time) on December 10, 2004.**

Offering to holders of preferred shares

We will grant 0.350558679 transferable preferred share rights for every preferred share you own of record on November 11, 2004. One preferred share right will entitle you to purchase one new preferred share at R$5.00 per thousand preferred shares. We will reoffer unsubscribed preferred shares and you will have the opportunity to purchase additional preferred shares in the proportions described in this prospectus at the same price if not all of the preferred share rights and ADS rights are exercised. **Rights to subscribe for preferred shares will expire at 6:00 p.m. (São Paulo time) on December 17, 2004.**

The ADSs trade on the New York Stock Exchange under the symbol TCP, and the preferred shares trade on the São Paulo Stock Exchange under the symbol TSPP4. The ADS rights are expected to trade on the New York Stock Exchange, and the preferred share rights are expected to trade on the São Paulo Stock Exchange. On November 5, 2004, the last reported sale price of the ADSs on the New York Stock Exchange was U.S.$6.50 per ADS, and the last reported sale price of the preferred shares on the São Paulo Stock Exchange was R$7.00 per 1,000 preferred shares.

See Risk Factors beginning on page 16 to read about factors you should consider before investing in the preferred shares or the ADSs.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is November 9, 2004.

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PRESENTATION OF FINANCIAL INFORMATION

The following financial statements are included in this prospectus:

- our audited consolidated financial statements as of December 31, 2002 and 2003 and for the three years in the period ended December 31, 2003, which are incorporated by reference into this prospectus;
- the audited combined financial statements of Globaltelcom Telecomunicações S.A., Daini do Brasil S.A. and GTPS S.A. Participações em Investimentos de Telecomunicações, which we refer to collectively as Global Telecom Holdings, as of December 31, 2001 and for the periods from February 6, 2001 to December 31, 2001 and from January 1, 2002 to December 27, 2002 which are incorporated by reference into this prospectus;
- the audited consolidated financial statements of Tele Centro Oeste Celular Participações S.A., or TCO, as of December 31, 2002 and 2003 and for the three years in the period ended December 31, 2003, which are incorporated by reference into this prospectus;
- our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included in this prospectus; and
- our unaudited condensed consolidated interim financial statements as of September 30, 2004 and for the nine-month periods ended September 30, 2003 and 2004, which are incorporated by reference into this prospectus.

We prepare our financial statements using accounting practices in accordance with Brazilian corporate law, standards applicable to holders of authorizations for the provision of Brazilian public telecommunication services and accounting standards and procedures established by the Brazilian Securities Commission *(Comissão de Valores Mobiliários)*, or CVM. We refer to these accounting practices in this prospectus as the Brazilian Corporate Law Method.

The Brazilian Corporate Law Method differs in significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 37 to our audited consolidated financial statements and note 18 to our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 describe the principal differences between Brazilian corporate law and U.S. GAAP as they relate to our company. Note 27 to the audited combined financial statements of Global Telecom Holdings describe these principal differences as they relate to Global Telecom Holdings. Note 36 to the TCO audited consolidated financial statements describes these principal differences as they relate to TCO.

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

This prospectus contains translations of various *real* amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the *real* amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated some Brazilian currency amounts solely for convenience of the reader using a rate of R$2.8586 to U.S.$1.00, the PTAX commercial selling rate of the Central Bank of Brazil *(Banco Central do Brasil)*, or the Central Bank, for U.S. dollars at September 30, 2004.

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

- statements concerning our operations and prospects;
- the size of the Brazilian telecommunications market;
- estimated demand forecasts;
- our ability to secure and maintain telecommunications infrastructure licenses, rights of way and other regulatory approvals;
- our strategic initiatives and plans for business growth;
- industry conditions;
- our funding needs and financing sources;
- network completion and product development schedules;
- expected characteristics of competing networks, products and services;
- quantitative and qualitative disclosures about market risks; and
- other statements of management s expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

Forward-looking statements may also be identified by words such as believe, expect, anticipate, project, intend, should, seek, est future or similar expressions. Forward-looking information involves risks and uncertainties that could significantly affect expected results. The risks and uncertainties include, but are not limited to:

- the cost and availability of financing;
- uncertainties relating to political and economic conditions in Brazil;
- inflation, interest rate and exchange risks;
- the Brazilian government s telecommunications policy; and
- the adverse determination of disputes under litigation.

We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this prospectus might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

SUMMARY

The following summary highlights selected information from this prospectus and the documents incorporated by reference and does not contain all the information that may be important to you. You should carefully read this entire prospectus and the documents incorporated by reference.

Our Company

We are a leading provider of cellular telecommunications services in Brazil through our subsidiaries Telesp Celular S.A., Global Telecom S.A. and Tele Centro Oeste Celular Participações S.A. We had consolidated net operating revenues of R$6,046.3 million in 2003 and R$3,557.9 million in the six-month period ended June 30, 2004. At June 30, 2004, we had 15.5 million customers.

Our subsidiary Telesp Celular S.A., or Telesp Celular, is the leading cellular operator, by number of customers, in the State of São Paulo and in Brazil, according to data published by the National Telecommunications Agency *(Agência Nacional de Telecomunicações)*, or Anatel. Telesp Celular provides services on the A band frequency in two authorization areas that together cover approximately 77% of the municipalities in the State of São Paulo and approximately 98% of the population in its authorization areas. These authorization areas are home to more than 38.3 million people, representing 21.9% of Brazil s population, estimated based on information published by the Brazilian Institute of Geography and Statistics *(Instituto Brasileiro de Geografia e Estatística)*, or IBGE, and Target 2002 Brasil em Foco. Telesp Celular s authorization areas include 63 municipalities with populations in excess of 100,000.

Telesp Celular had net operating revenues of R$3,993.2 million in 2003, R$3,415.0 million in 2002 and R$2,966.1 million in 2001. In the six-month period ended June 30, 2004, Telesp Celular had net operating revenues of R$2,145.0 million. At June 30, 2004, Telesp Celular had 8.5 million customers and a market share of approximately 60% in its authorization areas, estimated based on the total number of cellular lines in service in those areas as published by Anatel.

Global Telecom S.A., or Global Telecom, provides services on the B band frequency in the states of Paraná and Santa Catarina. These two states are home to approximately 15.3 million people, representing 8.8% of Brazil s population, estimated based on information published by the IBGE and Target 2002 Brasil em Foco. These states include 22 municipalities with populations in excess of 100,000 people.

Global Telecom had net operating revenues of R$669.0 million in 2003, R$512.2 million in 2002 and R$425.9 million in 2001. In the six-month period ended June 30, 2004, Global Telecom had net operating revenues of R$389.3 million. At June 30, 2004, Global Telecom had 2.1 million customers and a market share of approximately 44% in its authorization areas, estimated based on the total number of cellular lines in service in those areas as published by Anatel.

Tele Centro Oeste Celular Participações S.A., or TCO, is the leading cellular operator, by number of customers, in an authorization region known as Area 7, which covers the states of Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Rondonia and Tocantins and the Federal District of Brazil. TCO uses the A Band frequency in that region. TCO also provides services on the B band frequency in an authorization region known as Area 8, which covers the states of Amapá, Amazonas, Maranhão, Pará and Roraima, and it is the second cellular operator in that region. TCO s authorization regions are home to approximately 31.2 million people, representing 18% of Brazil s population, estimated based on information published by the IBGE and Target 2002 Brasil em Foco. These areas include 35 municipalities with populations in excess of 100,000. TCO operates in Area 7 directly and through its subsidiaries Telegoiás Celular S.A., Telemat Celular S.A., Telems Celular S.A., Teleron Celular S.A. and Teleacre Celular S.A. TCO operates in Area 8 through its subsidiary Norte Brasil Telecom, S.A.

TCO had consolidated net operating revenues of R$1,390.9 million in 2003, R$1,572.1 million in 2002 and R$1,256.1 million in 2001. We have consolidated the operating results of TCO as from May 1, 2003. In the six-month period ended June 30, 2004, TCO had consolidated net operating revenues of R$1,023.5 million. At June 30, 2004, TCO had 4.9 million customers (3.9 million in Area 7 and 1.0 million in Area 8) and a combined market share of approximately 55% in its two authorization areas (approximately 65.2% in Area 7 and approximately 34.3% in Area 8), estimated based on the total number of cellular lines in service in those areas as published by Anatel.

Telesp Celular has been our wholly owned subsidiary since we completed a corporate restructuring in January 2000. We acquired an 81.6% indirect economic interest in Global Telecom in February 2001, and Global Telecom became our wholly owned subsidiary on December 27, 2002. We acquired 61.1% of the total voting capital stock (including treasury shares) of TCO on April 25, 2003. We acquired additional shares of voting capital stock of TCO in a public tender offer, bringing the percentage of TCO s total voting capital stock (including treasury shares) we own to 86.2% and the percentage of TCO s total capital stock (including treasury shares) we own to 28.9% (and TCO holds an additional 4.5% of TCO s voting capital stock in treasury, representing 1.5% of TCO s total capital stock). On October 8, 2004, we purchased 84,252,534,000 preferred shares of TCO pursuant to a public tender offer through an auction on the São Paulo Stock Exchange *(Bolsa de Valores de São Paulo BOVESPA)*. After giving effect to this purchase, we own 32.8% of TCO s total preferred shares (including treasury shares) and 50.6% of TCO s total capital stock (and TCO holds an additional 4.5% of TCO s voting capital stock in treasury, representing 1.5% of TCO s total capital stock).

The following chart shows our simplified corporate structure as of October 8, 2004.

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(1) TCO also held treasury shares representing an additional 4.5% of its voting capital stock.

Our principal executive offices are located at Av. Roque Petroni Júnior, 1,464 Morumbi, 04707-000 São Paulo, SP, Brazil, and our telephone number is +55 11 5105-1207.

For more information about our company, please see our Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus, including the following sections of that report:

Item 4. Information on the Company ;

Item 5. Operating and Financial Review and Prospects ;

Item 7. Major Shareholders and Related Party Transactions ;

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

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Summary of the Rights Offering

We are offering up to 267,266,107,676 preferred shares, in the form of preferred shares or ADSs, in a preemptive rights offering to holders of our preferred shares and ADSs representing our preferred shares. We are concurrently offering our common shareholders preemptive rights to subscribe for new common shares. This prospectus relates to the preemptive rights offering to holders of our preferred shares and the ADSs.

Offering to Holders of ADSs

ADS rights offering	You will receive 0.350558679 ADS rights for every ADS you hold on the ADS record date. One ADS right will entitle you to purchase one new ADS. You will only receive a whole number of ADS rights. The ADS rights agent will aggregate and arrange for the sale of any fractional ADS rights (or the underlying preferred share rights) and will distribute the net proceeds, if any, of such sale to the ADS holders entitled to them.
Additional ADSs	If you are exercising ADS rights, you may subscribe for additional ADSs in excess of the number of ADSs that your ADS rights entitle you to purchase. You must indicate the number of additional ADSs for which you wish to subscribe and pay the estimated ADS subscription payment in U.S. dollars for these additional ADSs when you exercise your ADS rights in the initial ADS rights exercise period. Following the expiration of the initial preferred share rights exercise period, to the extent unsubscribed preferred shares are reoffered to the depositary in consecutive reoffering rounds, you will be allocated your pro rata portion of additional ADSs. If the number of additional ADSs available is not sufficient to satisfy your subscription in full, the estimated ADS subscription payment related to any additional ADSs not delivered will be returned to you without interest. We cannot guarantee that you will receive any of the additional ADSs for which you subscribe.
ADS rights certificates	ADS rights will be evidenced by ADS rights certificates. The Bank of New York, as ADS rights agent, will send to each record holder of ADSs a transferable ADS rights certificate indicating how many ADS rights the holder owns.
ADS record date	November 17, 2004.
ADS subscription price	R$12.50 per ADS, equivalent to the subscription price per 1,000 preferred shares adjusted to reflect the ratio of 2,500 preferred shares per ADS. You must pay the ADS subscription price in U.S. dollars. In order to exercise your ADS rights, you must pay to the ADS rights agent the estimated ADS subscription payment of U.S.$4.63 per ADS, which is the ADS subscription price of R$12.50 per ADS, translated into U.S. dollars at the Federal Reserve Bank of New York s noon buying rate of R$2.8330 = U.S.$1.00 on November 8, 2004, plus an additional 5%, which represents an allowance for potential fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar, conversion expenses, ADS issuance fees of the depositary of up to U.S.$0.05 per new ADS and financial transaction taxes in Brazil. When you exercise your ADS rights, you must also pay the

	ADS rights agent U.S.$4.63 per ADS for any additional ADSs that you wish to subscribe for should any unsubscribed preferred shares be reoffered to the depositary after the expiration of the initial preferred share rights exercise period. You will bear the risk of all exchange rate fluctuations relating to the exercise of ADS rights. If the amount of the estimated ADS subscription price you paid to the ADS rights agent is insufficient to pay the ADS subscription price in *reais* plus conversion expenses, ADS issuance fees and financial transaction taxes for ADSs you are subscribing for or are allocated, the ADS rights agent will pay the deficiency to the extent the deficiency does not exceed 20% of your payment. You will need to reimburse the ADS rights agent for the amount of any deficiency financed by the ADS rights agent prior to your receiving any new ADSs. If the amount of the ADS subscription payment in U.S. dollars you made to the ADS rights agent is more than the subscription price plus conversion expenses, ADS issuance fees and financial transaction taxes, the ADS rights agent will pay you the excess without interest.
ADS rights exercise period	From November 22, 2004 through 5:00 p.m. (New York City time) on December 10, 2004.
Procedure for exercising ADS rights	If you hold ADSs directly, you may exercise your ADS rights during the exercise period by delivering a properly completed ADS rights certificate and full payment of the estimated ADS subscription payment for the new ADSs to the ADS rights agent prior to 5:00 p.m. (New York City time) on December 10, 2004. If you hold ADSs through The Depository Trust Company, you may exercise your ADS rights by timely delivering to the ADS rights agent completed subscription instructions through DTC s PSOP Function on the agent subscriptions over PTS procedure accompanied by payment in full of the estimated ADS subscription price. If you are a beneficial owner of ADSs and wish to exercise your ADS rights, you should timely contact the securities intermediary through which you hold ADS rights to arrange for their exercise. We provide more details on how to exercise ADS rights under The Rights Offering Offering to ADS Holders Procedure for Exercising ADS Rights.
Guaranteed delivery procedures	If you wish to exercise your ADS rights but time will not permit you to deliver your ADS rights certificates to the ADS rights agent before the expiration of the ADS rights exercise period, you may still subscribe for new ADSs if you deliver the estimated ADS subscription price and a properly completed and signed notice of guaranteed delivery to the ADS rights agent before the expiration of the ADS rights exercise period. If you subscribe for new ADSs by means of a notice of guaranteed delivery and subsequently fail to timely deliver the required ADS certificates, you will be required to reimburse the

	ADS rights agent for any loss or expense incurred by reason of that failed guaranteed delivery, which may be deducted from the total estimated ADS subscription price you paid to the ADS rights agent before its return.
Exercise of ADS rights irrevocable	The exercise of ADS rights is irrevocable and may not be canceled or modified.
Unexercised rights	If you do not exercise your ADS rights within the ADS rights exercise period, they will expire and you will have no further rights.
Transferability	You may transfer all or any portion of your ADS rights. If you transfer or sell your ADS rights, you will have no further rights to purchase new ADSs in the ADS rights offering with respect to the ADS rights transferred or sold.
Listing	The ADSs are listed on the New York Stock Exchange under the symbol TCP. The ADS rights are expected to be listed on the New York Stock Exchange during the ADS rights trading period.
ADS rights trading period	From November 22, 2004 through December 9, 2004.
ADS rights agent	The Bank of New York.
Depositary	The Bank of New York.
Delivery of new ADRs	The Bank of New York will deliver new ADRs evidencing the new ADSs subscribed in the rights offering as soon as practicable on or after January 13, 2005, that is, after receipt of the underlying new preferred shares by the depositary s custodian on or about January 12, 2005. If shareholders subscribe for preferred shares in this rights offering and common shares in the concurrent common share rights offering representing a total of less than R$1.4 billion in capital stock, our board of directors must cancel the capital increase, unless it elects to offer to all parties that have subscribed for shares and ADSs an opportunity to withdraw their subscriptions and ratifies a partial capital increase corresponding to the lesser amount of capital stock subscribed for. If our board of directors cancels the capital increase, you would be refunded the ADS subscription price in U.S. dollars, without interest and net of conversion expenses and financial transaction taxes.
ADR issuance fee	Subscribing holders will be charged an ADS issuance fee of up to U.S.$0.05 per new ADS issued, payable to the depositary. The ADS rights agent will deduct the ADS issuance fee from the estimated ADS subscription payment in respect of each holder s subscription.
New ADSs	Your specific rights in the new ADSs and in the preferred shares underlying the new ADSs are set out in a deposit agreement among us, The Bank of New York, as depositary, and the owners and beneficial owners of ADRs. To understand the terms of the ADSs, you should read the deposit agreement, which is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

For additional information regarding the rights offering to holders of our ADSs, see The Rights Offering Offering to ADS Holders.

Offering to Holders of Preferred Shares

Preferred share rights offering	You will receive 0.350558679 preferred share rights for every preferred share you hold on the preferred share record date. One preferred share right will entitle you to purchase one new preferred share. You will only receive a whole number of preferred share rights.
Additional preferred shares	If you are exercising preferred share rights, you may indicate an interest in purchasing additional preferred shares in excess of the number of preferred shares that your preferred share rights entitle you to purchase. Following the expiration of the initial preferred share rights exercise period, we will reoffer any unsubscribed preferred shares in consecutive reoffering rounds to those holders that indicated an interest in purchasing additional preferred shares. You will then have an opportunity to purchase your pro rata portion of the additional preferred shares at the preferred share subscription price. If any preferred shares remain unsubscribed following two reoffering rounds, we may continue to conduct reoffering rounds, or we may offer any remaining preferred shares in a public auction at the São Paulo Stock Exchange in which persons other than our shareholders may participate. See The Rights Offering Offering to Holders of Preferred Shares Reoffering of Unsubscribed Preferred Shares.
Preferred share record date	November 11, 2004.
Preferred share subscription price	R$5.00 per 1,000 shares.
Preferred share rights exercise period	From November 18, 2004 through 6:00 p.m. (São Paulo time) on December 17, 2004.
Procedure for exercising preferred share rights	You may exercise your preferred share rights by delivering to your broker or custodian instructions and full payment of the preferred share subscription price for the new preferred shares being purchased.
Exercise of share rights irrevocable	The exercise of preferred share rights is irrevocable and may not be canceled or modified.
Unexercised rights	If you do not exercise your preferred share rights within the preferred share rights exercise period, they will expire and you will have no further rights.
Transferability	You may transfer all or any portion of your preferred share rights. If you transfer or sell your preferred share rights, you will have no further right to purchase new preferred shares in the preferred share rights offering with respect to the preferred share rights transferred or sold.
Listing	The preferred shares are listed on the São Paulo Stock Exchange under the symbol TSPP4. The preferred share rights are expected to be listed on the São Paulo Stock Exchange during the preferred share rights trading period set forth below.

Preferred share rights trading period	From November 18, 2004 through December 10, 2004.
Ratification or cancellation of the capital increase	On October 8, 2004, our board of directors authorized a capital increase through this rights offering and the concurrent common share rights offering in an aggregate amount of R$2,053,895,871.47. We will issue the new preferred shares subscribed in this rights offering following ratification of the capital increase by our board of directors at a meeting that is expected to be held on or about January 7, 2005. If shareholders subscribe for preferred shares in this rights offering and common shares in the concurrent common share rights offering representing a total of less than R$1.4 billion in capital stock, our board of directors must cancel the capital increase, unless it elects to offer to all parties that have subscribed for shares and ADSs an opportunity to withdraw their subscriptions and ratifies a partial capital increase corresponding to the lesser amount of capital stock subscribed for. See The Rights Offering Ratification or Cancellation of the Capital Increase.
Delivery of new shares	We expect to deliver the new preferred shares subscribed in this rights offering on or about January 12, 2005, except that if you hold preferred shares through Banco ABN Amro Real S.A., as custodian, any new preferred shares for which you subscribe will not be credited to your account until on or about January 14, 2005.
Concurrent common shares rights offering	Concurrently with this rights offering, we are offering holders of our common shares preemptive rights to subscribe for up to 143,513,066,618 new common shares. However, this prospectus relates to the rights offering to holders of preferred shares and ADSs.
Intention of controlling shareholder in the rights offerings	Brasilcel, N.V., or Brasilcel, and its wholly owned subsidiary Portelcom Participações S.A., or Portelcom, together own 93.7% of our common shares and 49.8% of our preferred shares. They have indicated that, depending on market conditions, they intend to subscribe fully for all of the common shares and preferred shares to which they are entitled in this rights offering and in the concurrent rights offering to holders of common shares. Brasilcel and Portelcom have also indicated that, depending on market conditions, they intend to subscribe for any remaining common shares and preferred shares to which they are entitled in the reoffering rounds of the rights offerings to holders of common shares and preferred shares and may purchase additional common shares and preferred shares in any public auction at the São Paulo Stock Exchange that may be held with respect to shares that remain unsubscribed after the reoffering rounds. Neither Brasilcel nor Portelcom is obligated to purchase any shares, and they may determine not to do so.

For additional information regarding the rights offering to holders of our preferred shares, see The Rights Offering Offering to Holders of Preferred Shares.

Timetable for the Rights Offering

Publication of notice to shareholders in Brazil	November 9, 2004
Preferred share record date date for determining holders of preferred shares receiving preferred share rights	November 11, 2004
When issued trading of ADS rights expected to commence on the New York Stock Exchange on or about	November 12, 2004
Trading of ADSs ex-ADS rights expected to begin on the New York Stock Exchange on or about	November 15, 2004
ADS record date date for determining holders of ADSs receiving ADS rights	November 17, 2004
Preferred share rights commencement date beginning of period during which preferred share rights holders can subscribe for new preferred shares	November 18, 2004
Trading of preferred share rights expected to begin on the São Paulo Stock Exchange	November 18, 2004
ADS rights certificates sent to ADS holders on or about	November 19, 2004
ADS rights commencement date beginning of period during which ADS rights holders can subscribe for new ADSs	November 22, 2004
Trading of ADS rights on a regular way basis expected to begin on the New York Stock Exchange	November 22, 2004
Trading of ADS rights ends on the New York Stock Exchange	December 9, 2004
Trading of preferred share rights ends on the São Paulo Stock Exchange	December 10, 2004
ADS rights expiration date end of period during which ADS rights holders can subscribe for new ADSs, 5:00 p.m. (New York City time)	December 10, 2004
End of guaranteed delivery period	December 15, 2004
Preferred share rights expiration date end of period during which preferred share rights holders can subscribe for new preferred shares, 6:00 p.m. (São Paulo time)	December 17, 2004
Announcement of preferred shares to be available in the first reoffering round	December 20, 2004
Commencement date of first reoffering round of unsubscribed preferred shares on or about	December 21, 2004
Deadline for preferred shareholders to subscribe for allocated preferred shares in the first reoffering round	December 23, 2004
Announcement of preferred shares to be available in the second reoffering round	December 24, 2004
Commencement date of second reoffering round of unsubscribed preferred shares on or about	December 27, 2004
Deadline for preferred shareholders to subscribe for allocated preferred shares in the second reoffering round	December 29, 2004
Completion of additional reoffering rounds or a public auction at the São Paulo Stock Exchange of remaining unsubscribed preferred shares, if necessary, on or about	January 4, 2005
Meeting of our board of directors to ratify the capital increase on or about	January 7, 2005
Trading of new preferred shares expected to begin on the São Paulo Stock Exchange on or about(1)	January 10, 2005
New preferred shares expected to be delivered on or about(1)	January 12, 2005
ADRs evidencing new ADSs expected to be delivered as soon as practicable after	January 13, 2005

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(1) If you hold preferred shares through Banco ABN Amro Real S.A., new preferred shares for which you subscribe will not be credited to your account until on or about January 14, 2005 and you will therefore not be able to deliver those shares to settle any trade until after that date.

For additional information regarding the rights offering and the procedures for exercising rights, contact our information agent, MacKenzie Partners, Inc.:

MacKenzie Partners, Inc.

105 Madison Avenue
New York, New York 10016
proxy@mackenziepartners.com
Call Collect: (212)929-5500
or
Toll-Free: (800)322-2885

Summary of Selected Historical and Pro Forma Financial Data

The following summary financial data has been derived from our financial statements and should be read in conjunction with those financial statements and the notes thereto. The data as of December 31, 2002 and 2003 and for the three years in the period ended December 31, 2003 have been derived from our audited consolidated financial statements as of December 31, 2002 and 2003 and for the three years in the period ended December 31, 2003, which are incorporated by reference into this prospectus. The data as of December 31, 2001 have been derived from audited consolidated financial statements of our company that are not included in this prospectus. The data as of June 30, 2003 and 2004 and for the six-month periods ended June 30, 2003 and 2004 have been derived from our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included in this prospectus.

The summary pro forma financial data as of and for the six-month period ended June 30, 2004 and for the year ended December 31, 2003 have been derived from our unaudited pro forma condensed financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included in this prospectus. See Unaudited Pro Forma Condensed Financial Information.

Our summary unaudited pro forma condensed financial information gives pro forma effect to our acquisition of control of TCO in April 2003 and our acquisition of additional shares of TCO through public tender offers in November 2003 and October 2004. The summary unaudited pro forma condensed statement of loss for the year ended December 31, 2003 gives pro forma effect to the acquisitions of TCO s shares as if they had occurred on January 1, 2003. The summary unaudited pro forma condensed statement of loss for the six-month period ended June 30, 2004 gives pro forma effect to the acquisition of additional shares of TCO through the public tender offer in October 2004 as if such acquisition had occurred on January 1, 2003. The unaudited pro forma condensed balance sheet as of June 30, 2004 gives effect to the acquisitions of TCO s shares as if they had occurred on that date.

We prepare our financial statements in accordance with the Brazilian Corporate Law Method, which differs in significant respects from U.S. GAAP. For an explanation of these differences as they relate to our company, see note 37 to our audited consolidated financial statements, which are incorporated by reference into this prospectus, and note 18 to our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included in this prospectus.

The comparability of our financial statements as of and for the years presented is limited because of the effects of the following transactions:

In February 2001 and December 2002, we completed a series of transactions to acquire 100% of the ownership interests in Global Telecom Holdings, which owned 100% of the ownership interests in Global Telecom. Until December 27, 2002, we accounted for Global Telecom by the equity method, and we included our initial 83.0% equity in its net results on our income statement as equity in losses of unconsolidated subsidiaries. Since December 27, 2002, we have consolidated 100% of the results of Global Telecom.

We acquired 61.1% of the total voting capital stock (including treasury shares) of TCO on April 25, 2003. We acquired additional shares of voting capital stock of TCO in a public tender offer in November 2003, bringing the percentage of TCO s total voting capital stock (including treasury shares) we own to 86.2% and the percentage of TCO s total capital stock (including treasury shares) we own to 28.9% (and TCO holds an additional 4.5% of TCO s voting capital stock in treasury, representing 1.5% of TCO s total capital stock). Since May 1, 2003, we have consolidated TCO s results due to our acquisition of control.

See Recent Developments and Results of Operations in this prospectus and Item 5. Operating and Financial Review and Prospects A. Operating Results in our Annual Report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference into this prospectus, for more information regarding the effects of these transactions on our results of operations.

Because we have publicly released unaudited condensed consolidated financial statements as of September 30, 2004 and for the nine-month periods ended September 30, 2003 and 2004 in Brazil, we have also included summary financial information for such periods in Recent Developments and Results of Operations Supplemental Information as of September 30, 2004 and for the Nine-Month Period Ended September 30, 2004.

	Historical			**Pro forma(2)**
	As of and for the Six-month Period Ended June 30,			**As of and for the Six-month Period Ended June 30,**
	2004	**2004**	**2003**	**2004**
	(R$ millions, except per share data)	**(U.S.$ millions, except per share data)(1)**	**(R$ millions, except per share data)**	**(R$ millions, except per share data)**
Income Statement Data:				
Brazilian corporate law				
Net operating revenue	3,557.9	1,244.6	2,439.3	3,557.9
Cost of services and goods sold	(1,561.0)	(546.1)	(1,276.7)	(1,561.0)
Gross profit	1,996.9	698.5	1,162.6	1,996.9
Operating expenses:				
Selling expenses	(812.3)	(284.2)	(518.0)	(812.3)
General and administrative expenses	(322.0)	(112.6)	(254.8)	(322.0)
Other net operating income (expenses)	(113.8)	(39.8)	12.7	(165.6)
Operating income before equity in losses of unconsolidated subsidiary and net financial expenses	748.8	261.9	402.5	697.0
Equity in losses of unconsolidated subsidiary				
Net financial expenses	(500.6)	(175.1)	(632.1)	(587.2)
Operating income (loss)	248.2	86.8	(229.6)	109.8
Net non-operating income (expenses)	0.7	0.2	(4.7)	0.7
Income (loss) before income taxes, minority interests and extraordinary item	248.9	87.0	(234.3)	110.5
Income taxes	(181.8)	(63.6)	(96.8)	(181.8)
Minority interests	(169.7)	(59.4)	(62.6)	(117.4)
Extraordinary item, net of taxes				
Net income (loss)	(102.6)	(36.0)	(393.7)	(188.7)
Net income (loss) per 1,000 shares	(0.09)	(0.03)	(0.34)	(0.16)
Dividends declared per thousand common shares (R$)(4)				
Dividends declared per thousand preferred shares (R$)(4)				
U.S. GAAP				
Net operating revenue	4,977.0	1,741.06	3,224.3	4,977.0
Operating income	220.6	77.2	391.4	228.9
Net income (loss)	(139.4)	(48.8)	50.9	(223.8)
	(0.12)	(0.04)	0.04	(0.19)

Basic and diluted net income (loss) per 1,000 shares common and preferred(5)				
Weighted average common shares outstanding (thousand)	409,383,864	409,383,864	409,383,864	409,383,864
Weighted average preferred shares outstanding (thousands)	762,400,488	762,400,488	762,400,488	762,400,488
Cash Flow Data:				
Brazilian corporate law				
Cash flows from operating activities	906.6	317.1	(114.9)	
Cash flows from investing activities	(448.5)	(156.9)	(331.5)	
Cash flows from financing activities	(517.4)	(181.0)	1,486.5	

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Historical				Pro forma(3)
	As of and for the Year Ended December 31,				As of and for the Year Ended December 31, 2003
	2003	2003	2002	2001	
	(R$ millions, except per share data)	(U.S.$ millions, except per share data)(1)	(R$ millions, except per share data)		(R$ millions, except per share data)
Income Statement Data:					
Brazilian corporate law					
Net operating revenue	6,046.3	2,115.1	3,415.0	2,966.1	6,599.1
Cost of services and goods sold	(3,020.5)	(1,056.6)	(1,739.4)	(1,724.2)	(3,264.3)
Gross profit	3,025.8	1,058.5	1,675.6	1,241.9	3,334.8
Operating expenses:					
Selling expenses	(1,264.9)	(442.5)	(526.9)	(537.3)	(1,346.4)
General and administrative expenses	(561.3)	(196.4)	(343.2)	(317.5)	(622.9)
Other net operating income (expenses)	(145.0)	(50.7)	(39.8)	(41.1)	(506.1)
Operating income before equity in losses of unconsolidated subsidiary and net financial expenses	1,054.6	368.9	765.7	346.0	859.4
Equity in losses of unconsolidated subsidiary			(890.7)	(653.6)	
Net financial expenses	(1,133.5)	(396.5)	(808.4)	(541.5)	(1,492.1)
Operating income (loss)	(78.9)	(27.6)	(933.4)	(849.1)	(632.7)
Net non-operating income (expenses)	(25.7)	(9.0)	10	(0.4)	(24.9)
Income (loss) before income taxes, minority interests and extraordinary item	(104.6)	(36.6)	(923.4)	(849.5)	(657.6)
Income taxes	(277.9)	(97.2)	(46.5)	14.7	(349.7)
Minority interests	(257.7)	(90.1)			(231.0)
Extraordinary item, net of taxes			(170.8)	(278.8)	
Net income (loss)	(640.2)	(223.9)	(1,140.7)	(1,113.6)	(1,238.3)

Net income (loss) per 1,000 shares	(0.55)	(0.19)	(0.97)	(2.43)	(1.06)
Dividends declared per thousand common shares (R$)(4)					
Dividends declared per thousand preferred shares (R$)(4)					
U.S. GAAP					
Net operating revenue	7,886.5	2,758.9	4,575.0	3,619.6	7,886.5
Operating income	1,000.8	350.1	328.8	198	1,156.8
Net income (loss)	(98.8)	(34.6)	(1,495.7)	(1,204.1)	(538.3)
Basic and diluted net income (loss) per 1,000 shares common and preferred(5)	(0.08)	(0.03)	(2.18)	(2.63)	(0.46)
Weighted average common shares outstanding (thousand)	409,383,864	409,383,864	240,033,927	160,138,996	409,383,864
Weighted average preferred shares outstanding (thousands)	762,400,488	762,400,488	447,018,065	298,228,776	762,400,488
Cash Flow Data:					
Brazilian corporate law					
Cash flows from operating activities	1,459.7	510.6	984.4	779.7	
Cash flows from investing activities	(1,643.3)	(574.9)	(3,820.5)	(1,767.7)	
Cash flows from financing activities	1,324.6	463.4	2,772.3	683.4	

(footnotes on following page)

	Historical		**Pro forma(2)**
	As of and for the Six-month Period Ended June 30,		**As of and for the Six-month Period Ended June 30,**
	2004	**2004**	**2004**
	(R$ millions, except per share data)	**(U.S.$ millions, except per share data)(1)**	**(R$ millions, except per share data)**
Balance Sheet Data:			
Brazilian corporate law			
Property, plant and equipment, net	5,204.6	1,820.7	5,204.6
Total assets	13,582.8	4,751.6	14,101.0
Loans and financing	6,355.3	2,223.2	7,256.8
Net assets	3,290.6	1,151.1	3,290.6
Capital stock	4,373.7	1,530.0	4,373.7
Number of thousands of shares as adjusted to reflect changes in capital	1,171,784,352	1,171,784,352	1,171,784,352
U.S. GAAP			
Property, plant and equipment, net	4,681.5	1,637.7	4,681.5
Total assets	14,967.0	5,235.8	15,489.3
Net assets	3,092.6	1,081.9	3,092.6
Capital stock	4,373.7	1,530.0	4,373.7
Number of thousands of shares as adjusted to reflect changes in capital	1,171,784,352	1,171,784,352	1,171,784,352

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Historical			
	As of and for the Year Ended December 31,			
	2003	**2003**	**2002**	**2001**
	(R$ millions, except per share data)	**(U.S.$ millions, except per share data)(1)**	**(R$ millions, except per share data)**	
Balance Sheet Data:				
Brazilian corporate law				
Property, plant and equipment, net	5,234.3	1,831.1	4,770.7	3,695.8
Total assets	13,473.3	4,713.3	9,654.4	6,872.2
Loans and financing	6,279.2	2,196.6	4,460.8	2,580.1
Net assets	3,393.4	1,187.1	4,010.0	2,742.6
Capital stock	4,373.7	1,530.0	4,373.7	1,873.3
Number of thousands of shares as adjusted to reflect changes in capital	1,171,784,352	1,171,784,352	1,171,784,352	458,367,772
U.S. GAAP				
Property, plant and equipment, net	4,738.3	1,657.6	2,794.5	2,978.0
Total assets	13,546.5	4,738.9	10,202.0	7,218.3
Net assets	3,232.0	1,130.6	3,307.3	2,430.9
Capital stock	4,373.7	1,530.0	4,373.7	1,873.3
	1,171,784,352	1,171,784,352	1,171,784,352	458,367,772

Number of thousands of shares as adjusted to reflect changes in capital

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(1) Translated for convenience only using the commercial selling rate for U.S. dollars as reported by the Central Bank on September 30, 2004: R$2.8586 = U.S.$1.00.

(2) The unaudited pro forma income statement data for the six-month period ended June 30, 2004 gives pro forma effect to our acquisition of additional preferred shares of TCO through a public tender offer in October 2004 as if that acquisition had occurred on January 1, 2003. The unaudited pro forma balance sheet data as of June 30, 2004 gives pro forma effect to our acquisition of additional preferred shares of TCO as if that acquisition had occurred on June 30, 2004. The unaudited pro forma financial data is derived from the unaudited pro forma condensed statement of loss for the six-month period ended June 30, 2004 and the unaudited pro forma balance sheet as of June 30, 2004 included elsewhere in this prospectus. This unaudited pro forma condensed financial information was prepared for illustrative purposes only, does not purport to represent what the actual results of operations of our company would have been if that acquisition had actually occurred on January 1, 2003 or what our financial position would have been if that acquisition had actually occurred on June 30, 2004, and does not necessarily indicate what our operating results or financial position will be in the future. See Unaudited Pro Forma Condensed Financial Information.

(3) The unaudited pro forma income statement data for the year ended December 31, 2003 gives pro forma effect to our acquisition of control of TCO in April 2003 and our acquisition of additional shares of TCO through public tender offers in November 2003 and October 2004 as if these acquisitions had occurred on January 1, 2003. The unaudited pro forma financial data is derived from the unaudited pro forma condensed statement of loss for the year ended December 31, 2003 included elsewhere in this prospectus, which unaudited pro forma condensed statement of loss was prepared for illustrative purposes only, does not purport to represent what the actual results of operations of our company would have been if the acquisitions had actually occurred on January 1, 2003 and does not necessarily indicate what our operating results will be in the future. See Unaudited Pro Forma Condensed Financial Information.

(4) Interest on shareholders equity is included as part of dividends and is presented net of taxes.

(5) As a result of a corporate restructuring completed in January 2000, we are obligated to issue shares to our controlling shareholder representing capital stock equivalent to a tax benefit realized due to the amortization of an intangible asset related to a concession that was transferred to our company by our controlling shareholder in the corporate restructuring. The number of issuable shares is determined on the basis of estimates using our share price at the date of the balance sheet. The potentially dilutive shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from

the computation for the three years in the period ended December 31, 2003 and the six-month period ended June 30, 2004, as their effect would have been anti-dilutive.

Operating Data

The following table sets forth selected data on the size and usage of our network.

	As of and for the Six-Month Period Ended June 30,	As of and for the Year Ended December 31,		
	2004	2003	2002(1)	2001(1)
Customers at period end (thousands)	15,530	13,298	7,238	5,966
Contract subscribers	2,756	2,705	1,679	1,692
Prepaid customers	12,774	10,593	5,559	4,274
Digital	15,432	13,179	7,090	5,626
Analog	98	119	148	340
Growth in customers during preceding 12 months (thousands)	2,231	6,061	1,271	1,201
Estimated population of our region (millions)(2)	NA	86.4	53.6	52.8
Estimated covered population of our region (millions)(3)	NA	74.5	48.2	47.3
Percentage of population covered(4)	NA	86.2 %	89.9 %	89.6 %
Penetration(5)	NA	26.7 %	22.2 %	NA
Average monthly revenues per user *(reais)*(6)	33.77	41.50	43.94	60.67
Estimated market share(7)	55.8 %	57.6 %	60.7 %	57.8 %

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(1) Amounts reflect full consolidation of Global Telecom as from December 27, 2002 and of TCO as from April 25, 2003.

(2) Based on estimates of the Brazilian Institute of Geography and Statistics *(Instituto Brasileiro de Geografia e Estatística IBGE).*

(3) Number of people within our region that can access our cellular telephone signal.

(4) Percentage of the population of our region that can access our cellular telephone signal.

(5) Number of our cellular lines in service divided by the population of our region.

(6) Average monthly revenues per user excludes taxes and revenues from cellular telephone sales and is calculated using the sum of the average customer base for the months in the period.

(7) Estimated based on the total number of cellular lines in service in our region as published by Anatel.

RISK FACTORS

Risks Relating to the Brazilian Telecommunications Industry and our Company

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

Our business is subject to extensive government regulation, including any changes that may occur during the period of our authorization to provide telecommunications services. Anatel, which is the main telecommunications industry regulator in Brazil, regulates, among other things:

- industry policies and regulations;
- licensing;
- prices;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;
- interconnection and settlement arrangements; and
- universal service obligations.

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

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

In 2002, Anatel changed the Personal Mobile Service *(Serviço Móvel Pessoal)*, or SMP, regime (first enacted in December 2000), encouraging companies operating under the Mobile Cellular Service *(Serviço Móvel Celular)*, or SMC, regime to migrate to the SMP regime. Under the SMP regime, we no longer receive payment from our customers for outbound long distance traffic but receive payment for the use of our network in accordance with a network usage remuneration plan. However, the interconnection fees that we receive from long distance operators may not compensate us for the revenues that we would have received from our customers for outbound long distance traffic.

Until June 30, 2004, SMP service providers were able to opt to establish a price cap or freely negotiate their interconnection charges. Now, free negotiation is the rule, subject to Anatel regulations relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties.

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

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

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

The Brazilian government currently uses the General Price Index, or the IGP-DI (the *Índice Geral de Preços Disponibilidade Interna*), an inflation index developed by the Fundação Getúlio Vargas, a private Brazilian economic organization, in connection with the prices charged in the telecommunications industry. The government may replace that index with another index that has not yet been identified. Any new index might not adequately reflect the true effect of inflation on our prices.

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

Anatel has proposed new regulations on interconnection rules, some of which could have an adverse effect on our results. The public consultation period on Anatel s proposal ended on October 18, 2004, but final regulations have not been promulgated. The proposals that may adversely affect our results are (1) a proposal that two SMP providers controlled by the same economic group receive only one interconnection charge (VU-M) for calls originated and terminated in their networks rather than the current two VU-Ms, (2) a proposal for new negotiation rules for VU-M prices in which Anatel would have a rule in determining prices rather than the current free negotiation of prices and (3) a proposal for VU-M price unification among SMP providers of the same economic group having significant market power according to a criteria still to be defined. If these regulations take effect, they would have an adverse effect on our results of operations because (1) our interconnection charges would drop significantly, thereby reducing our revenues, (2) Anatel may allow more favorable prices for economic groups without significant market power and (3) the prices we charge in some regions in which we operate are higher than those in some other regions, and consolidation of those prices, competitive pressures and other factors would reduce our average prices and thereby reduce our revenues.

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

There is substantial competition in the telecommunications industry. We not only compete with companies that provide SMP service and trunking but also with companies that provide fixed-line telecommunications and Internet access services, due to the trend towards the convergence and substitution of SMP services for these other services.

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

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

In September 2004, Brasil Telecom, the fixed-line incumbent in nine states in Brazil and the Federal District (Anatel s Region II), launched GSM operations in those states. Brasil Telecom s authorization area overlaps with TCO s in the Brazilian Federal District and in the states of Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Rondônia and Tocantins and overlaps with all of Global Telecom s authorization area (the states of Paraná and Santa Catarina). The entrance of Brasil Telecom into these markets will increase the competition that Global Telecom and TCO face in some states. Brasil Telecom has announced that its marketing strategy will be the convergence between its fixed and mobile services, and it is the only company in those states that offers both fixed and cellular services. The entrance of Brasil Telecom into the cellular markets in these states will increase competition for Global Telecom and TCO and could have a material adverse effect on our results of operations.

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

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

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

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

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

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

PT Móveis S.G.P.S., S.A. and Telefónica Móviles, S.A., our principal shareholders, currently own through Brasilcel, directly and indirectly, approximately 93.7% of our common shares and 65.1% of our total capital. PT Móveis is a wholly owned subsidiary of Portugal Telecom S.G.P.S., S.A., or Portugal Telecom. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders in the Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus. Our principal shareholders have the power to control us and our subsidiaries, including the power to elect the majority of our directors and officers and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations and the timing and payment of our dividends. In addition, as Portugal Telecom and Telefónica Móviles share their participation in us equally, any disagreement or dispute between them may have an impact on the decision-making capabilities of our management.

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

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

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

Our investment in Global Telecom presents operational and financial risks. Global Telecom started operations in 1999, and its principal competitor in its authorization area has been in operation for a longer period of time and has a larger market share in that area. Global Telecom has had substantial net losses (R$856.1 million in 2001, R$771.1 million in 2002, R$436.0 million in 2003 and R$150.8 million in the nine-month period ended September 30, 2004) resulting in significant part from indebtedness and increased expenses in connection with the rapid expansion of its network infrastructure and upgrading its marketing and commercial capabilities.

In 2003, our financial results were adversely affected by the R$436.0 million of losses of Global Telecom and by the expenses arising from our indebtedness we incurred to finance our acquisition of Global Telecom, which resulted in a net loss for our company of R$640.2 million in 2003, compared to net losses of R$1,140.7 million in 2002 and R$1,113.6 million in 2001. On December 27, 2002, we acquired the remaining shares of Global Telecom and now fully consolidate it in our consolidated financial statements.

We expect our investment in Global Telecom to continue to have a material effect on our financial condition and results of operations, in part due to the indebtedness we incurred to make that investment.

We face risks associated with litigation.

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

These lawsuits include actions seeking payment by TCO s subsidiary Telegoiás in the amount of R$40.6 million as of September 30, 2004 and by TCO s former subsidiary Telebrasília (since it merged into TCO) in the amount of R$68.7 million as of September 30, 2004, plus adjustment for exchange variations in each case, on Telebras loans assigned to those companies in connection with the privatization of the Telebras system. The Court of Appeals of the Federal District rendered decisions unfavorable to TCO in these actions, and TCO has appealed this decision. Several other lawsuits involving regulatory, intellectual property, tax and other matters are described in Item 8.A. Consolidated Statements and Other Financial Information Legal Matters of our Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus.

Risks Relating to Our Preferred Shares and Our ADSs

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

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

Our bylaws state that holders of preferred shares will have full voting rights in the event that we do not pay minimum dividends to those shareholders for three consecutive fiscal years, and those shareholders will retain those voting rights until the minimum dividends are paid. Because we did not pay minimum dividends for the years ended December 31, 2001, 2002 and 2003, the holders of preferred shares have been able to exercise voting rights since the general shareholders meeting held in March 2004 and will continue to exercise voting rights until we again pay minimum dividends. However, once we again pay minimum dividends, those voting rights will cease.

In addition, our ADS holders are not entitled to attend shareholders meetings. They are entitled to instruct the depositary as to how to vote the preferred shares represented by their ADSs, in accordance with procedures provided for in the deposit agreement, but they are not able to vote their shares directly at a shareholders meeting or to appoint a proxy to do so, unless they surrender their ADRs, withdraw the shares in accordance with the terms of the deposit agreement and become registered shareholders by the applicable record date.

If you do not exercise all of your rights in this rights offering, you will suffer significant dilution of your percentage ownership of our preferred shares and American depositary shares.

To the extent that you do not exercise your rights to subscribe for new preferred shares and ADSs, your proportionate ownership in our company will be reduced accordingly, and the percentage that your original preferred shares or ADSs represents of our increased capital stock after exercise of the rights will be disproportionately reduced.

ADS holders may not be entitled to participate in future preemptive rights offerings, and, consequently, their equity interests in our company could be diluted.

We cannot assure you that we will file a registration statement with the Securities and Exchange Commission, or SEC, to allow holders of ADSs or shares in the United States to participate in any future preemptive rights offering. As a result, the equity interest of such holders in our capital stock would be diluted in relation to shareholders who participate in Brazil.

Under Brazilian law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in our capital stock. Rights to purchase shares in these circumstances are known as preemptive rights. In any future capital increase we may not legally be permitted to allow holders of ADSs or shares in the United States to exercise any preemptive rights unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended, or the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether we will file such a registration statement.

An exchange of ADSs for preferred shares risks loss of certain foreign currency remittance and Brazilian tax advantages.

The ADSs benefit from the certificate of foreign capital registration, which permits The Bank of New York, as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain their own certificate of foreign capital registration, or unless they qualify under Resolution 2,689/00 of the Brazilian National Monetary Council *(Conselho Monetário Nacional)*, known as Resolution 2,689, and CVM Instruction 325/00 or under Law No. 4,131/62 (which is used by some direct investors who do not wish to trade their shares publicly). See Item 10.D. Exchange Controls and Item 10.E. Registered Capital of the Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus.

If a former holder of ADSs is not registered under Resolution 2,689, it may be subject to less favorable tax treatment. See Taxation Material Brazilian Tax Consequences.

Holders of ADSs may be subject to Brazilian income tax on gains from dispositions of ADSs.

Brazilian Law No. 10,833, dated December 29, 2003, provides that gains on the disposition of assets located in Brazil by non-residents of Brazil, whether to other non-residents or to Brazilian residents, will be subject to Brazilian taxation. The preferred shares and the preferred share rights are expected to be treated as assets located in Brazil for purposes of the law, and gains on the disposition of preferred shares or preferred shares rights, even by non-residents of Brazil, are expected to be subject to Brazilian taxation. In addition, the ADSs and the ADS rights may be treated as assets located in Brazil for purposes of the law, and therefore gains on the disposition of ADSs or ADS rights by non-residents of Brazil may also be subject to Brazilian taxation. Although the ADSs and the ADS rights should not fall within the definition of assets located in Brazil for purposes of the law, it is not possible to predict whether that understanding will ultimately prevail in the courts of Brazil, given the general and unclear scope of Law No. 10,833 and the absence of judicial court rulings in respect thereto.

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. These features may substantially limit the ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The São Paulo Stock Exchange had a market capitalization of approximately U.S.$277 billion as of September 30, 2004 and an average monthly trading volume of approximately U.S.$6.9 billion from January 2004 to September 2004. In comparison, the NYSE had a market capitalization of approximately U.S.$17.8 trillion as of September 30, 2004 and an average monthly trading volume of approximately U.S.$942 billion from January 2004 through September 2004.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 48.1% of the aggregate market capitalization of the São Paulo Stock Exchange as of September 30, 2004. The top ten stocks in terms of trading volume accounted for approximately 51.6% of all shares traded on the São Paulo Stock Exchange in September 2004.

ADS holders will be subject to exchange rate and other risks if they participate in this rights offering.

The ADS subscription price has been set at R$12.50 per ADS but must be paid by ADS holders to the ADS rights agent in U.S. dollars. The U.S. dollar payment of U.S.$4.63 per ADS is the U.S. dollar equivalent of the ADS subscription price of R$12.50 per ADS, translated into U.S. dollars at the Federal Reserve Bank of New York s noon buying rate of R$2.8330 = U.S.$1.00 on November 8, 2004, plus an additional 5% to provide for potential fluctuations in the exchange rate between the *real* and the U.S. dollar, conversion expenses, ADS issuance fees of the depositary and financial transaction taxes in Brazil.

The ADS rights agent will make the conversion from U.S. dollars into *reais* at any commercially reasonably rate in order to pay the subscription price for the preferred share rights underlying the ADS rights. If there is a deficiency in U.S. dollars because the U.S. dollar to *real* exchange rate at the time of actual conversion is lower than it was at the time of subscription, then the holder will have to pay the amount of any deficiency, including expenses, and will not receive any new ADSs subscribed for until this deficiency is paid.

An ADS holder must subscribe for any additional ADSs that it wishes to purchase, as a result of an under-subscription of the preferred shares underlying the ADSs in this rights offering, when it subscribes for the ADSs to which its rights entitle it during the initial ADS rights exercise period. The ADS holder must also pay the subscription price for these additional ADSs during the initial ADS rights exercise period. The holder will not know at this time whether any additional ADSs will be available to purchase after the expiration of the initial ADS rights exercise period, and we cannot guarantee that ADS holders will receive any of the additional ADSs for which they subscribe. The U.S. dollar amount that ADS holders pay for these additional ADSs will only be converted into *reais* after any reoffering round, to the extent preferred shares underlying the ADSs are reoffered to the depositary. Therefore, the U.S. dollar amount that ADS holders pay for additional ADSs will be exposed to the risk of exchange rate fluctuations for a longer period of time than the U.S. dollar amount that those holders pay for the ADSs to which their rights entitle them to purchase in the initial ADS rights exercise period.

In the event that we cancel this rights offering, ADS holders will be refunded the subscription amount in U.S. dollars, without interest and net of conversion expenses and any financial transaction taxes. In order to refund the subscription amount to ADS holders in U.S. dollars, the ADS rights agent will have to convert the subscription amount each ADS holder paid in U.S. dollars from *reais* back into U.S. dollars. Consequently, ADS holders would be subject to a significant exchange rate risk in connection with the refund of the subscription amount paid by them. In addition, financial transaction taxes may be assessed both upon the conversion of U.S. dollars into *reais* and again upon the reconversion of the subscription amount back into U.S. dollars.

If we do not proceed with this rights offering, trades in the rights that took place prior to cancellation would not be unwound and investors that purchased rights in the market could suffer a corresponding loss.

If you subscribe for new ADSs or preferred shares, you will not receive those securities until January 2005, and there may not be a liquid market for those securities prior to that time.

No ADSs or preferred shares will be delivered until after our board of directors ratifies the capital increase that will take place through this rights offering and the concurrent common share rights offering. Our board of directors is not expected to meet until on or about January 7, 2005, after all the reoffering rounds of this rights offering have been completed. You will not receive any new ADSs for which you subscribe until on or after January 13, 2005, and you will not receive any new preferred shares for which you subscribe until on or about January 12, 2005 (or on or about January 14, 2005 if you hold preferred shares through Banco ABN Amro Real S.A.). If you subscribe for new ADSs, from the time that you subscribe for those new ADSs until those ADSs are delivered, you will likely be able to trade those new ADSs on a when issued basis only if an over-the-counter market for the when issued ADSs develops. Such a market may not develop or may not be liquid. If you subscribe for new preferred shares, from the time you subscribe for those new preferred shares until those preferred shares are delivered, a market in the subscription bulletins (*boletins de subscrição*) through which holders of preferred shares subscribe for new preferred shares may develop, but such a market may not develop or may not be liquid.

Risks Relating to Brazil

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

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

fluctuations in exchange rates;

inflation;

exchange control policies;

gross domestic product growth;

social instability;

liquidity of domestic capital and lending markets;

price instability;

energy shortages;

interest rates;

tax policies; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Luiz Inácio Lula da Silva of the Workers Party took office as President of Brazil on January 1, 2003. In the period leading up to and following the October 2002 presidential election, there was substantial uncertainty regarding the policies that the new government would pursue. This uncertainty resulted in a loss of confidence in the Brazilian capital markets and a 34.3% devaluation of the *real* against the U.S. dollar between January 1, 2002 and December 31, 2002. While the Brazilian government has adopted economic measures that are more conservative than expected by some observers, the Brazilian government may change these policies in a manner that slows the growth of the Brazilian economy, reducing demand for cellular telecommunications services and, consequently, impairing our net operating revenues and overall financial performance. Any negative effect on our overall financial performance would also likely lead to a decrease in the market price of our preferred shares and the ADSs.

Tax reforms may affect our prices.

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

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

Brazil has historically experienced extremely high rates of inflation. Inflation and some of the Brazilian government s measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy. Since 1994, Brazil s inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. The inflation rate, as measured by the IGP-DI index, was 7.7% in 2003, 26.4% in 2002 and 10.4% in 2001. Inflation in the nine-month period ended September 30, 2004 was 10.1%. If Brazil experiences significant inflation, we may be unable to increase service rates to our customers in amounts that are sufficient to cover our increasing operating costs, and our business may be adversely affected.

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

The Brazilian currency has historically experienced frequent devaluations. The *real* devalued against the U.S. dollar by 18.7% in 2001. During 2002, the *real* continued to undergo significant devaluation due in part to the political uncertainty in connection with the elections and the global economic slowdown. In 2002, the *real* devalued against the U.S. dollar by 52.3%. In 2003, the Brazilian economy showed inflation stabilization and the dissipation of uncertainty about the Brazilian government s economic team, which resulted in an appreciation of the *real* by 18.2%. In the first nine months of 2004, the *real* first devalued and then appreciated against the U.S. dollar for a net appreciation during the period of 1.0%.

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

As of September 30, 2004, we had R$6,636.4 million in consolidated total debt, of which 81.3% was denominated in foreign currencies, primarily the U.S. dollar and the euro. Also, significant costs relating to our network infrastructure are payable or linked to payment by us in U.S. dollars. At the same time, while our foreign currency debt obligations were covered by derivative contracts as of September 30, 2004 and we may derive income from these and other derivative transactions, all of our operating revenues are generated in *reais*. To the extent that the value of the *real* decreases relative to the U.S. dollar, our debt becomes more expensive to service and it becomes more costly for us to import the technology and the goods that are necessary to operate our business.

In addition, devaluations of the *real* would reduce the U.S. dollar value of distributions and dividends on preferred shares and the ADSs and may also reduce the market value of the preferred shares and the ADSs.

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

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

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

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

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil. Any return to economic turmoil in Argentina or adverse economic developments in other emerging markets may adversely affect investor confidence in securities issued by Brazilian companies, including our preferred shares and ADSs representing our preferred shares, causing the market price and liquidity of those securities to suffer.

USE OF PROCEEDS

Assuming that this rights offering and the concurrent offering of common share rights to our common shareholders are fully subscribed, our aggregate net proceeds from the sale of the new ADSs, preferred shares and common shares will be approximately R$2.0 billion. We intend to use the aggregate net proceeds for the following general purposes:

to repay indebtedness of our company in the aggregate amount of approximately R$700 million owed to Banco ABN Amro Real S.A. under bridge financing we incurred to finance our purchase on October 8, 2004 of 84,252,534,000 preferred shares of TCO, representing 32.8% of TCO s total preferred shares, in a public tender offer. The bridge loan we obtained from Banco ABN Amro Real S.A. is denominated in foreign currency but is fully backed by a swap that converts our principal obligation into *reais* and bears interest at a rate of 104.3% of the CDI *(Certificado Depositário Interbancário)* rate, a Brazilian interbank rate. The loan matures in January 2005, with the ability of our company to extend the maturity date for further periods of 30 days until April 2005; and

to repay approximately R$1,300 million of our other short-term indebtedness, which totaled R$4,520.2 million as of September 30, 2004. A substantial portion of this short-term indebtedness consists of a loan in the amount of 416.05 million from Portugal Telecom Internacional Finance B.V., an affiliate of Portugal Telecom, which matures in November 2004 and bears interest at the EURIBOR rate plus 7.0% per annum. We intend to refinance this loan through an issuance in Brazil of commercial paper, and we may use a portion of the net proceeds of the rights offerings to repay a portion of that refinancing indebtedness.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2004:

on an actual historical basis;

as adjusted to reflect additional short-term indebtedness that we incurred in connection with our purchase of 84,252,534,000 preferred shares of TCO in a public tender offer; and

as further adjusted to reflect the completion of this rights offering and the concurrent common share rights offering, assuming all of the preferred shares (including preferred shares offered in the form of ADSs) and the common shares are subscribed and issued, and the application of the proceeds thereof.

We have prepared the capitalization table using the accounting principles prescribed by the Brazilian Corporate Law Method. You should read this table together with our financial statements included in this prospectus.

	As of September 30, 2004 (Unaudited)					
	Actual		As Adjusted for the Purchase of 84,252,534,000 Preferred Shares of TCO		As Adjusted for the Rights Offering	
	(R$ millions)	(millions of U.S.$)(1)	(millions of *reais*)	(millions of U.S.$)(1)	(R$ millions)	(millions of U.S.$)(1)
Short-term debt (including current portion of long-term debt):						
Secured	253.9	88.8	253.9	88.8	253.9	88.8
Unsecured	4,266.3	1,492.5	5,167.8	1,807.8	3,167.8	1,108.2
Total short-term debt(2)	4,520.2	1,581.3	5,421.7	1,896.6	3,421.7	1,197.0
Long-term debt:						
Secured	363.5	127.1	363.5	127.1	363.5	127.1
Unsecured	1,752.8	613.2	1,752.8	613.2	1,752.8	613.2
Total long-term debt(3)	2,116.3	740.3	2,116.3	740.3	2,116.3	740.3
Shareholders equity	3,137.7	1,097.7	3,137.7	1,097.7	5,137.7	1,797.3
Total capitalization (total long-term debt (excluding current portion) plus shareholders equity)	5,254.0	1,838.0	5,254.0	1,838.0	7,254.0	2,537.6

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(1) U.S. dollar amounts are translated from the *real* amounts, solely for the convenience of the reader, at an exchange rate of R$2.8586 per U.S. dollar, the commercial selling rate reported by the Central Bank as of September 30, 2004.

(2) Of our total short-term debt, R$1,521.5 million is guaranteed by our subsidiaries or other affiliates.

(3) Of our total long-term debt, R$856.1 million is guaranteed by our subsidiaries or other affiliates.

DILUTION

As of September 30, 2004, our net tangible book value in accordance with the Brazilian Corporate Law Method was R$216,752,000, or R$0.19 per 1,000 shares and R$0.46 per ADS (U.S.$0.06 per 1,000 shares and U.S.$0.16 per ADS at the commercial selling rate as reported by the Central Bank on September 30, 2004). Net tangible book value per 1,000 shares represents the amount of our total tangible assets (total assets less intangible assets) reduced by the amount of total liabilities, divided by 1,171,784,352,509 common and preferred shares outstanding as of September 30, 2004. Assuming full exercise of the rights and the ADS rights in this rights offering and of the rights in the concurrent common share rights offering, net tangible book value would be R$1.39 per 1,000 shares and R$3.48 per ADS (U.S.$0.49 per 1,000 shares and U.S.$1.22 per ADS at the commercial selling rate as reported by the Central Bank on September 30, 2004). Dilution, for this purpose, represents the difference between the price per 1,000 shares or per ADS paid by purchasers in this rights offering and pro forma net tangible book value per 1,000 shares or per ADS, as the case may be, as of September 30, 2004. The following table illustrates the per 1,000 share and per ADS dilution as of September 30, 2004:

	Per ADS		Per 1,000 shares	
	(R$)	**(U.S.$)(1)**	**(R$)**	**(U.S.$)(1)**
Offering price	12.50	4.41	5.00	1.75
Net tangible book value before the rights offering	0.46	0.16	0.19	0.06
Increase in net tangible book value per ADS or per 1,000 shares attributable to the offering	3.02	1.06	1.21	0.42
Pro forma net tangible book value per ADS or per 1,000 shares after giving effect to the offering	3.48	1.22	1.39	0.49
Dilution to purchasers per ADS or per 1,000 shares	9.02	3.19	3.61	1.26

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(1) U.S. dollar figures in the table are translated for convenience only using the commercial selling rate for U.S. dollars as reported by the Central Bank on September 30, 2004 of R$2.8586 = U.S.$1.00, except that (1) the offering price per ADS of U.S.$4.41 per ADS represents the conversion of the offering price of R$12.50 per ADS into U.S. dollars at the Federal Reserve Bank of New York s noon buying rate on November 8, 2004 of R$2.8330 = U.S.$1.00 because that was the rate used to calculate the offering price per ADS in U.S. dollars pursuant to the terms of the rights offering and (2) the dilution to purchasers per ADS in U.S. dollars is the arithmetic difference between the offering price and the pro forma net tangible book value per ADS and not a convenience translation of the dilution to purchasers per ADS in *reais*.

Existing holders of our preferred shares and the ADSs who do not exercise their preferred share and ADS rights, respectively, in this rights offering will have their ownership interests diluted such that a holder of our preferred shares or the ADSs who held one percent of our capital stock before this rights offering will be reduced to holding 0.74% after the issuance of new preferred shares, including preferred shares underlying ADSs, in this rights offering and common shares in the concurrent common share rights offering.

EXCHANGE RATES

There are two legal foreign exchange markets in Brazil:

the commercial rate exchange market; and

the floating rate exchange market.

Most trade and financial foreign-exchange transactions are carried out on the commercial rate exchange market. These transactions include the purchase or sale of shares and payment of dividends or interest with respect to shares. Foreign currencies may only be purchased through a Brazilian bank authorized to operate in these markets. In both markets, rates are freely negotiated but may be influenced by Central Bank intervention. In 1999, the Central Bank placed the commercial exchange rate and the floating rate exchange market under identical operational limits, which led to a convergence in the pricing and liquidity of both markets. Since February 1, 1999, the floating market rate has been the same as the commercial market rate, and the system relying on the foreign exchange rate band has been eliminated. However, there is no guarantee that these rates will continue to be the same in the future. Despite the convergence in pricing and liquidity of both markets, each market continues to be regulated separately.

Since 1999, the Central Bank has allowed the *real*/ U.S. dollar exchange rate to float freely, and during that period, the *real*/ U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate substantially in the future. The commercial selling rate for U.S. dollars as reported by the Central Bank on November 5, 2004, was R$2.8186=U.S.$1.00.

The following tables set forth the commercial selling rate, expressed in *reais* per U.S. dollar (R$/U.S.$) for the periods indicated.

	Exchange Rate of R$ per U.S.$			
Year	**Low**	**High**	**Average(1)**	**Year-End**
1999	1.2078	2.1647	1.8150	1.7890
2000	1.7234	1.9847	1.8295	1.9554
2001	1.9357	2.8007	2.3522	2.3204
2002	2.2709	3.9552	2.9309	3.5333
2003	2.8219	3.6623	3.0715	2.8892
2004 (through September 30, 2004)	2.8022	3.2051	2.9738	2.8586

Source: U.S. dollar selling rate as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800 Option 5.

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

	Exchange Rate of R$ per U.S.$	
Month	**Low**	**High**
May 2004	2.9569	3.2051
June 2004	3.1030	3.1651
July 2004	2.9939	3.0747
August 2004	2.9338	3.0637
September 2004	2.8586	2.9361
October 2004	2.8241	2.8847

Source: U.S. dollar selling rate as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800 Option 5.

MARKET INFORMATION

Historical Share Information

Our preferred shares are currently listed on the São Paulo Stock Exchange under the ticker symbol TSPP4. Our preferred shares began trading on the São Paulo Stock Exchange on September 21, 1998. ADSs representing our preferred shares are listed on the NYSE under the ticker symbol TCP. Each of the ADSs represents 2,500 preferred shares of our company. The Bank of New York is our depositary and issues the ADRs evidencing those ADSs. The ADSs commenced trading on the NYSE on November 16, 1998.

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

	1,000 Preferred Shares		**ADSs**	
	Low	**High**	**Low**	**High**
1998				
Annual(1)	6.80	14.50	16.94	30.44
1999				
Annual	6.70	32.00	13.88	44.69
2000				
Annual	16.66	45.30	21.06	64.50
2001				
Annual	5.20	23.00	4.63	31.69
2002				
Annual	2.60	9.26	1.71	10.03
First quarter	5.72	9.26	6.33	10.03
Second quarter	4.30	6.08	3.68	6.65
Third quarter	2.60	4.07	1.73	3.66
Fourth quarter	2.66	4.42	1.71	3.20
2003				
Annual	3.17	8.29	2.20	7.08
First quarter	3.17	5.05	2.20	3.81
Second quarter	4.19	4.85	3.31	4.25
Third quarter	3.93	5.99	3.19	5.20
Fourth quarter	5.63	8.29	4.85	7.08
2004				
First quarter	7.40	10.67	6.43	9.64
Second quarter	7.40	11.07	6.00	9.66
Third quarter	6.85	9.53	6.02	7.77
May	7.40	8.73	6.00	7.36
June	8.45	9.75	6.69	7.88
July	8.09	9.53	6.60	7.77
August	7.35	8.21	6.02	6.85
September	6.85	7.60	6.02	6.65
October	6.75	7.57	5.98	6.74
November (through November 5, 2004)	6.93	7.31	6.12	6.50

The closing price of our preferred shares on the São Paulo Stock Exchange on May 3, 2004, the first trading day in the most recent full six months, was R$8.51 per 1,000 preferred shares, and the closing price of the ADSs on the New York Stock Exchange on May 3, 2004 was U.S.$7.26. The closing price of our preferred shares on the São Paulo Stock Exchange on October 8, 2004, the last trading day before announcement of this rights offering, was R$7.57 per 1,000 preferred shares, and the closing price of the ADSs on the New York Stock Exchange on October 8, 2004 was U.S.$6.74. On November 5, 2004, the last reported sale price of the preferred shares on the São Paulo Stock Exchange was R$7.00 per 1,000 preferred shares, and the last reported sale price of the ADSs on the New York Stock Exchange was U.S.$6.50 per ADS.

Trading on the Brazilian Stock Exchanges

Our preferred shares trade on the São Paulo Stock Exchange, which is a not-for-profit entity owned by its member brokerage firms. Trading on such exchanges is limited to member brokerage firms and a limited number of authorized non-members.

The CVM and the São Paulo Stock Exchange have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on the São Paulo Stock Exchange may be effected off the exchanges in the unorganized over-the-counter market in certain circumstances.

Settlement of transactions occurs three business days after the trade date. Delivery of and payment for shares is made through the facilities of separate clearinghouses for each exchange, which maintain accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the clearinghouse on the third business day following the trade date. The clearinghouse for the São Paulo Stock Exchange is the Brazilian Settlement and Custody Company *(Companhia Brasileira de Liquidação e Custódia)*, or CBLC.

In order to reduce volatility, the São Paulo Stock Exchange has adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever specified indices of the São Paulo Stock Exchange fall below the limits of 10% and 15%, respectively, in relation to the closing index levels for the previous trading session.

Although the Brazilian equity market is Latin America s largest in terms of market capitalization, it is smaller and less liquid than the major U.S. and European securities markets. Moreover, the São Paulo Stock Exchange is less liquid than the New York Stock Exchange and other major exchanges in the world. The São Paulo Stock Exchange had a market capitalization of approximately U.S.$277 billion as of September 30, 2004 and an average monthly trading volume of approximately U.S.$6.9 billion from January 2004 to September 2004. In comparison, the New York Stock Exchange had a market capitalization of approximately U.S.$17.8 trillion as of September 30, 2004 and an average monthly trading volume of approximately U.S.$942 billion from January 2004 to September 2004. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, governmental entities or one principal shareholder.

Trading on Brazilian stock exchanges by non-residents of Brazil is subject to registration procedures.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are principally governed by Law No. 6,385, dated December 7, 1976, and the Brazilian corporate law, each as amended and supplemented, and by regulations issued by the CVM, which has authority over stock exchanges and the securities markets generally; the National Monetary Council; and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

These laws and regulations, among others, provide for licensing and oversight of brokerage firms, governance of the Brazilian stock exchanges, disclosure requirements applicable to issuers of traded securities, restrictions on price manipulation and protection of minority shareholders. They also provide for restrictions on insider trading. Accordingly, any trades or transfers of our equity securities by our officers and directors, our controlling shareholders or any of the officers and directors of our controlling shareholders must comply with the regulations issued by the CVM, in particular Instruction No. 358. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or securities markets in some other jurisdictions.

Under Brazilian corporate law, a corporation is either public *(companhia aberta)* or closely held *(companhia fechada)*. All public companies are registered with the CVM and are subject to reporting requirements.

We have the option to ask that trading in securities on the São Paulo Stock Exchange be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the São Paulo Stock Exchange or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the São Paulo Stock Exchange.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

RECENT RESULTS AND DEVELOPMENTS

Corporate Restructuring by TCO

On June 30, 2004, the shareholders of TCO, at an extraordinary general shareholders meeting, approved the corporate reorganization of TCO described in Item 4.A. Information on the Company Our History and Development TCO s corporate restructuring of our Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus. In this reorganization, TCO s subsidiaries Telegoiás Celular S.A., Telems Celular S.A., Telemat Celular S.A., Teleacre Celular S.A. and Teleron Celular S.A. became wholly owned subsidiaries of TCO.

Tender Offer for a Portion of TCO Preferred Shares

On October 8, 2004, we purchased 84,252,534,000 preferred shares of TCO, representing 32.8% of TCO s total preferred shares, pursuant to a public tender offer through an auction on the São Paulo Stock Exchange. We expect to use a portion of the proceeds of this rights offering and the concurrent common share rights offering to repay bridge financing we entered into to fund the tender offer. See Use of Proceeds. We incurred indebtedness in an aggregate amount of R$901.5 million to fund this purchase. See Capitalization and Unaudited Pro Forma Condensed Financial Information.

Agreement with CTBC

On October 6, 2004, we announced that we had entered into an agreement with CTBC, the cellular telecommunications operator of the Algar Group, that will enable us, beginning in 2005, to offer our customers digital roaming based on CDMA (Code Division Multiple Access) 1xRTT (Radio Transmission Technology) technology in 40 cities located in the southern part of the state of Minas Gerais and the northern part of the state of São Paulo.

We have also continued to introduce new services and technologies for our customers. On October 26, 2004, for example, we launched CDMA 2000 (Code Division Multiple Access) 1xEV-DO (Evolution Data Optimized) technology in the cities of São Paulo, Rio de Janeiro and Curitiba. This technology is a third generation access technology that allows data transmission speeds of up to 2.4 Megabits per second, enabling real-time access to services and applications such as e-mail, Internet, music and file downloads and streaming video and audio content.

Results of Operations for the Six-Month Period Ended June 30, 2004 Compared to the Six-Month Period Ended June 30, 2003

The following discussion should be read in conjunction with our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 and the notes thereto, which are included elsewhere in this prospectus. These financial statements have been prepared in accordance with the Brazilian Corporate Law Method, which differs in significant respects from U.S. GAAP. For an explanation of these differences as they relate to our company, see note 37 to our audited consolidated financial statements as of December 31, 2002 and 2003 and for the three years in the period ended December 31, 2003, which are incorporated by reference into this prospectus, and note 18 to our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included in this prospectus.

The following discussion should also be read in conjunction with Item 5. Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus and includes a discussion of our critical accounting policies and other matters that are necessary for an understanding of the following discussion.

Acquisition of TCO

We acquired 61.1% of the total voting capital stock (including treasury shares) of TCO on April 25, 2003. On October 9, 2003, we launched a tender offer for the remaining common shares of TCO in compliance with Brazilian law. The acceptance period ended on November 18, 2003, and we acquired 74.2% of the outstanding available common shares. At September 30, 2004, we held 86.2% of TCO s total voting capital stock (including treasury shares), representing a 28.9% interest in TCO (and TCO holds an additional 4.5% of TCO s common shares in treasury, representing 1.5% of TCO s total capital stock).

We purchased preferred shares of TCO in the tender offer described in Tender Offer for a Portion of TCO Preferred Shares above. With this purchase, our interest in the total capital stock of TCO increased to 50.6% (and TCO holds an additional 4.5% of TCO s common shares in treasury, representing 1.5% of TCO s total capital stock).

All figures for our company set forth below for the six-month periods ended June 30, 2004 and June 30, 2003 were affected by the consolidation of the operating results of TCO as from May 1, 2003. See Unaudited Pro Forma Condensed Financial Information.

Statement of Income

The following table sets forth certain components of our income for each of the six-month periods ended June 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Six-Month Period Ended June 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentage)**
Net operating revenue	3,557.9	2,439.3	45.9
Cost of services and goods	(1,561.0)	(1,276.7)	22.3
Gross profit	1,996.9	1,162.6	71.8
Operating expenses:			
Selling	(812.3)	(518.0)	56.8
General and administrative	(322.0)	(254.8)	26.4
Other operating income (expense), net	(113.8)	12.7	(996.1)
Total	(1,248.1)	(760.1)	64.2
Operating income before financial expenses, net	748.8	402.5	86.0
Financial expense, net	(500.6)	(632.1)	(20.8)
Operating income (loss)	248.2	(229.6)	(208.1)
Net non-operating income (expense)	0.7	(4.7)	(114.9)
Income (loss) before minority interests and tax benefit (expense)	248.9	(234.3)	(206.2)
Income and social contribution taxes	(181.8)	(96.8)	87.8
Minority interests	(169.7)	(62.6)	171.1
Net loss	(102.6)	(393.7)	(73.9)

Net Operating Revenue

Our net operating revenue consists of the following:

usage charges, which include charges for outgoing calls, roaming and similar service;

revenues from the sale of cellular handsets and accessories;

monthly subscription charges paid by our contract customers;

- interconnection charges, which are amounts we charge other cellular, fixed-line or long distance service providers for calls terminated by our network; and

- other charges, including charges for the transfer of cellular lines, call forwarding, call waiting, additional voicemail services and call blocking, Short Message Service, or SMS, and Wireless Application Protocol, or WAP, services.

The composition of our operating revenues has been affected by the shift toward prepaid services (which do not generate monthly subscription charges, and which have attracted lower income customers to our services), by our strategic focus on profitability and selective customer growth, and by a change in our accounting policy for the recognition of revenues from prepaid services. Prior to January 1, 2003, revenues from prepaid services were recognized at the time of the sale of the prepaid minutes. As from January 1, 2003, these revenues have been deferred and amortized as the prepaid minutes are used. This change was recorded prospectively, and, consequently, revenues relating to the unused balance of prepaid minutes as of January 1, 2003 had already been recognized in 2002. This had a negative impact on our operating revenues of approximately R$93.9 million in the six-month period ended June 30, 2003.

Our net additions increased the number of contract customers by 5.7% to 2.756 million as of June 30, 2004 from 2.604 million as of June 30, 2003. Net additions increased the number of prepaid customers by 54.2% to 12.774 million as of June 30, 2004 from 8.283 million as of June 30, 2003.

As of July 6, 2003, SMP operators in Brazil were required by the SMP rules to implement long distance Carrier Selection Codes (*Códigos de Seleção de Prestadora*, or CSP) used by customers to choose their carrier for domestic long distance services (VC2 and VC3) and international SMP calls. As a result, we no longer receive revenue from VC2 or VC3 calls or international calls, but we receive interconnection charges for these calls.

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

The composition of operating revenues by category of service is presented in our consolidated financial statements and discussed below. We do not determine operating revenues on a net basis (*i.e.*, after deduction of taxes) by category of service.

The following table sets forth the components of our net operating revenues for each of the six-month periods ended June 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Six-Month Period Ended June 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Usage charges	1,902.9	1,389.2	37.0
Sales of handsets and accessories	877.2	569.0	54.2
Monthly subscription charges	137.8	116.5	18.3
Interconnection charges	1,534.6	1,032.3	48.7
Other	227.6	74.6	205.1
Total gross operating revenue	4,680.1	3,181.6	47.1
Value-added and other indirect taxes	(847.9)	(530.2)	59.9
Sales and services discount and return of goods sold	(274.3)	(212.1)	29.3
Net operating revenues	3,557.9	2,439.3	45.9

Net operating revenues increased by 45.9% to R$3,557.9 million in the six-month period ended June 30, 2004 from R$2,439.3 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was principally due to the consolidation of R$654.9 million of net operating revenue attributable to TCO for the months of January to April 2004. Without this amount, net operating revenues increased 19.0% to R$2,903.0 million in the six-month period ended June 30, 2004 from R$2,439.3 million in the six-month period ended June 30, 2003, primarily due to an increase in revenue from interconnection charges, usage charges and sales of handsets and accessories.

Usage Charges. Revenues from usage charges increased by 37.0% to R$1,902.9 million in the six-month period ended June 30, 2004 from R$1,389.2 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was primarily due to the consolidation of R$401.9 million of usage charges attributable to TCO for the months of January to April 2004. Without this amount, usage charges increased 8% to R$1,501.0 million in the six-month period ended June 30, 2004 from R$1,389.2 million in the six-month period ended June 30, 2003. This increase was primarily due to an increase in outgoing traffic caused by a 42.6% increase in our customer base to 15,530 thousand lines in service as of June 30, 2004 from 10,887 thousand lines in service as of June 30, 2003. This increase was partially offset by the impact of the new rules relating to the long distance Carrier Selection Codes described above.

Sales of Handsets and Accessories. Revenues from sales of handsets and accessories increased by 54.2% to R$877.2 million in the six-month period ended June 30, 2004 from R$569.0 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 reflects the consolidation of R$120.9 million in revenues from sales of handsets and accessories by TCO for the months of January and April 2004. Without this amount, revenues from sales of handsets and accessories increased by 32.9% to R$756.3 million in the six-month period ended June 30, 2004 from R$569.0 million in the six-month period ended June 30, 2003. This increase was primarily due to an aggressive pricing strategy relating to promotional campaigns for Mother s Day and Valentine s Day in 2004. The total number of handsets sold during the period ended in June 30, 2004, was 3.1 million handsets, 72% higher than the 1.8 million handsets sold during the same period in 2003.

Revenues from handset sales are reported before commissions and promotional discounts, and include value-added taxes. In general, the purpose of handset sales is to encourage growth in customers and traffic, as opposed to generating profits on the sales, and we therefore subsidize portions of the costs of handsets. Although profit margins vary from one handset model to another and from time to time, on average profit margins are negative after taxes and discounts. The subsidy strategy resulted in a gross loss (calculated as the difference from net operating revenues from sales minus the cost of goods sold) for us of R$219.3 million and R$93.7 million in the six-month periods ended June 30, 2004 and 2003, respectively.

Monthly Subscription Charges. Revenues from monthly subscription charges increased by 18.3% to R$137.8 million in the six-month period ended June 30, 2004 from R$116.5 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was primarily due to the consolidation of R$52.4 million of monthly subscription charges attributable to TCO for the months of January to April 2004. Without this amount, revenues from monthly subscription charges decreased by 26.7% to R$85.4 million in the six-month period ended June 30, 2004 from R$116.5 million in the six-month period ended June 30, 2003. This decrease occurred principally because new contract customers increasingly use our discount plans, resulting in proportionally lower revenues from monthly subscription charges from those new customers. In addition, the decrease is due in part to customer migration toward franchise plans from monthly subscription plans. Franchise plans permit clients to purchase packages of minutes (the more minutes purchased, the less the per minute cost of cellular service) without paying a monthly fee.

Interconnection Charges. Revenues from interconnection charges increased by 48.7% to R$1,534.6 million in the six-month period ended June 30, 2004 from R$1,032.3 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was primarily due to the consolidation of R$281.7 million of interconnection charges of TCO for the months of January to April 2004. Without this amount, revenues from interconnection charges increased 21.4% to R$1,252.9 million in the six-month period ended June 30, 2004 from R$1,032.3 million in the six-month period ended June 30, 2003. This increase was primarily due to the new rules relating to the Carrier Selection Codes described above, which increased our revenues from interconnection charges from domestic long distance and international calls. This increase was partially offset by the effect of the Bill & Keep rules described above, which limited revenues from interconnection charges paid by other SMP providers operating in the same areas in which we provide local service.

Other. Revenues from other services increased 205.1% to R$227.6 million in the six-month period ended June 30, 2004 from R$74.6 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was principally due to an increase in revenues from data services, especially SMS services, due to increased marketing efforts for these services, as well as increased customer attraction to the capabilities of 1x Radio Transmission Technology, or 1xRTT technology. This 1xRTT technology, also known as CDMA 2000 1X technology, is a third-generation cellular telecommunications technology that allows greater data transmission capability, such as multimedia messaging services (MMS), sending photo messages and music data downloads. In addition, revenues from other services included the consolidation of R$13.6 million in other revenues of TCO for the period from January to April 2004.

Value-added and Other Indirect Taxes. Value-added and other indirect taxes increased 59.9% to R$847.9 million in the six-month period ended June 30, 2004 from R$530.2 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 reflected the consolidation of R$178.2 million in taxes of TCO for the months of January to April 2004. Without this amount, value-added and other indirect taxes increased 26.3% to R$669.7 million in the six-month period ended June 30, 2004 from R$530.2 million in the six-month period ended June 30, 2003. This increase was principally due to increased revenues.

Value-added taxes and other indirect taxes on operating revenues were 18.1% of gross operating revenue in the six-month period ended June 30, 2004, compared to 16.7% of gross operating revenue in the six-month period ended June 30, 2003. The effective rate of taxes on gross operating revenues varies depending upon the composition of our revenues and the specific tax rate applicable to the subsidiary that generates the revenue because the *Imposto sobre Circulação de Mercadorias e Serviços*, or ICMS, a tax imposed by Brazilian states, is calculated at rates varying from 7% to 27%, depending on the state and the nature of the goods and services.

Sales and Services Discount and Return of Goods Sold. Deductions from operating revenues include discounts on cellular handset sales, discounts on services and returns of goods sold. Discounts and returns increased by 29.3% in the six-month period ended June 30, 2004 to R$274.3 million from R$212.1 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was primarily due to the consolidation of R$37.4 million of discounts and returns attributable to TCO for the months of January to April 2004. Without his amount, discounts and returns increased by 11.7% to R$236.9 million in the six-month period ended June 30, 2004 from R$212.1 million in the six-month period ended June 30, 2003, principally due to increased sales discounts generated by an aggressive pricing strategy relating to promotional campaigns for Mother s Day and Valentine s Day in 2004.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for each of the six-month periods ended June 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Six-Month Period Ended June 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Depreciation and amortization	(361.3)	(399.9)	(9.7)
Materials and services	(269.2)	(295.6)	(8.9)
Personnel	(29.1)	(19.5)	49.2
Rental, insurance and condominium fees	(49.6)	(43.9)	13.0
Cost of goods sold	(760.6)	(438.1)	73.6
Fistel and other taxes	(91.2)	(79.7)	14.4
Cost of services and goods	(1,561.0)	(1,276.7)	22.3

Cost of services and goods increased by 22.3% in the six-month period ended June 30, 2004 to R$1,561.0 million from R$1,276.7 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was principally due to the consolidation of R$253.1 million of cost of services and goods attributable to TCO for the months of January to April 2004. Without this amount, cost of services and goods increased 2.4% to R$1,307.9 million in the six-month period ended June 30, 2004 from R$1,276.7 million in the six-month period ended June 30, 2003.

Gross margin, which is defined as gross profit as a percentage of net revenues, increased to 56.1% in the six-month period ended June 30, 2004 from 47.7% in the six-month period ended June 30, 2003, primarily due to the effects of the consolidation of the results of operations of TCO for the full six-month period ended June 30, 2004.

Depreciation and Amortization. Depreciation and amortization expenses decreased 9.7% to R$361.3 million in the six-month period ended June 30, 2004 from R$399.9 million in the six-month period ended June 30, 2003. This decrease was principally due to the termination of depreciation of our analog network in 2003. This decrease was partially offset by the effect of the consolidation of depreciation and amortization expenses of TCO for the first four months of 2004 in the amount of R$51.1 million.

Material and Services. Cost of material and services decreased 8.9% to R$269.2 million in six-month period ended June 30, 2004 from R$295.6 million in the six-month period ended June 30, 2003. This decrease was principally due to the effect of the new Carrier Selection Code rules and Bill & Keep rules described above, which reduced interconnection charges we pay to other providers to R$111.3 million in the six-month period ended June 30, 2004 from R$157.6 million in the six-month period ended June 30, 2003. This decrease was partially offset by the effect of the consolidation of cost of material and services of TCO for the first four months of 2004 in the amount or R$41.9 million. Leased line charges increased 5.3%, primarily due to the impact of foreign exchange variations.

Personnel. Personnel expenses increased 49.2% to R$29.1 million in six-month period ended June 30, 2004 from R$19.5 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was principally due the consolidation of R$7.7 million of personnel costs attributable to TCO for the months of January to April 2004. Without this amount, personnel expenses increased 9.7% to R$21.4 million in the six-month period ended June 30, 2004 from R$19.5 million in the six-month period ended June 30, 2003, principally due to the effect of wage increases to adjust for inflation implemented in November 2003.

Rental, Insurance and Condominium Fees. Rental, insurance and condominium fees increased 13.0% to R$49.6 million in six-month period ended June 30, 2004 from R$43.9 million in the six-month period ended June 30, 2003. This increase was due to the consolidation of R$5.7 million of rental, insurance and condominium fees attributable to TCO for the months of January to April 2004.

Cost of Goods Sold. Cost of goods sold increased 73.6% to R$760.6 million in six-month period ended June 30, 2004 from R$438.1 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 reflected the consolidation of R$131.4 million in cost of goods of TCO for the first four months of 2004. Without this amount, cost of goods sold increased 43.6% to R$629.2 million in the six-month period ended June 30, 2004 from R$438.1 million in the six-month period ended June 30, 2003, principally due to an increase in the number of handsets sold and the sale of more sophisticated and expensive handset models, although sales of less expensive models also increased through our aggressive pricing strategy relating to promotional campaigns for Mother s Day and Valentine s Day in 2004.

Fistel and Other Taxes. Our Fistel and other taxes increased 14.4% to R$91.2 million in six-month period ended June 30, 2004 from R$79.7 million in the six-month period ended June 30, 2003. This increase was principally due to an expansion of our equipment and an increase in the number of handsets sold. This increase also reflects the consolidation of R$1.7 million of Fistel and other taxes of TCO for the months of January to April 2004. The *Fundo de Fiscalização das Telecomunicações* (Telecommunications Inspection Fund, or Fistel) tax is a Brazilian federal tax assessed on the activation of cellular numbers and on telecommunications equipment. See Item 4.A. Information on the Company Our History and Development Taxes on Telecommunications Services and Handset Sales of our Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the six-month periods ended June 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Six-Month Period Ended June 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Selling expenses	(812.3)	(518.0)	56.8
General and administrative expenses	(322.0)	(254.8)	26.4
Other net operating income (expenses)	(113.8)	12.7	(996.1)
Operating expenses	(1,248.1)	(760.1)	64.2

Operating expenses increased 64.2% to R$1,248.1 million in six-month period ended June 30, 2004 from R$760.1 million in the six-month period ended June 30, 2003. This increase reflects the consolidation of R$189.8 million in operating expenses of TCO for the months of January to April 2004.

Selling Expenses. Selling expenses increased 56.8% to R$812.3 million in the six-month period ended June 30, 2004 from R$518.0 million in the six-month period ended June 30, 2003. This increase reflects the consolidation of selling expenses of TCO in the amount of R$139.9 million for the months of

January to April 2004. Without this amount, selling expenses increased 29.8% to R$672.4 million in the six-month period ended June 30, 2004 from R$518.0 million in the six-month period ended June 30, 2003, principally due to an increase in advertising costs, dealers commissions and call center costs.

Provisions for doubtful accounts increased 82.5% to R$66.8 million in six-month period ended June 30, 2004 from R$36.6 million in the six-month period ended June 30, 2003. This increase reflects the consolidation of provisions for doubtful accounts of TCO in the amount of R$6.2 million for months of January to April 2004. Without this amount, provisions for doubtful accounts increased 65.6% to R$60.6 million in June 2004, principally due to an increase in operating revenues for the six-month period ended June 30, 2004.

General and Administrative Expenses. General and administrative expenses increased by 26.4% in six-month period ended June 30, 2004 to R$322.0 million from R$254.8 million in the six-month period ended June 30, 2003. The increase in the six-month period ended June 30, 2004 was principally due to the consolidation of R$49.7 million of general and administrative expenses attributable to TCO for the months of January to April 2004. Without this amount, general and administrative expenses increased 6.9% to R$272.3 million in the six-month period ended June 30, 2004 from R$254.8 million in the six-month period ended June 30, 2003, principally due to increased personnel expenses and increased depreciation and amortization expenses resulting from capital expenditures on our management information systems.

Other Net Operating Expenses. We had other net operating expenses of R$113.8 million in the six-month period ended June 30, 2004, compared to other net operating income of R$12.7 million in the six-month period ended June 30, 2003. The increase in expenses for the six-month period ended June 30, 2004 resulted mainly from R$91.9 million in amortization during that period of the goodwill recorded from the acquisition of a controlling interest in TCO in April 2003 and the acquisition of additional capital stock of TCO in a public tender offer in November 2003. In comparison, in the six-month period ended June 30, 2003, we amortized R$25.2 million of goodwill relating to the TCO acquisition during the months of May and June 2003, and that goodwill related only to the acquisition of the controlling stake in TCO in April 2003. In addition, in the six-month period ended June 30, 2003, we recorded a gain in the amount of R$68.5 million from the reversal of a provision relating to litigation over the assessment of ICMS tax on activation fees that was reversed in 2003. Telesp Celular had previously established this provision in connection with litigation at the Treasury Court of the State of São Paulo seeking a decision that the ICMS tax does not apply to cellular activation fees. We reversed the provision on March 31, 2003 when the Higher Justice Court *(Superior Tribunal de Justiça)* determined in an action filed by Telamazon Celular, another wireless operating company, that the ICMS tax could not be assessed on activation fees. Our other net operating expenses for the six-month period ended June 30, 2004 reflects the consolidation of R$0.2 million in expenses attributable to TCO for the months of January to April 2004.

Net Financial Expense

The following table sets forth certain components of our net financial expense, as well as the percentage change of each component from the prior year period, for each of the six-month periods ended June 30, 2004 and 2003.

	Six-Month Period Ended June 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Financial income	136.1	112.2	21.3
Exchange gains and losses	171.3	837.2	(79.5)
Gains (losses) on foreign currency derivative contracts, net	89.6	(881.6)	(110.2)
PIS/COFINS on financial income	(68.6)	(3.1)	2,112.9
Financial expenses	(829.0)	(696.8)	19.0
Net financial expense	(500.6)	(632.1)	(20.8)

Net financial expense decreased 20.8% to R$500.6 million in six-month period ended June 30, 2004 from R$632.1 million in the six-month period ended June 30, 2003. This decrease was primarily due to a 38.8% decrease in the CDI *(Certificado Depositário Interbancário)* rate, an interbank market interest rate that applies to certain of our indebtedness and derivatives. This decrease was partially offset by an increase in our consolidated debt to R$6,355.3 million at June 30, 2004 from R$6,116.2 million at June 30, 2003.

Income and Social Contribution Taxes

Income and social contribution taxes increased 87.8% to R$181.8 million in the six-month period ended June 30, 2004 from R$96.8 million in the six-month period ended June 30, 2003. Despite our net losses, we recorded income and social contribution taxes of R$57.8 million and R$124.0 million in the six-month period ended June 30, 2004 and R$57.1 million and R$39.7 million in the six-month period ended June 30, 2003, based on the operating results of Telesp Celular and TCO, respectively. According to Brazilian tax law, losses from consolidated entities cannot be used to offset income of other consolidated entities. See note 11 to our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included elsewhere in this prospectus.

Minority Interests

Minority interests for the six-month period ended June 30, 2004 represent the participation of minority shareholders in the net income of TCO for the period from January to June 2004. For the six-month prior ended June 30, 2003, minority interests represent the participation of minority shareholders in the net income of TCO from May through June 2003.

Liquidity and Capital Resources

Sources of Funds

We generated cash flow from operations of R$906.6 million for the six-month period ended June 30, 2004 and used cash flows in our operations of R$114.9 million in the six-month period ended June 30, 2003.

As of June 30, 2004, we had R$2,068.9 million in long-term loans and financing and R$4,286.4 million in short-term indebtedness, which consisted primarily of funding from financial institutions and related parties. At June 30, 2004, we had a working capital deficit (current liabilities minus current assets) of R$1,964.1 million, attributable primarily to our short-term debt.

During the six-month periods ended June 30, 2004 and 2003, we obtained new loans amounting to R$884.8 million and R$2,929.4 million, respectively. We also had cash flow from investing activities of R$536.9 million in the six-month period ended June 30, 2003 related to the payment by Fixcel S.A., the former controlling shareholder of TCO, on debentures held by TCO.

Our principal assets are the shares of our subsidiaries. We rely exclusively on dividends from TCO, Telesp Celular and Global Telecom to meet our cash needs, including the payment of dividends to our shareholders. We control the payment of dividends by TCO, Telesp Celular and Global Telecom, subject to limitations under Brazilian law. There are no contractual restrictions on the payment of dividends by our subsidiaries to us.

We believe that funds generated by operations, together with the proceeds of this rights offering and the concurrent offering of common share rights, will be sufficient to provide for our current working capital needs.

Uses of Funds

In addition to the cash flows used in our operations, our principal uses of funds are for capital expenditures, servicing our debt, payment of dividends to shareholders. In 2003, our uses of funds included the acquisition of a controlling interest in TCO, and in 2004, our uses of funds included our purchase of 84,252,534,000 preferred shares of TCO in a public tender offer. See Use of Proceeds.

In the six-month period ended of 2003, we paid R$709.8 million (net of cash acquired) to Fixcel S.A. in connection with the acquisition of a controlling interest in TCO. Capital expenditures (including capitalized interest) consumed cash flows of R$449.9 million and R$160.4 million in the six-month periods ended June 30, 2004 and 2003, respectively. Payment of debt consumed cash flows of R$1,376.3 million and R$1,363.4 million in the six-month periods ended June 30, 2004 and 2003, respectively. TCO made payments of dividends and interest on shareholders equity to its minority shareholders in the six-month periods ended June 30, 2004 and 2003 of R$25.9 million and R$79.5 million, respectively.

Capital Expenditures

The following table sets forth our consolidated capital expenditures for the periods indicated:

	Six-Month Period Ended June 30,	
	2004	**2003**
	(R$ millions)	
Switching equipment	121.7	49.8
Transmission equipment	132.3	44.8
Information technology	114.1	28.7
Others(1)	81.8	37.1
Total capital expenditures	449.9	160.4

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(1) Handsets for rental, network constructions, furniture and fixtures, office equipment, and store layouts.

During the six-month period ended June 30, 2004, we invested R$449.9 million in fixed assets, mainly in the selective implementation of 1xRTT network to replace TCO s TDMA network. A TDMA, or Time Division Multiple Access, network permits multiple users to access a single radio frequency channel without interference. Our capital expenditures for 2004, including investments in network expansion, introduction of products and services that aim at maximizing the use of cellular telephony, besides seeking the constant improvement of the quality of services provided to our customers are expected to be approximately R$1,037.0 million.

Debt

As of June 30, 2004, our total debt position was as follows:

Debt	**Amount Outstanding as of June 30, 2004**
	(R$ millions)
Financing from banks	3,909.0
Financing from suppliers	12.6
Fixcel acquisition of TCO	56.8
Related parties	2,231.6
Total debt before interest	6,210.0
Interest	145.3
Total debt	6,355.3

Of total debt:	
Total long-term debt, excluding the short-term portion	2,068.9
Short-term debt	4,286.4

As of June 30, 2004, our total debt was R$6,355.3 million, of which R$5,102.7 million, or 80.3%, was denominated in foreign currencies and therefore exposed to currency fluctuations. Of that amount, R$3,103.8 million was denominated in U.S. dollars (U.S.$998.8 million), R$1,579.0 million was denominated in euros (416.0 million), R$383.1 million was denominated in yen (¥13,401.3 million) and R$73.6 was denominated in UMBNDES (UMBNDES 4.45 million). The UMBNDES is a basket of currencies published by the Brazilian National Development Bank *(Banco Nacional de Desenvolvimento Econômico e Social)*, or BNDES. Devaluation of the *real* results in exchange losses on foreign currency indebtedness. In order to protect against this risk, we have entered into over-the-counter derivatives transactions with international and domestic financial institutions. At June 30, 2004, we had derivative contracts that covered amounts in excess of our foreign currency-denominated debt.

We are exposed to interest rate risk as a consequence of our floating rate debt. At June 30, 2004, approximately 52% of our interest-bearing liabilities bore interest at floating rates, primarily EURIBOR for euro-denominated debt, LIBOR for U.S. dollar-denominated debt and CDI, TJLP and UMBNDES. The TJLP, the *Taxa de Juros de Longo Prazo* (Long-Term Interest Rate) is a Brazilian long-term interest rate that includes an inflation factor and is determined quarterly by the Brazilian Central Bank. The UMBNDES rate is a BNDES rate that reflects the daily exchange fluctuations in the UMBNDES basket of currencies, which are the currencies in which BNDES borrows. Accordingly, our financing expenses will increase if market interest rates, such as LIBOR, EURIBOR, CDI or TJLP, rise. At June 30, 2004, all of our foreign currency derivatives contracts bore interest payments linked to the CDI rate. We have not hedged against the risk of interest rates increasing. The CDI rates as of June 30, 2004 and 2003 were 15.72 % and 25.68% respectively.

At June 30, 2004, we had U.S.$280.0 million in forward purchase agreements allowing us to purchase U.S. dollars in September 2006 at R$1.23 per U.S. dollar. In order to reduce the costs of our derivatives contracts, in 2000 we sold call options on U.S. dollars exercisable in September 2004 if the value of the *real* falls below R$2.25 to one U.S. dollar. The notional amount of options we sold is U.S.$300 million, and the associated losses offset the gains from the U.S.$300 million forward contract. See Supplemental Information as of September 30, 2004 and for the Nine-Month Period Ended September 30, 2004 Supplemental Information on Liquidity and Capital Resources as of September 30, 2004.

Some of the debt agreements of TCP and its subsidiaries contain restrictive covenants. Financial ratios apply to some indebtedness of Global Telecom and TCO and involve (1) current ratios, (2) capitalization ratios, (3) EBITDA margins, (4) interest coverage ratios and (5) debt to capital ratios.

Off-Balance Sheet Arrangements

As of June 30, 2004, we had R$0.3 million in off-balance sheet financing related to the leasing of network equipment. The annual expenses related to this financing are included as costs and amounted to R$14.0 million and R$13.5 million in the six-month periods ended June 30, 2004 and 2003, respectively.

We have no majority-owned subsidiaries that are not included in our consolidated financial statements, nor do we have any interests in, or relationships with, any special purpose entities that are not reflected in our consolidated financial statements.

Trends

Growth in cellular telephony is expected to exceed Brazil s economic growth once again in 2004 as a whole. In the remainder of 2004 and in 2005, fierce competition is expected as a result of the entry of new competitors, such as Brasil Telecom, accelerating consolidation of national coverage and continuing efforts toward improving network technology. As one indication of increasing consolidation in the Brazilian telecommunications industry, Teléfonos de México, S.A. de C.V., or Telmex, recently acquired control of Embratel Participações S.A., a major Brazilian telecommunications services provider of domestic and international long distance and data services. Telmex is an affiliate of América Móvil, S.A. de C.V., which controls the cellular telecommunications operating companies that operate in Brazil under the brand name

Claro. In addition, Claro and Telemig Celular, another cellular telecommunications operator, recently acquired licenses to expand their operations to other regions in Brazil.

U.S. GAAP Information

U.S. GAAP Reconciliation as of June 30, 2004 and for the Six-Month Periods Ended June 30, 2004 and 2003

Our financial statements have been prepared in accordance with the Brazilian Corporate Law Method. Our net income (loss) in accordance with the Brazilian Corporate Law Method was R$(102.6) million in the six-month period ended June 30, 2004 and R$(393.7) million in the six-month period ended June 30, 2003. Under U.S. GAAP, we reported net income (loss) of R$(139.4) million in the six-month period ended June 30, 2004 and R$50.9 million in the six-month period ended June 30, 2003.

Our shareholders equity in accordance with the Brazilian Corporate Law Method was R$3,290.6 million as of June 30, 2004, compared to R$3,393.2 million as of December 31, 2003. Under U.S. GAAP, we reported shareholders equity of R$3,092.6 million as of June 30, 2004 and R$3,232.0 million as of December 31, 2003.

We have not reconciled to U.S. GAAP our shareholders equity or net income (loss) as of September 30, 2004 or for the nine-month periods ended September 30, 2004 and 2003. With respect to shareholders equity as of September 30, 2004 and the nine-month period ended September 30, 2004, the differences between the Brazilian Corporate Law Method and U.S. GAAP are generally of the type described in note 37 to our audited consolidated financial statements and of the type described below and in note 18 to our unaudited condensed consolidated financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2004 and 2003.

The principal differences between the Brazilian Corporate Law Method and U.S. GAAP that affected our net income (loss) for the six-month periods ended June 30, 2004 and 2003 and our shareholders equity as of June 30, 2004 are described in note 18 to our unaudited condensed consolidated interim financial statements included in this prospectus. These principal differences relate to:

- differences in capitalizing and amortizing capitalized interest under the Brazilian Corporate Law Method and U.S. GAAP;

- the amortization under U.S. GAAP of the restatement of fixed assets resulting from the application of inflation accounting during 1996 and 1997 and the treatment of the loss on the disposal of monetarily restated assets. Brazil was considered a highly inflationary economy under U.S. GAAP. Under the Brazilian Corporate Law Method, we accounted for the effects of inflation through December 31, 1995;

- differences in recording exchanges of our shares for minority interests in our company under the Brazilian Corporate Law Method and U.S. GAAP;

- differences in recording acquisitions, including differences in the calculation and treatment of goodwill, under the Brazilian Corporate Law Method and U.S. GAAP;

- differences in accounting for the single-employer and multiemployer benefit plans of our company and its subsidiaries under the Brazilian Corporate Law Method and U.S. GAAP;

- the inclusion of net financial expenses in operating income under the Brazilian Corporate Law Method, whereas under U.S. GAAP, net financial expenses is shown after operating income, and accrued interest would be included in accounts payable and accrued expenses;

- differences in calculating earnings per share under the Brazilian Corporate Law Method and U.S. GAAP;

- the reclassification of permanent assets under the Brazilian Corporate Law Method to non-current assets and property, plant and equipment under U.S. GAAP and the recording of gains and losses on disposals of permanent assets as non-operating results under the Brazilian Corporate Law Method but as operating results under U.S. GAAP;

the recording of a lease for certain computer hardware and software as an operating lease under the Brazilian Corporate Law Method but as a capital lease under U.S. GAAP;

the application of SFAS No. 144, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of, under U.S. GAAP;

the deferral of the Fistel tax assessed on each activation of a new cellular line beginning on January 1, 2001 under the Brazilian Corporate Law Method, whereas, under U.S. GAAP, this tax is charged directly to the consolidated statement of income;

differences in the recognition of revenue under the Brazilian Corporate Law Method and U.S. GAAP;

differences in the treatment of derivative instruments under the Brazilian Corporate Law Method and U.S. GAAP;

differences in the amortization of license acquisition costs under the Brazilian Corporate Law Method and U.S. GAAP;

differences in the treatment of an advance payment that TCO made to BID S.A. in January 2002 under the Brazilian Corporate Law Method and U.S. GAAP; and

the recording of pre-operational costs by Global Telecom as deferred assets to be amortized under the Brazilian Corporate Law Method, whereas, under U.S. GAAP, this deferral and amortization have been reversed.

New U.S. GAAP Accounting Pronouncement

In December 2003, the Financial Accounting Standards Board, or the FASB, issued a revision to Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, or FIN 46R. FIN 46R clarifies the application of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity s expected losses, receive a majority of the entity s expected residual returns, or both.

Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of FIN 46, as revised, for public companies to the end of the first reporting period ending after March 15, 2004, except that all public companies must at a minimum apply the provisions of FIN 46R to entities that were previously considered special-purpose entities under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. The adoption of FIN 46R did not have any impact on our financial position, cash flows and results of operations.

Supplemental Information as of September 30, 2004 and for the Nine-Month Period Ended September 30, 2004

The following supplemental information as of September 30, 2004 and for the nine-month period ended September 30, 2004 is included in this prospectus because we have publicly released unaudited condensed consolidated interim financial statements covering that period in Brazil. The following discussion should be read in conjunction with these unaudited consolidated interim financial statements as of September 30, 2004 and for the nine-month periods ended September 30, 2003 and 2004 and the notes thereto, which are incorporated by reference in this prospectus. These financial statements have been prepared in accordance with the Brazilian Corporate Law Method, which differs in significant respects from U.S. GAAP. For an explanation of these differences as they relate to our company, see note 37 to our audited consolidated financial statements as of December 31, 2002 and 2003 and for the three years in the period ended December 31, 2003, which are incorporated by reference into this prospectus, and note 18 to our unaudited condensed consolidated interim financial statements as of June 30, 2004 and the six-month periods ended June 30, 2003 and 2004 included in this prospectus. We have not reconciled to U.S. GAAP our shareholders equity or net income (loss) as of September 30, 2004 or for the nine-month periods ended September 30, 2003 and 2004.

The following discussion should also be read in conjunction with Item 5. Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the Fiscal Year Ended December 31, 2003, which is incorporated by reference into this prospectus and includes a discussion of our critical accounting policies and other matters that are necessary for an understanding of the following discussion.

All figures for our company set forth below for the nine-month periods ended September 30, 2003 and September 30, 2004 were affected by the consolidation of the operating results of TCO as from May 1, 2003. See Results of Operations for the Six-Month Period Ended June 30, 2004 Compared to the Six-Month Period Ended June 30, 2003 Acquisition of TCO and Unaudited Pro Forma Condensed Financial Information.

We purchased preferred shares of TCO in the tender offer described in Tender Offer for a Portion of TCO Preferred Shares above.

Summary Financial Data as of September 30, 2004 and for the Nine-Month Periods Ended September 30, 2003 and 2004

The following summary financial data has been derived from our unaudited condensed consolidated interim financial statements as of September 30, 2004 and for the nine-month periods ended September 30, 2003 and 2004, which are incorporated by reference into this prospectus, and should be read in conjunction with those financial statements and the notes thereto.

	Historical		
	As of and for the Nine-Month Period Ended September 30,		
	2004	**2004**	**2003**
	(R$ millions, except per share data)	**(U.S.$ millions, except per share data)(1)**	**(R$ millions, except per share data)**
Income Statement Data:			
Brazilian corporate law			
Net operating revenue	5,387.8	1,884.8	4,169.0
Cost of services and goods sold	(2,359.9)	(825.6)	(2,099.0)
Gross profit	3,027.9	1,059.2	2,070.0
Operating expenses:			
Selling expenses	(1,309.8)	(458.2)	(860.0)
General and administrative expenses	(522.1)	(182.7)	(392.9)
Other net operating income (expenses)	(138.2)	(48.3)	(48.6)
Operating income before net financial expenses	1,057.8	370.0	768.5
Net financial expenses	(751.4)	(262.8)	(843.0)
Operating income (loss)	306.4	107.2	(74.5)
Net non-operating income (expense)	1.4	0.5	(4.9)
Income (loss) before income taxes and minority interests	307.8	107.7	(79.4)
Income taxes	(293.9)	(102.8)	(228.4)
Minority interests	(269.4)	(94.3)	(154.9)

Net income (loss)	(255.5)	(89.4)	(462.7)

	Historical		
	As of September 30, 2004		As of December 31, 2003
	(R$ millions, except share data)	(U.S.$ millions, except share data)	(R$ millions, except share data)
Balance Sheet Data:			
Brazilian corporate law			
Property, plant and equipment, net	5,379.8	1,882.0	5,234.3
Total assets	13,762.8	4,814.5	13,473.3
Loans and financing	6,636.4	2,321.6	6,279.2
Net assets	3,137.7	1,097.6	3,393.4
Capital stock	4,373.7	1,530.0	4,373.7
Number of thousands of shares as adjusted to reflect changes in capital	1,171,784,352	1,171,784,352	1,171,784,352

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(1) Translated for convenience only using the commercial selling rate for U.S. dollars as reported by the Central Bank on September 30, 2004: R$2.8586 = U.S.$1.00.

Results of Operations for the Nine-Month Period Ended September 30, 2004 Compared to the Nine-Month Period Ended September 30, 2003

Net Operating Revenue

See Results of Operations for the Six-Month Period Ended June 30, 2004 Compared to the Six-Month Period Ended June 30, 2003 Net Operating Revenue for a description of the components of our net operating revenue.

The composition of our operating revenues has been affected by the shift toward prepaid services (which do not generate monthly subscription charges, and which have attracted lower income customers to our services), by our strategic focus on profitability and selective customer growth, and by a change in our accounting policy for the recognition of revenues from prepaid services. Prior to January 1, 2003, revenues from prepaid services were recognized at the time of the sale of the prepaid minutes. As from January 1, 2003, these revenues have been deferred and amortized as the prepaid minutes are used. This change was recorded prospectively, and, consequently, revenues relating to the unused balance of prepaid minutes as of January 1, 2003 had already been recognized in 2002. This had a negative impact on our operating revenues of approximately R$93.9 million in the nine-month period ended September 30, 2003.

Our net additions increased the number of contract customers by 5.6% to 2,789 million as of September 30, 2004 from 2,641 million as of September 30, 2003. Net additions increased the number of prepaid customers by 50.3% to 13,574 million as of September 30, 2004 from 9,033 million as of September 30, 2003.

The composition of our net operating revenues has also been affected by the implementation of the Carrier Selection Codes and Bill & Keep rules described in Results of Operations for the Six-Month Period Ended June 30, 2004 Compared to the Six-Month Period Ended June 30, 2003 Net Operating Revenue.

The composition of operating revenues by category of service is presented in our consolidated financial statements and discussed below. We do not determine operating revenues on a net basis (*i.e.,* after deduction of taxes) by category of service.

The following table sets forth the components of our net operating revenues for each of the nine-month periods ended September 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Nine-Month Period Ended September 30,		
	2004	2003	% Change
	(R$ millions)		(In percentages)
Usage charges	2,944.5	2,281.7	29.1
Sales of handsets and accessories	1,346.0	993.0	35.5
Monthly subscription charges	192.3	180.6	6.5
Interconnection charges	2,331.9	1,765.6	32.1
Other	304.9	197.4	54.5
Total gross operating revenue	7,119.6	5,418.3	31.4
Value-added and other indirect taxes	(1,296.6)	(913.1)	42.0
Sales and services discount and return of goods sold	(435.2)	(336.2)	29.5
Net operating revenues	5,387.8	4,169.0	29.2

Net operating revenues increased by 29.2% to R$5,387.8 million in the nine-month period ended September 30, 2004 from R$4,169.0 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 is principally due to the consolidation of R$654.9 million of net operating revenue attributable to TCO for the months of January to April 2004. Without this amount, net operating revenues increased 13.5% to R$4,732.9 million in the nine-month period ended September 30, 2004 from R$4,169.0 million in the nine-month period ended September 30, 2003, primarily due to an increase in revenue from interconnection charges, usage charges and sales of handsets and accessories.

Usage charges. Revenues from usage charges increased by 29.1% to R$2,944.5 million in the nine-month period ended September 30, 2004 from R$2,281.7 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was primarily due to the consolidation of R$401.9 million of usage charges attributable to TCO for the months of January to April 2004. Without this amount, usage charges increased 11.4% to R$2,542.6 million in the nine-month period ended September 30, 2004 from R$2,281.7 million in the nine-month period ended September 30, 2003. This increase was primarily due to an increase in outgoing traffic caused by a 40.2% increase in our customer base to 16,363 thousand lines in service as of September 30, 2004 from 11,674 thousand lines in service as of September 30, 2003. This increase was partially offset by the impact of the new rules relating to the long distance Carrier Selection Codes described above.

Sales of handsets and accessories. Revenues from sales of handsets and accessories increased by 35.5% to R$1,346.0 million in the nine-month period ended September 30, 2004 from R$993.0 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 reflects the consolidation of R$120.9 million in revenues from sales of handsets and accessories by TCO for the months of January and April 2004. Without this amount, revenues from sales of handsets and accessories increased by 23.4% to R$1,225.1 million in the nine-month period ended September 30, 2004 from R$993.0 million in the nine-month period ended September 30, 2003. This increase was primarily due to an aggressive pricing strategy relating to promotional campaigns for Mother s Day, Valentine s Day and Father s Day in 2004.

Revenues from handset sales are reported before commissions and promotional discounts, and include value-added taxes. In general, the purpose of handset sales is to encourage growth in customers and traffic, as opposed to generating profits on the sales, and we therefore subsidize portions of the costs of handsets. Although profit margins vary from one handset model to another and from time to time, on average profit margins are negative after taxes and discounts. The subsidy strategy resulted in a gross loss (calculated as the difference from net operating revenues from sales minus the cost of goods sold) for us of R$362.5 million and R$120.3 million in the nine-month periods ended September 30, 2004 and 2003, respectively.

Monthly subscription charges. Revenues from monthly subscription charges increased by 6.5% to R$192.3 million in the nine-month period ended September 30, 2004 from R$180.6 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was primarily due to the consolidation of R$52.4 million of monthly subscription charges attributable to TCO for the months of January to April 2004. Without this amount, revenues from monthly subscription charges decreased by 22.5% to R$139.9 million in the nine-month period ended September 30, 2004 from R$180.6 million in the nine-month period ended September 30, 2003. This decrease occurred principally because new contract customers increasingly use our discount plans, resulting in proportionally lower revenues from monthly subscription charges from those new customers. In addition, the decrease is due in part to customer migration toward franchise plans from monthly subscription plans. Franchise plans permit clients to purchase packages of minutes (the more minutes purchased, the less the per minute cost of cellular service) without paying a monthly fee.

Interconnection charges. Revenues from interconnection charges increased by 32.1% to R$2,331.9 million in the nine-month period ended September 30, 2004, from R$1,765.6 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was primarily due to the consolidation of R$281.7 million of interconnection charges of TCO for the months of January to April 2004. Without this amount, revenues from interconnection charges increased 16.1% to R$2,050.2 million in the nine-month period ended September 30, 2004 from R$1,765.6 million in the nine-month period ended September 30, 2003. This increase was primarily due to the new rules relating to the Carrier Selection Codes described above, which increased our revenues from interconnection charges from domestic long distance and international calls. This increase was partially offset by the effect of the Bill & Keep rules described above, which limited revenues from interconnection charges paid by other SMP providers operating in the same areas in which we provide local service.

Other. Revenues from other services increased 54.5% to R$304.9 million in the nine-month period ended September 30, 2004, from R$197.4 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was principally due to an increase in revenues from data services, especially SMS services, due to increased marketing efforts for these services, as well as increased customer attraction to the capabilities of 1x Radio Transmission Technology, or 1xRTT technology. This 1xRTT technology, also known as CDMA 2000 1X technology, is a third-generation cellular telecommunications technology that allows greater data transmission capability, such as multimedia messaging services (MMS), sending photo messages and music data downloads. In addition, revenues from other services included the consolidation of R$13.6 million in other revenues of TCO for the period from January to April 2004.

Value-added and other indirect taxes. Value-added and other indirect taxes increased 42% to R$1,296.6 million in the nine-month period ended September 30, 2004 from R$913.1 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 reflected the consolidation of R$178.2 million in taxes of TCO for the months of January to April 2004. Without this amount, value-added and other indirect taxes increased 22.5% to R$1,118.4 million in the nine-month period ended September 30, 2004 from R$913.1 million in the nine-month period ended September 30, 2003. This increase was principally due to increased revenues.

Value-added taxes and other indirect taxes on operating revenues were 18.2% of gross operating revenue in the nine-month period ended September 30, 2004, compared to 16.8% of gross operating revenue in the nine-month period ended September 30, 2003. The effective rate of taxes on gross operating revenues varies depending upon the composition of our revenues and the specific tax rate applicable to the subsidiary that generates the revenue because the *Imposto sobre Circulação de Mercadorias e Serviços,* or

ICMS, a tax imposed by Brazilian states, is calculated at rates varying from 7% to 27%, depending on the state and the nature of the goods and services.

Sales and services discount and return of goods sold. Deductions from operating revenues include discounts on cellular handset sales, discounts on services and returns of goods sold. Discounts and returns increased by 29.5% in the nine-month period ended September 30, 2004 to R$435.2 million from R$336.2 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was primarily due to the consolidation of R$37.4 million of discounts and returns attributable to TCO for the months of January to April 2004. Without his amount, discounts and returns increased by 18.3% to R$397.8 million in the nine-month period ended September 30, 2004 from R$336.2 million in the nine-month period ended September 30, 2003, principally due to increased sales discounts generated by an aggressive pricing strategy relating to promotional campaigns for Mother s Day, Valentine s Day and Father s Day in 2004.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for each of the nine-month periods ended September 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Nine-Month Period Ended September 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Depreciation and amortization	(538.2)	(641.3)	(16.1)
Materials and services	(387.7)	(463.0)	(16.3)
Personnel	(42.8)	(33.0)	29.7
Rental, insurance and condominium fees	(69.8)	(66.5)	5.0
Cost of goods sold	(1,181.6)	(760.8)	55.3
Fistel and other taxes	(139.8)	(134.4)	4.0
Cost of services and goods	(2,359.9)	(2,099.0)	12.4

Cost of services and goods increased by 12.4% in the nine-month period ended September 30, 2004 to R$2,359.9 million from R$2,099.0 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was principally due to the consolidation of R$253.1 million of cost of services and goods attributable to TCO for the months of January to April 2004. Without this amount, cost of services and goods increased 0.4% to R$2,106.8 million in the nine-month period ended September 30, 2004 from R$2,099.0 million in the nine-month period ended September 30, 2003.

Gross margin, which is defined as gross profit as a percentage of net revenues, increased to 56.2% in the nine-month period ended September 30, 2004 from 49.7% in the nine-month period ended September 30, 2003, primarily due to the effects of the consolidation of the results of operations of TCO for the full nine-month period ended September 30, 2004.

Depreciation and amortization. Depreciation and amortization expenses decreased 16.1% to R$538.2 million in the nine-month period ended September 30, 2004 from R$641.3 million in the nine-month period ended September 30, 2003. This decrease was principally due to the termination of depreciation of our analog network in 2003. This decrease was partially offset by the effect of the consolidation of depreciation and amortization expenses of TCO for the first four months of 2004 in the amount of R$51.1 million.

Material and services. Cost of material and services decreased 16.3% to R$387.7 million in nine-month period ended September 30, 2004 from R$463.0 million in the nine-month period ended September 30, 2003. This decrease was principally due to the effect of the new Carrier Selection Code rules and Bill & Keep rules described above, which reduced interconnection charges we pay to other providers to R$155.9 million in the nine-month period ended September 30, 2004 from R$246.7 million in the nine-month period ended September 30, 2003. This decrease was partially offset by the effect of the consolidation of cost of material and services of TCO for the first four months of 2004 in the amount or R$41.9 million. Leased line charges decreased 25.9%, primarily due to the impact of foreign exchange variations.

Personnel. Personnel expenses increased 29.7% to R$42.8 million in nine-month period ended September 30, 2004 from R$33.0 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was principally due the consolidation of R$7.7 million of personnel costs attributable to TCO for the months of January to April 2004. Without this amount, personnel expenses increased 6.4% to R$35.1 million in the nine-month period ended September 30, 2004 from R$33.0 million in the nine-month period ended September 30, 2003, principally due to the effect of wage increases to adjust for inflation implemented in November 2003.

Rental, insurance and condominium fees. Rental, insurance and condominium fees increased 5.0% to R$69.8 million in nine-month period ended September 30, 2004 from R$66.5 million in the nine-month period ended September 30, 2003. This increase was due to the consolidation of R$5.7 million of rental, insurance and condominium fees attributable to TCO for the months of January to April 2004.

Cost of goods sold. Cost of goods sold increased 55.3% to R$1,181.6 million in nine-month period ended September 30, 2004 from R$760.8 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 reflected the consolidation of R$131.4 million in cost of goods of TCO for the first four months of 2004. Without this amount, cost of goods sold increased 38.0% to R$1,050.2 million in the nine-month period ended September 30, 2004 from R$760.8 million in the nine-month period ended September 30, 2003, principally due to an increase in the number of handsets sold and the sale of more sophisticated and expensive handset models, although sales of less expensive models also increased through our aggressive pricing strategy relating to promotional campaigns for Mother s Day, Valentine s Day and Father s Day in 2004.

Fistel and other taxes. Our Fistel and other taxes increased 4.0% to R$139.8 million in nine-month period ended September 30, 2004 from R$134.4 million in the nine-month period ended September 30, 2003. This increase was principally due to an expansion of our equipment and an increase in the number of handsets sold. This increase also reflects the consolidation of R$1.7 million of Fistel and other taxes of TCO for the months of January to April 2004.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the nine-month periods ended September 30, 2004 and 2003, as well as the percentage change of each period from the prior year period.

	Nine-Month Period Ended September 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Selling expenses	(1,309.8)	(860.0)	52.3
General and administrative expenses	(522.1)	(392.9)	32.9
Other net operating expenses	(138.2)	(48.6)	184.4
Operating expenses	(1,970.1)	(1,301.5)	51.4

Operating expenses increased 51.4% to R$1,970.1 million in nine-month period ended September 30, 2004 from R$1,301.5 million in the nine-month period ended September 30, 2003. This increase reflects the consolidation of R$189.8 million in operating expenses of TCO for the months of January to April 2004.

Selling expenses. Selling expenses increased 52.3% to R$1,309.8 million in the nine-month period ended September 30, 2004 from R$860.0 million in the nine-month period ended September 30, 2003. This increase reflects the consolidation of selling expenses of TCO in the amount of R$139.9 million for the months of January to April 2004. Without this amount, selling expenses increased 36.0% to R$1,169.9 million in the nine-month period ended September 30, 2004 from R$860.0 million in the nine-month period ended September 30, 2003, principally due to an increase in advertising costs, dealers commissions and call center costs.

Provisions for doubtful accounts increased 62.6% to R$117.4 million in nine-month period ended September 30, 2004 from R$72.2 million in the nine-month period ended September 30, 2003. This increase reflects the consolidation of provisions for doubtful accounts of TCO in the amount of R$6.2 million for months of January to April 2004. Without this amount, provisions for doubtful accounts increased 54.0% to R$111.2 million in September 2004, principally due to an increase in operating revenues for the nine-month period ended September 30, 2004.

General and administrative expenses. General and administrative expenses increased by 32.9% in nine-month period ended September 30, 2004 to R$522.1 million from R$392.9 million in the nine-month period ended September 30, 2003. The increase in the nine-month period ended September 30, 2004 was principally due to the consolidation of R$49.7 million of general and administrative expenses attributable to TCO for the months of January to April 2004. Without this amount, general and administrative expenses increased 20.2% to R$472.4 million in the nine-month period ended September 30, 2004 from R$392.9 million in the nine-month period ended September 30, 2003, principally due to increased personnel expenses and increased depreciation and amortization expenses resulting from capital expenditures on our management information systems.

Other net operating expenses. We had other net operating expenses of R$138.2 million in the nine-month period ended September 30, 2004, compared to other net operating expense of R$48.6 million in the nine-month period ended September 30, 2003. The increase in expenses for the nine-month period ended September 30, 2004 resulted mainly from R$141.8 million in amortization during that period of the goodwill recorded from the acquisition of a controlling interest in TCO in April 2003 and the acquisition of additional capital stock of TCO in a public tender offer in November 2003. In comparison, in the nine-month period ended September 30, 2003, we amortized R$25.2 million of goodwill relating to the TCO acquisition during the months of May and June 2003, and that goodwill related only to the acquisition of the controlling stake in TCO in April 2003. In addition, in the nine-month period ended September 30, 2003, we recorded a gain in the amount of R$68.5 million from the reversal of a provision relating to litigation over the assessment of ICMS tax on activation fees that was reversed in 2003. Telesp Celular had previously established this provision in connection with litigation at the Treasury Court of the State of São Paulo seeking a decision that the ICMS tax does not apply to cellular activation fees. We reversed the provision on March 31, 2003 when the Higher Justice Court *(Superior Tribunal de Justiça)* determined in an action filed by Telamazon Celular, another wireless operating company, that the ICMS tax could not be assessed on activation fees.

Net Financial Expense

The following table sets forth certain components of our net financial expense, as well as the percentage change of each component from the prior year period, for each of the nine-month periods ended September 30, 2004 and 2003.

	Nine-Month Period Ended September 30,		
	2004	**2003**	**% Change**
	(R$ millions)		**(In percentages)**
Financial income	210.4	208.3	1.0
Exchange gains and losses	570.2	1,935.6	(70.5)
Losses on foreign currency derivative contracts	(476.5)	(416.1)	14.5
PIS/ COFINS on financial income	(75.0)	(8.8)	752.3
Financial expenses	(980.5)	(2,562.0)	(61.7)
Net financial expense	(751.4)	(843.0)	(10.9)

Net financial expense decreased 10.9% to R$751.4 million in nine-month period ended September 30, 2004 from R$843.0 million in the nine-month period ended September 30, 2003. This decrease was primarily due to an 17.8% decrease in the CDI rate. This decrease was partially offset by an increase in our consolidated debt to R$6,636.4 million at September 30, 2004 from R$5,767.5 million at September 30, 2003.

Income and Social Contribution Taxes

Income and social contribution taxes increased 28.7% to R$293.9 million in the nine-month period ended September 30, 2004 from R$228.4 million in the nine-month period ended September 30, 2003. Despite our net losses, we recorded income and social contribution taxes of R$93.8 million, R$202.4 million and R$2.3 million in the nine-month period ended September 30, 2004 and R$99.7 million, R$107.5 million and R$21.2 million in the nine-month period ended September 30, 2003, based on the operating results of Telesp Celular, TCO and Global Telecom, respectively. According to Brazilian tax law, losses from consolidated entities cannot be used to offset income of other consolidated entities.

Minority Interests

Minority interests for the nine-month period ended September 30, 2004 represent the participation of minority shareholders in the net income of TCO for the period from January to September 2004. For the nine-month period ended September 30, 2003, minority interests represent the participation of minority shareholders in the net income of TCO from May through June 2003.

Supplemental Information on Liquidity and Capital Resources as of September 30, 2004

Capital Expenditures

The following table sets forth our consolidated capital expenditures for the periods indicated:

	Nine-Month Period Ended September 30,	
	2004	**2003**
	(R$ millions)	
Switching equipment	286.5	59.2
Transmission equipment	266.9	70.1
Information technology	167.2	58.7
Others(1)	170.9	68.3
Total capital expenditures	891.5	256.3

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(1) Handsets for rental, network constructions, furniture and fixtures, office equipment, and store layouts.

During the nine-month period ended September 30, 2004, we invested R$891.5 million in fixed assets, mainly in the selective implementation of 1xRTT network to replace TCO s TDMA network.

Debt

As of September 30, 2004, our total debt position was as follows:

Debt	**Amount Outstanding as of September 30, 2004**
	(R$ millions)
Financing from banks	4,356.4
Financing from suppliers	11.6
Fixcel acquisition of TCO	53.5
Related parties	2,080.3
Total debt before interest	6,501.8
Interest	134.6
Total debt	6,636.4
Of total debt:	
Total long-term debt, excluding the short-term portion	2,116.3
Short-term debt	4,520.1

As of September 30, 2004, our total debt was R$6,636.4 million, of which R$5,395.7 million, or 81.3%, was denominated in foreign currencies and therefore exposed to currency fluctuations. Of that amount, R$3,391.3 million was denominated in U.S. dollars (U.S.$1,186.3 million), R$1,480.0 million was denominated in euros (416.0 million), R$448.6 million was denominated in yen

(¥ 17,255.4 million) and R$75.7 was denominated in UMBNDES (UMBNDES 4.2 million). Devaluation of the *real* results in exchange losses on foreign currency indebtedness. In order to protect against this risk, we have entered into over-the-counter derivatives transactions with international and domestic financial institutions. At September 30, 2004, we had derivative contracts that covered amounts in excess of our foreign currency-denominated debt.

Since September 30, 2004, we incurred indebtedness in an aggregate amount of R$901.5 million to fund our purchase of preferred shares of TCO on October 8, 2004 pursuant to a public tender offer. See Capitalization and Tender Offer for a Portion of TCO Preferred Shares.

We are exposed to interest rate risk as a consequence of our floating rate debt. At September 30, 2004, approximately 49.3% of our interest-bearing liabilities bore interest at floating rates, primarily EURIBOR for euro-denominated debt, LIBOR for U.S. dollar-denominated debt and CDI, TJLP and

UMBNDES. Accordingly, our financing expenses will increase if market interest rates, such as LIBOR, EURIBOR, CDI or TJLP, rise. At September 30, 2004, all of our foreign currency derivatives contracts bore interest payments linked to the CDI rate. We have not hedged against the risk of interest rates increasing. The CDI rates as of September 30, 2004 and 2003 were 16.2% and 19.7%, respectively.

At June 30, 2004, we had U.S.$280.0 million in forward purchase agreements allowing us to purchase U.S. dollars in September 2006 at R$1.23 per U.S. dollar. In order to reduce the costs of our derivatives contracts, in 2000 we sold call options on U.S. dollars exercisable in September 2004 if the value of the *real* fell below R$2.25 to one U.S. dollar. These options were exercised in September 2004. The final amount we owe under these derivative contracts is U.S.$65.1 million. Pending the Central Bank s authorization for the remittance of this amount to the counterparty, we requested, and the counterparty has agreed, to reschedule the date of payment. This obligation is accruing interest at the one-month LIBOR rate plus one percent.

Some of the debt agreements of TCP and its subsidiaries contain restrictive covenants. Financial ratios apply to some indebtedness of Global Telecom and TCO and involve (1) current ratios, (2) capitalization ratios, (3) EBITDA margins, (4) interest coverage ratios and (5) debt to capital ratios.

Off-Balance Sheet Arrangements

As of September 30, 2004, we had R$1.2 million in off-balance sheet financing related to the leasing of network equipment. The annual expenses related to this financing are included as costs and amounted to R$17.0 million and R$22.9 million in the nine-month periods ended September 30, 2004 and 2003, respectively.

We have no majority-owned subsidiaries that are not included in our consolidated financial statements, nor do we have any interests in, or relationships with, any special purpose entities that are not reflected in our consolidated financial statements.

Supplemental Information on Operating Performance

The following table sets forth selected data on operating performance for Telesp Celular, Global Telecom and TCO as of and for the periods indicted.

	As of and for the Three-Month Period Ended		
	September 30, 2004	**June 30, 2004**	**March 31, 2004**
Telesp Celular			
Customers at period end (thousands)	8,757	8,500	7,970
Estimated market share(1)	57.7%	59.5%	61.5%
Net additions (thousands)	257	530	475
Estimated market share of net additions(1)	28.5%	40.0%	53.1%
Subscriber acquisition cost (SAC) (R$)(2)	193	148	144
Monthly churn(%)(3)	1.7%	1.6%	1.2%
Average monthly revenues per user (ARPU) (R$ per month)(4)	34.4	37.2	39.6
Average minutes of use (MOU) per customer (minutes)(5)	89	94	99

	As of and for the Three-Month Period Ended		
	September 30, 2004	June 30, 2004	March 31, 2004
Global Telecom			
Customers at period end (thousands)	2,299	2,129	1,873
Estimated market share(1)	43.9%	44.4%	44.4%
Net additions (thousands)	170	256	182
Estimated market share of net additions(1)	38.9%	44.5%	48.9%
Subscriber acquisition cost (SAC) (R$)(2)	170	131	137
Monthly churn(%)(3)	1.2%	0.9%	1.4%
Average monthly revenues per user (ARPU) (R$ per month)(4)	24.7	25.5	28.3
Average minutes of use (MOU) per customer (minutes)(5)	72	76	86
TCO			
Customers at period end (thousands)	5,307	4,901	4,452
Estimated market share(1)	53.8%	55.0%	55.7%
Net additions (thousands)	406	449	340
Estimated market share of net additions(1)	42.6%	48.7%	59.8%
Subscriber acquisition cost (SAC) (R$)(2)	121	95	84
Monthly churn(%)(3)	1.8%	2.0%	1.7%
Average monthly revenues per user (ARPU) (R$ per month)(4)	32.5	33.7	31.6
Average minutes of use (MOU) per customer (minutes)(5)	84	91	86

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(1) Estimated based on the total number of cellular lines in service in the applicable region as published by Anatel.

(2) Subscriber acquisition cost is the sum of (a) (i) 70% of marketing expenses, (ii) costs of the distribution network and (iii) handset subsidies divided by (b) gross additions.

(3) Monthly churn is the number of customers disconnected during the quarter divided by the sum of the average customer base for the three months in the quarter.

(4) Average monthly revenues per user excludes taxes and revenues from cellular telephone sales and is calculated using the sum of the average customer base for the three months in the quarter.

(5) Average minutes of use per customer is the monthly average, in minutes, of traffic (outgoing and incoming) per customer and is calculated using the sum of the average customer base for the three months in the quarter.

Telesp Celular

In the first three quarters of 2004, Telesp Celular s total customers continued to grow, and it remained the market leader, while its market share of net additions declined due to increased competition. Subscriber acquisition cost increased due to greater expenses on subsidies, commissions and advertising as well as a decrease in gross additions, in each case driven by increased competition. Monthly churn increased from the first quarter to the second quarter of 2004 due to the disconnection of prepaid customers for failure to update their personal record information as required by Anatel, as well as due to increased competition. However, monthly churn increased only slightly from the second quarter to the third quarter of 2004 due to customer loyalty initiatives, in spite of increased competition. Average monthly revenues per user declined from the first quarter to the third quarter of 2004, primarily due to a shift in customer mix toward prepaid customers, a decrease in incoming minutes of use, an increase in free minutes bonuses and the effect of the Carrier Selection Code and Bill & Keep rules.

Global Telecom

In the first three quarters of 2004, Global Telecom s total customers continued to grow, while its market share of net additions declined due to increased competition. After decreasing between the first and second quarters of 2004, subscriber acquisition cost increased between the second and third quarters of 2004 due to greater expenses on subsidies, commissions and advertising necessitated by increased competition as well as fewer additions of customers resulting from that competition. Monthly churn declined between the first and second quarters of 2004, in spite of the disconnection of prepaid customers for failure to update their personal record information and increased competition, before increasing between the second and third quarters of 2004 due to increased competition. Average monthly revenues per user declined from the first quarter to the third quarter of 2004, primarily due to a shift in customer mix toward prepaid customers, a decrease in incoming minutes of use, an increase in free minutes bonuses and the effect of the Carrier Selection Code and Bill & Keep rules.

TCO

In the first three quarters of 2004, TCO s total customers continued to grow, and it remained the market leader, while its market share of net additions declined due to increased competition. Subscriber acquisition cost increased due to greater average expenses on subsidies, commissions and advertising necessitated by increased competition as well as fewer additions. Monthly churn increased from the first quarter to the second quarter of 2004 due primarily to the disconnection of prepaid customers for failure to update their personal record information as required by Anatel. However, monthly churn decreased from the second quarter to the third quarter of 2004 due to customer loyalty initiatives. Average monthly revenues per user increased from the first quarter to the second quarter of 2004 due primarily to an increase in outgoing minutes of use. Average monthly revenues per user decreased from the second quarter to the third quarter of 2004 due primarily to a shift in customer mix toward prepaid customers, a decrease in incoming minutes of use and the effect of the Carrier Selection Code and Bill & Keep rules.

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

The following unaudited pro forma condensed financial information gives pro forma effect to our acquisition of control of TCO in April 2003 and our acquisition of additional shares of TCO through public tender offers in November 2003 and October 2004, which we refer to in this subsection as the acquisitions of TCO s shares. The unaudited pro forma condensed statements of loss also give pro forma effect to our financial expenses relating to indebtedness we incurred to finance the acquisitions of TCO s shares. This financial information was prepared from, and should be read in conjunction with, the following historical financial statements, including the applicable notes thereto:

our audited consolidated financial statements as of and for the year ended December 31, 2003, which are incorporated by reference into this prospectus;

the audited consolidated financial statements of TCO as of and for the year ended December 31, 2003, which are also incorporated by reference into this prospectus; and

our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 included in this prospectus.

The unaudited pro forma condensed statement of loss for the year ended December 31, 2003 gives effect to the acquisitions of TCO s shares as if they had occurred on January 1, 2003. The unaudited pro forma condensed statement of loss for the six-month period ended June 30, 2004 gives pro forma effect to the acquisition of additional shares of TCO through the public tender offer in October 2004 as if such acquisition had occurred on January 1, 2003. The unaudited pro forma condensed balance sheet as of June 30, 2004 gives effect to the acquisitions of TCO s shares as if they had occurred on that date.

The unaudited pro forma condensed statements of loss were prepared in accordance with the Brazilian Corporate Law Method, which differs in certain material respects from U.S. GAAP. Note 37 to our audited consolidated financial statements and note 18 to our unaudited condensed consolidated interim financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2003 and 2004 describe the principal differences between the Brazilian Corporate Law Method and U.S. GAAP as they relate to us. Note 36 to the TCO audited consolidated financial statements describes these principal differences as they relate to TCO. The unaudited pro forma condensed financial information includes pro forma reconciliations from the Brazilian Corporate Law Method to U.S. GAAP of net loss for the six-month period ended June 30, 2004 and the year ended December 31, 2003, and of shareholders equity as of June 30, 2004.

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

The unaudited pro forma financial information was prepared for illustrative purposes only. This information does not purport to represent what the actual results of operations of our company would have been if the acquisitions had actually occurred on January 1, 2003 or what our financial position would have been if the acquisitions had actually occurred on June 30, 2004 and does not necessarily indicate what our operating results or financial position will be in the future.

TELESP CELULAR PARTICIPAÇÕES S.A.

PRO FORMA CONDENSED STATEMENT OF LOSS

For the Year Ended December 31, 2003

	TCP	TCO(1)	Acquisition of TCO and November 2003 Tender Offer(2)	October 2004 Tender Offer(3)	Eliminations	Pro Forma TCP
			(R$ millions, except per share data)			
Net operating revenue	6,046.3	568.0			(15.2)	6,599.1
Cost of services and goods	(3,020.5)	(259.0)			15.2	(3,264.3)
Gross profit	3,025.8	309.0				3,334.8
Operating expenses:						
Selling expenses	(1,264.9)	(81.5)				(1,346.4)
General and administrative expenses	(561.3)	(61.6)				(622.9)
Other net operating income (expenses)	(145.0)	(0.9)	(256.6)	(103.6)		(506.1)
Operating income before equity in losses of unconsolidated subsidiary and net financial expenses	1,054.6	165.0	(256.6)	(103.6)		859.4
Net financial expenses	(1,133.5)	43.9	(204.7)	(197.8)		(1,492.1)
Operating income (loss)	(78.9)	208.9	(461.3)	(301.4)		(632.7)
Net non-operating income (expenses)	(25.7)	0.8				(24.9)
Income (loss) before minority interest and income taxes	(104.6)	209.7	(461.3)	(301.4)		(657.6)
Minority interest	(257.7)	(2.7)	(73.1)	102.5		(231.0)
Income taxes	(277.9)	(71.8)				(349.7)
Net income (loss)	(640.2)	135.2	(534.4)	(198.9)		(1,238.3)
U.S. GAAP adjustments	541.4	22.5	124.7	11.3		699.9
Net income (loss) under U.S. GAAP	(98.8)	157.7	(409.7)	(187.6)		(538.4)
Earnings per share:						
Loss per thousand shares common and preferred Brazilian corporate law	(0.55)					(1.06)
Basic and diluted loss per thousand shares common and preferred U.S. GAAP	(0.08)					(0.46)

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(1) Represents TCO s results for the period from January 1, 2003 to April 25, 2003.

(2) The pro forma adjustments for the acquisition of TCO and the public tender offer in November 2003 represent (i) pro forma amortization of the goodwill recorded under the Brazilian Corporate Law Method, (ii) pro forma interest expense associated with the financings obtained to fund the acquisition of control of TCO in April 2003 and the public tender offer in November 2003 and (iii) pro forma U.S. GAAP adjustments to reflect purchase accounting in accordance with SFAS No. 141, Business Combinations, for these transactions.

(footnotes continued on following page)

(continuation of footnotes from preceding page)

(a) Under the Brazilian Corporate Law Method, the goodwill associated with the acquisition of control of TCO in April 2003 and the subsequent tender offer in November 2003 has been attributed to:

the excess of the fair values of property, plant and equipment over book value of R$177.7 million; and

R$1,478.5 million related to future profitable operations.

A pro forma adjustment has been recorded to give effect to the amortization of goodwill associated with the acquisition of control of TCO in April 2003 and the subsequent tender offer in November 2003. We amortize goodwill attributed to the fair values of property, plant and equipment over the respective useful lives of the underlying assets. The goodwill related to future profitable operations is amortized on a straight-line basis over a five-year period. The pro forma adjustment to minority interests represents the recognition of the 70.7% minority interests in TCO.

(b) The pro forma U.S. GAAP adjustments represent the difference between the pro forma adjustment for the amortization of goodwill under the Brazilian Corporate Law Method described above and the application of purchase accounting in accordance with SFAS No. 141, Business Combinations. See Note 37d., Acquisition of TCO, to our audited consolidated financial statements for a description of the accounting for the acquisitions and the purchase price allocation that was used for purposes of calculating the U.S. GAAP pro forma adjustments.

(3) The pro forma adjustments for the October 2004 tender offer for the preferred shares of TCO represent (i) pro forma amortization of the goodwill recorded under the Brazilian Corporate Law Method, (ii) pro forma interest expense associat