

TELESP CELLULAR HOLDING CO /ADR/
Form 20-F/A
June 24, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F/A**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission file number: 001-14493

TELESP CELULAR PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

Telesp Cellular Holding Company

(Translation of Registrant's name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Rua Abílio Soares 409, 04005-001

São Paulo, SP, Brazil

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:

Preferred Shares, without par value
American Depositary Shares (as evidenced
by American Depositary Receipts), each
representing 2,500 shares of Preferred Stock

Name of each exchange on which registered:

New York Stock Exchange*
New York Stock Exchange

* Not for trading purposes, but only in connection with the registration on the New York Stock Exchange of American Depositary Shares representing those preferred shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each class of stock of Telesp Celular Participações S.A., as of December 31, 2002:

409,383,864,536 Shares of Common Stock

762,400,487,973 Shares of Preferred Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

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Yes

No

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17

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INTRODUCTION

All references in this annual report to:

- "Telesp Celular Participações S.A.," "TCP," "we," "our" and "us" are to Telesp Celular Participações S.A. and its consolidated subsidiaries (unless the context otherwise requires), including the operations of Telesp Celular S.A., known as Telesp Celular, and Global Telecom S.A., known as Global Telecom;
- "Brazilian government" are to the federal government of the Federative Republic of Brazil;
- "real," "reais" or "R\$" are to Brazilian *reais*, the official currency of Brazil;
- "U.S.\$," "dollars" or "U.S. dollars" are to United States dollars;
- "ADSs" are to our American Depositary Shares, each representing 2,500 shares of our non-voting preferred stock;
- "Commission" are to the U.S. Securities and Exchange Commission;
- "CVM" are to the *Comissão de Valores Mobiliários*, the Brazilian securities commission;
- "Brazilian Central Bank," "Central Bank of Brazil" or "Central Bank" are to the *Banco Central do Brasil*, the Brazilian central bank;
- "General Telecommunications Law" are to Lei Geral de Telecomunicações, as amended, which regulates the telecommunications industry in Brazil;
- "Brazilian corporate law" are to Law No. 6,404 of December, 1976, as amended;
- "Anatel" are to *Agência Nacional de Telecomunicações - ANATEL*, the Brazilian telecommunication regulatory agency; and
- "SMP" are to *Serviço Móvel Pessoal*, a service rendered pursuant to a new legislation that authorizes wireless companies to provide wireless services.

Unless otherwise specified, data relating to the Brazilian telecommunications industry included in this annual report was obtained from Anatel.

The Annex A Glossary of Telecommunications Terms that begins on page A-1 provides the definitions of certain technical terms used in this annual report.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000, have been prepared in accordance with accounting principles adopted in Brazil as prescribed by the Brazilian corporate law, or the Brazilian corporate law method, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 37 to our financial statements appearing elsewhere in this annual report describes the principal differences between the Brazilian corporate law method and U.S. GAAP as they relate to us, and provides a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity. These consolidated financial statements have been audited by Deloitte Touche Tohmatsu Auditores Independentes.

The consolidated financial statements included in this annual report, and the selected financial data presented herein, have been prepared on the same basis of accounting as that used in our annual and interim financial statements published in Brazil.

Before December 31, 2000, we presented financial information using price-level accounting methodology prescribed by the Brazilian Federal Accountancy Council. On December 31, 2000, we changed the presentation of our financial information to the Brazilian corporate law method, which does not permit price-level accounting since 1996, because we do not primarily rely on price-level accounting to report our financial information to investors and authorities in Brazil. For consistency, we presented all of our financial information in this annual report according to the Brazilian corporate law method.

This annual report also contains the audited combined financial statements of Globaltelcom Telecomunicações S.A., Daini do Brasil S.A. and Inepar S.A. Participações em Investimentos de Telecomunicações (which, as of December 31, 2002, is known as GTPS S.A. Participações em Investimentos de Telecomunicações), collectively known 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. These combined financial statements have been audited by Deloitte Touche Tohmatsu Auditores Independentes.

On February 6, 2001, TCP acquired 49% of the voting shares and 100% of the non-voting shares of Global Telecom Holdings, which collectively held 95% of the voting shares and 100% of non-voting shares of Global Telecom. After obtaining authorization from Anatel, Global Telecom Holdings acquired the remaining 5% of the voting shares of Global Telecom. On December 31, 2001, TCP's aggregate direct economic interest in Global Telecom Holdings represented an indirect 83% interest of the total equity of Global Telecom, which is a mobile operator in the Brazilian states of Paraná and Santa Catarina. On December 27, 2002, after obtaining approval from Anatel, TCP purchased the remaining 51% of the outstanding common stock of Global Telecom Holdings and now indirectly and directly owns 100% of the capital of Global Telecom.

The combined financial statements of Global Telecom Holdings included in this annual report have been prepared in accordance with the Brazilian corporate law method. A discussion of the principal differences between the Brazilian corporate law method and U.S. GAAP relevant to Global Telecom Holdings is set out in Note 27 to Global Telecom Holdings's audited combined financial statements.

FORWARD-LOOKING STATEMENTS

The U.S. Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Certain sections in this annual report, principally in Item 3D. Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, contains information that is forward-looking, including but not limited to:

- 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; 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, 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 short history of our operations as an independent, private-sector entity and the introduction of competition to the Brazilian telecommunications sector;
- the cost and availability of financing;

- uncertainties relating to political and economic conditions in Brazil;
- inflation and exchange rate 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 annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 included in this annual report have been derived from, and should be read in conjunction with, our audited consolidated financial statements and notes thereto included elsewhere in this annual report and audited by Deloitte Touche Tohmatsu Auditores Independentes. The selected financial data as of December 31, 2000 and 1998 and for the years ended December 31, 1999 and 1998 included in this annual report have been derived from our audited financial statements and notes thereto also audited by Deloitte Touche Tohmatsu Auditores Independentes, which are not included in this annual report. The selected financial data as of December 31, 1999 included in this annual report have been derived from our audited financial statements and notes thereto audited by Arthur Andersen S/C, which are not included in this annual report. See Presentation of Financial Information above for more information on the presentation of our financial data.

In February 2001, we acquired an interest of 49% of the outstanding common stock and 100% of the outstanding preferred shares in Globaltelecom Telecomunicações S.A., Daini do Brasil S.A. and GTPS S.A. Participações em Investimentos de Telecomunicações, or Global Telecom Holdings, that held 95% of the voting shares and 100% of the non voting shares of Global Telecom for aggregate consideration of approximately R\$902 million, and we incurred R\$700 million in indebtedness to finance part of the acquisition price. In July 2001, we financed part of the acquisition by the holding companies of the remaining 5% of the voting shares of Global Telecom. The total amount paid by us in 2001 in the acquisition of our indirect economic interest in Global Telecom, including acquisition expenses, was R\$932.4 million. On December 27, 2002, after obtaining approval from Anatel, TCP purchased the remaining 51% of the outstanding common stock of each of the holding companies for R\$290.3 million and now owns directly and indirectly 100% of the capital of Global Telecom. In September 2002, we made advances to future capital increases in Global Telecom in the total amount of R\$2,630.3 million and in December 2002, part of this advance for future capital increases (in the amount of R\$2,310.9 million) was capitalized. The selected financial information reflects our investment in Global Telecom Holdings since the date of acquisition until December 27, 2002 under the equity method of accounting. As of December 31, 2002, the balance sheets of Global Telecom and the holding companies that became TCP's subsidiaries on December 27, 2002 were fully consolidated. Results of Operations of Global Telecom and the holding companies for the year ended December 31, 2002 are reflected in the statement of income under the equity method of accounting.

Accounting Consequences of the Restructuring of Telebrás

At the May 22, 1998 shareholders meeting for Telecomunicações Brasileiras S.A. Telebrás, or Telebrás, the shareholders established the shareholders' equity of each new holding company formed as a result of the reorganization of the Telebrás system, or the Breakup of Telebrás, and allocated to each a portion of the retained earnings of Telebrás. Telebrás preserved sufficient retained earnings from which to pay certain dividends and other amounts. The balance of its retained earnings was allocated to each new holding company in proportion to the total net assets allocated to each such company. TCP was one of these new holding companies.

Brazilian Corporate Law Method Accounting

Our consolidated financial statements included in this annual report, and the selected financial data presented below, have been prepared in accordance with the Brazilian corporate law method, which is the same basis of accounting as that used in our annual and interim financial statements published in Brazil.

Brazilian Corporate Law Method and U.S. GAAP

Our consolidated financial statements are prepared in accordance with the Brazilian corporate law method, which differs in certain material respects from U.S. GAAP. See Note 37 to our consolidated financial statements for a summary of the differences between the Brazilian corporate law method and U.S. GAAP.

The following tables present a summary of our selected financial data at the dates and for each of the periods indicated. You should read the following information together with our financial statements and the notes thereto included elsewhere in this annual report and with Item 5. Operating and Financial Review and Prospects.

	Year ended December 31,					
	1998	1999	2000	2001	2002	2002
	(R\$ million, except per share data)					U.S.\$ (4)
Income Statement Data (2):						
<i>Brazilian corporate law method</i>						
Net operating revenue	1,682.5	2,211.6	2,766.7	2,946.2	3,390.6	959.6
Cost of services and goods sold	(641.3)	(1,353.2)	(1,689.2)	(1,656.4)	(1,648.4)	(466.5)
Gross profit	1,041.2	858.4	1,077.5	1,289.8	1,742.2	493.1
Operating expenses:						
Selling expenses	(181.1)	(387.0)	(554.2)	(605.0)	(617.9)	(174.9)
General and administrative expenses	(76.2)	(131.7)	(217.9)	(271.2)	(288.5)	(81.7)
Other net operating income (expenses)	(40.2)	61.4	33.9	(67.6)	(70.1)	(19.8)
Operating income before equity in losses of unconsolidated subsidiary and net financial expenses	743.7	401.1	339.3	346.0	765.7	216.7
Equity in losses of unconsolidated subsidiary	-	-	-	(653.6)	(890.7)	(252.1)
Net financial expenses	(87.5)	(206.0)	(137.1)	(541.5)	(808.4)	(228.8)
Operating income (loss)	656.2	195.1	202.2	(849.1)	(933.4)	(264.2)
Net non-operating income (expenses)	0.2	1.3	(0.6)	(0.4)	10.0	2.8
Income (loss) before income taxes, minority interests and extraordinary item	656.4	196.4	201.6	(849.5)	(923.4)	(261.4)
Income taxes	(169.4)	(36.4)	(49.4)	14.7	(46.5)	(13.2)
Minority interests	(118.6)	(47.1)	-	-	-	-
Extraordinary item, net of taxes	(47.0)	-	-	(278.8)	(170.9)	(48.4)
Income before interest income, unallocated interest expense and taxes	0.54	0.18	0.36	-	-	-
Net income (loss)	321.4	112.9	152.2	(1,113.6)	(1,140.8)	(323.0)
Net income (loss) per 1,000 shares	0.96	0.34	0.33	(2.43)	(0.97)	(0.28)
Dividends declared per thousand preferred shares (3)	0.269525	0.092498	0.245220	-	-	-
Dividends declared per thousand common Shares (3)	0.269525	0.092498	0.112948	-	-	-
<i>U.S. GAAP</i>						

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Net operating revenue	2,035.7	2,379.8	2,963.7	3,599.7	4,550.6	1,287.9
Operating income	587.0	310.6	220.2	198.0	328.8	93.0
Net financial expenses	(23.4)	(315.4)	(192.1)	(743.5)	(1,149.6)	(325.4)
Equity in losses of unconsolidated subsidiaries	-	-	-	(733.8)	(759.1)	(214.8)
Net non-operating income (expenses)	0.2	1.3	(0.6)	(9.6)	9.8	2.8
Income (loss) before income taxes, minority interests and extraordinary item	563.8	(3.5)	27.5	(1,288.9)	(1,570.1)	(444.4)
Income taxes and minority interest	(265.4)	15.6	9.4	97.5	74.4	21.1
Extraordinary item, net of tax	-	-	-	(12.7)	-	-
Net income (loss)	298.4	12.1	36.9	(1,204.1)	(1,495.7)	(423.3)
Basic and diluted net income (loss) per 1,000 shares - common and preferred (1)	0.89	0.04	0.09	(2.63)	(2.18)	(0.62)

Year ended December 31,

	2000	2001	2002	2002
	(R\$ million)			U.S.\$(4)
Cash Flow Data:				
<i>Brazilian corporate law method</i>				
Cash flows from operating activities	597.4	779.7	984.4	278.6
Cash flows from investing activities	(868.2)	(1,767.7)	(3,820.5)	(1,081.3)
Cash flows from financing activities	(501.1)	683.4	2,772.3	784.6
<i>U.S. GAAP</i>				
Cash flows from operating activities	552.2	784.0	1,061.6	300.5
Cash flows from investing activities	(823.0)	(1,745.3)	(3,835.0)	(1,085.4)
Cash flows from financing activities	501.1	656.7	2,709.6	766.9

As of December 31,

	1998	1999	2000	2001	2002	2002
	(R\$ million, except for per share data)					U.S.\$(4)
Balance Sheet Data (2):						
<i>Brazilian corporate law method</i>						
Property, plant and equipment, net	2,420.6	3,219.8	3,454.0	3,695.8	4,778.1	1,352.3
Total assets	3,205.5	5,454.3	6,204.0	6,872.2	9,654.4	2,732.4
Loans and financing	719.7	1,690.0	1,399.4	2,580.1	4,460.8	1,262.5
Net assets	1,125.5	2,267.0	3,857.1	2,742.6	4,010.0	1,134.9
Capital Stock	355.4	434.7	1,873.3	1,873.3	4,373.7	1,237.9
Number of shares as adjusted to reflect changes in capital	334,399,027	334,399,027	458,367,772	458,367,772	1,171,784,352	-
<i>U.S. GAAP</i>						
Property, plant and equipment, net	3,692.4	3,490.2	3,555.7	3,783.5	4,855.5	1,374.2
Total assets	3,556.2	6,057.0	7,089.1	7,218.3	10,202.0	2,887.4
Total liabilities	1,907.2	3,415.6	3,414.7	4,787.4	6,894.7	1,951.3
Net assets	1,216.9	2,229.8	3,674.4	2,430.9	3,307.3	936.0
Capital stock	355.4	434.7	1,873.3	1,873.3	4,373.7	1,237.9
Number of shares as adjusted to reflect changes in capital	334,399,027	334,399,027	458,367,772	458,367,772	1,171,784,352	

(1) Basic net income (loss) per share was equal to diluted net income (loss) per share for the years ended December 31, 1998 and 1999 because the Company did not have any potentially diluted shares outstanding. As result of the corporate restructuring completed on January 2000, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit realized on the amortization of the intangible related to concession that was transferred in the merger. The number of issuable shares, which are determined on the basis of estimates using the Company's share price at the date of the balance sheet, are considered dilutive and are included in the denominator for purposes of calculating dilutive earnings per share for the year ended December 31, 2000, 2001 and

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2002. The potentially dilutive shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for 2001 and 2002 as their effect would have been anti-dilutive.

(2) Telesp Celular was established effective in January 1998 by means of a spin-off from Telecomunicações de São Paulo S.A. TELESP, and we were established effective May 22, 1998 in the Breakup of Telebrás. Although the spin-off from Telecomunicações de São Paulo S.A. TELESP was approved at a shareholders meeting that occurred on February 28, 1998, the statements of income for the year ended December 31, 1998 reflect the operations of Telesp Celular for the full year of 1998.

(3) Interest on shareholders' equity are included as part of the dividends and they are presented net of taxes. The right to receive 1998's dividend is expired.

(4) U.S. dollar amounts in millions, except per share data, for the year ended December 31, 2002 are translated from *reais* solely for the convenience of the reader, at an exchange rate of R\$3.5333 per U.S.\$1.00. See Presentation of Financial Information above.

Exchange Rates

There are two legal exchange markets in Brazil:

- the commercial rate exchange market, and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

Between March 1995 and January 1999, the Brazilian Central Bank permitted the gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*/U.S. dollar exchange rate could fluctuate.

Responding to pressure on the *real*, on January 13, 1999, the Brazilian Central Bank widened the foreign exchange band and, on January 15, 1999, allowed the *real* to float freely. Since then, the *real* reached a low of R\$1.4659 on January 15, 1999 and a high of R\$3.9552 on October 22, 2002. At June 18, 2003, the commercial market rate for purchasing U.S. dollars was R\$2.8902 to U.S.\$1.00.

The Brazilian government may impose temporary restrictions on the conversion of *reais* into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or reason to foresee a serious imbalance.

The following tables show, for the periods and date indicated, certain information regarding the *real*/U.S. dollar commercial exchange rate.

<u>Year ended December 31,</u>	<u>Exchange Rate of R\$ per U.S.\$</u>			<u>Year End</u>
	<u>Low</u>	<u>High</u>	<u>Average(1)</u>	
1998	1.1165	1.2087	1.1609	1.2087
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

Source: Central Bank of Brazil, PTAX. PTAX is the average of the exchange rates negotiated in the commercial rate market on a given day.

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

<u>Month ended</u>	<u>Exchange Rate of R\$ per U.S.\$</u>	
	<u>Low</u>	<u>High</u>
December 31, 2002	3.4278	3.7980
January 31, 2003	3.2758	3.6623
February 28, 2003	3.4930	3.6580
March 31, 2003	3.3531	3.5687
April 30, 2003	2.8898	3.3359
May 31, 2003	2.8653	3.0277
June, 2003 (until June 18, 2003)	2.8491	2.9780

Source: Central Bank of Brazil, PTAX. PTAX is the average of the exchange rates negotiated in the commercial rate market on a given day.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Our business, results of operations or financial condition could be harmed if any of these risks materializes and, as a result, the trading price of the ADSs could decline.

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 government has intervened in the Brazilian economy and occasionally made drastic changes in policy. The Brazilian government's actions to control inflation and effect other policies have often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other things. 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:

- currency fluctuations;
- inflation;
- price instability;
- energy policy;
- interest rates;
- tax policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Tax reforms may affect our tariff rates.

If our subsidiaries providing telecommunication services experience a higher tax burden as a result of the tax reform, they may have to pass the cost of such tax increase to their customers. This increase may have a material negative impact on their and our revenues and operating results, and as a result, in the dividends paid by them to us.

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 certain of the Brazilian government's measures taken in the 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. In 2002, 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, reflected inflation of 26.4% compared to 10.4% in 2001 and 9.8% in 2000. 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 ADSs.

The Brazilian currency has historically experienced frequent devaluations. The *real* devalued against the U.S. dollar by 9.3% in 2000 and 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%. See Selected Financial Data Exchange Rates for more information on exchange rates.

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As of December 31, 2002, we had R\$4,460.8 million in total debt, of which 74.4% was denominated in foreign currencies, primarily the U.S. dollar and the euro. As of December 31, 2002, we had currency derivatives in place to cover 127.5% of our foreign currency-denominated debt. This excess hedge was a consequence of the capital increase that took place in 2002. We are considering unwinding our overhedge position, which could create financial losses because, under Brazilian corporate law, currency derivatives are carried at book value and not at market value. 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 we may derive income from derivative transactions denominated in foreign currencies, 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.

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.

For example, in 2001, after a prolonged recession, followed by political instability, Argentina announced that it would no longer continue to service its public debt. In order to address the deteriorating economic and social crisis, the Argentine government abandoned its decade-old fixed dollar-*peso* exchange rate, allowing the *peso* to float to market rate levels. In 2002, the Argentine *peso* experienced a 237% devaluation against the U.S. dollar. The situation in Argentina has negatively affected investors' perceptions towards Brazilian securities.

The recent political crisis in Venezuela may also influence investors' perception of risk in Brazil. If market conditions in Argentina and Venezuela continue to deteriorate, they may adversely affect our ability to borrow funds at favorable interest rates or to raise equity capital, when and if there is a need. Adverse developments in Argentina, in Venezuela or in other emerging market countries could lead to a reduction in both demand and the market price for our preferred shares and ADSs.

Risks Relating to the Brazilian Telecommunications Industry and Us

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 telecommunication services. Anatel, which is the main telecommunications industry regulator in Brazil, regulates, among other things:

- industry policies and regulations;
- licensing;
- tariffs;
- 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 authorization 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 SMP regime (first enacted in December 2000), thus encouraging companies operating under the SMC system to migrate to the SMP system. New rules will be applicable to the migrating companies, as contemplated by Anatel Resolutions Nos. 316/02 through 321/02 and 326/02.

Under the SMP regime, we will no longer receive payment from our customers for outbound long distance traffic, but will receive payment for the use of our network, in accordance with the network usage remuneration plan. However, there is no assurance that the interconnection fees that we will receive from long distance operators will compensate us for the revenues that we would have received from our customers for outbound long distance traffic.

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The SMP regime establishes free negotiation of the network usage fee among telecommunication service providers or a confirmation, until June 30, 2004, of the maximum fee by Anatel. After that date, negotiation of that fee will be the rule.

We cannot assure you that the new rules will not affect negatively our revenues and results of operations.

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

The Brazilian government is considering replacing the IGP-DI, the monetary adjustment index currently used in connection with the tariffs applied in the telecommunications industry, with another index, which has not yet been identified. We cannot assure you that a new index, if any, would adequately reflect the true effect of inflation on our tariffs.

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 wireless telecommunications companies, but also with companies that provide fixed-line telecommunications and Internet access 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, as well as 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. To the extent that we do not keep pace with technological advances, or fail to timely respond to changes in competitive factors in our industry, we could lose a portion of our market share or experience a decline in our revenue. Competition from other mobile communications service providers in the region in which we operate may also affect our financial results by causing, among other things, the rate of our customer growth to decline and bring about decreases in tariff rates and increases in selling expenses. This could have a material adverse effect on our results of operations.

There has been consolidation in the Brazilian telecommunications market, and we believe this trend may continue. Consolidations may result in increased competitive pressures within our market. We may be unable to adequately respond to pricing pressures resulting from consolidation, which would adversely affect our business, financial condition and 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 and/or a decrease in our customer growth could adversely affect our results of operations as well as our competitive position. The rate of customer turnover may be the result of several factors, including limited network coverage and lack of sufficient reliability of our services, as well as increased competition in the region in which we operate and the 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, N.V., directly and indirectly, approximately 93.7% of our common shares and 65.1% of our total capital. PT Móveis S.G.P.S., S.A. is 100% controlled by Portugal Telecom, S.G.P.S., S.A. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders. Due to their share ownership, our principal shareholders have the power to control us and our subsidiaries, including the power to elect 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, Portugal Telecom and Telefónica Móviles share their participation in us equally. Any disagreement or dispute between our controlling shareholders may have an impact on the decision-making capabilities of our management.

The wireless industry, including us, 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 wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. We cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, 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 Holdings has adversely affected, and could continue to adversely affect, our financial performance.

Our investment in Global Telecom Holdings presents operational and financial risks. Global Telecom started operations in 1999, and its principal competitor in its concession 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\$408.4 million in 2000, R\$856.1 million in 2001 and R\$771.1 million in 2002) resulting in significant part from capital expenditures, indebtedness and increased expenses in connection with the rapid expansion of its network infrastructure and upgrading its marketing and commercial capabilities.

In 2002, our financial results were adversely affected by (a) our R\$890.7 million of equity losses in Global Telecom Holdings, (b) an extraordinary adjustment from our investment in Global Telecom and (c) the interest expense arising from indebtedness we incurred to finance our acquisition of Global Telecom, which resulted in a net loss of R\$1,140.8 million in 2002, compared to a net loss of R\$1,113.6 million in 2001 and a net income of R\$152.2 million for 2000.

We may not be able to successfully integrate new operations into our business and may not be able to achieve the anticipated benefits of the acquisition.

In April 2003 we acquired 61.1% of the voting capital of Tele Centro-Oeste Celular Participações S.A., or TCO (NYSE: TRO). TCO provides telecommunications services in the mid-west region of Brazil, which includes 11 states and the Federal District. The integration of TCO's operations into our business involves numerous risks, including:

- difficulties in incorporating TCO's services and operations into our business;
- the diversion of our resources and of our management's attention from other business concerns;
- the potential loss of key TCO employees; and
- our estimation of the liability we may assume as a result of the acquisition, including tax and litigation claims, may not be accurate.

Our failure to integrate and manage TCO's business successfully could adversely affect our business and financial performance. In addition, if TCO's operations and financial results do not meet our expectations, we may not realize the synergies, operating efficiencies, market position or revenue growth we anticipate from the acquisition.

We face risks associated with litigation.

We are party to lawsuits and other proceedings in the ordinary course of our business. 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. For a more detailed description of these lawsuits, see Item 8.A Legal Matters.

Risks Relating to Our Preferred Shares and Our ADSs

Our preferred shares and our ADSs 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, are not entitled to vote at meetings of our shareholders, except in limited circumstances. See Item 10B. Memorandum and Articles of Association.

You might be unable to exercise preemptive rights with respect to our preferred shares unless there is a current registration statement in effect that covers those rights or unless an exemption from registration applies.

You will not be able to exercise the preemptive rights relating to our preferred shares underlying your ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights, or unless an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary, or, if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. For more information on the

exercise of your rights, see Item 10. Additional Information.

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 of the Central Bank of Brazil, dated January 26, 2000, known as Resolution 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration.

If holders of ADSs do not qualify under Resolution 2,689, they will generally be subject to less favorable tax treatment on distributions with respect to our preferred shares. There can be no assurance that the depositary's certificate of registration or any certificate of foreign capital registration obtained by holders of ADSs will not be affected by future legislative or regulatory changes, or that additional Brazilian law restrictions applicable to their investment in the ADSs may not be imposed in the future.

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

Investments in securities, such as the preferred shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing 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 (*Bolsa de Valores de São Paulo*), or BOVESPA, the main Brazilian stock exchange, had a market capitalization of U.S.\$124 billion as of December 31, 2002, and an average monthly trading volume of approximately U.S.\$4.1 billion for 2002. In comparison, the NYSE had a market capitalization of U.S.\$9.7 trillion as of December 31, 2002, and an average monthly trading volume of approximately U.S.\$859 billion for 2002.

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 46.8 % of the aggregate market capitalization of BOVESPA as of December 31, 2002. The top ten stocks in terms of trading volume accounted for approximately 56.5% of all shares traded on BOVESPA.

ITEM 4. INFORMATION ON THE COMPANY

A. Our History and Development

General

We are incorporated under the laws of the Federative Republic of Brazil under the name Telesp Celular Participações S.A., as a corporation with unlimited duration, known as TCP. We have the legal status of a *sociedade por ações*, or a stock corporation, operating under the Brazilian corporate law. Our principal executive offices are located at Rua Abílio Soares, 409, 04005-001 São Paulo, SP, Brazil. Our telephone number is +55 11 3059-7530, our facsimile number is +55 11 3059-7563, and our website is www.vivo.com.br. The information on our website is not part of this annual report. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

We are a holding company engaged through wholly owned companies in cellular telecommunications businesses in Brazil. We control, directly and/or indirectly, Telesp Celular, and, since December 27, 2002, Global Telecom.

Below you will find a chart showing the major companies in our ownership structure as of December 31, 2002:

- (1) PT Móveis S.G.P.S., S.A. is a 100% controlled by Portugal Telecom S.G.P.S., S.A.

Telebrás and the Privatization

TCP was created as a result of a restructuring of Telebrás in May 1998. Before 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás and its operating subsidiaries, known as the Predecessor Companies,

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and collectively known as the Telebrás System, were created, acquiring almost all of the telecommunication companies in Brazil, and creating a near monopoly over the provision of public telecommunications services in Brazil.

On August 5, 1993, our predecessor company began providing cellular telecommunications services as a Telebrás System operating company in the state of São Paulo.

In 1995, the federal government began a comprehensive reform of Brazil's telecommunications regulatory system. In July 1997, Brazil's national congress adopted the General Telecommunications Law, which provided for the establishment of a new regulatory framework, the introduction of competition and the privatization of the Telebrás System.

In January 1998, in preparation for the restructuring and privatization of the Telebrás System, the cellular telecommunications operations of the Telebrás System were spun off into separate companies. In May 1998, the Telebrás System was restructured to form, in addition to Telebrás, 12 new holding companies. Virtually all of the Predecessor Companies' assets and liabilities were allocated to the new holding companies, which we refer to as the New Holding Companies. The New Holding Companies, together with their respective subsidiaries, consisted of: (i) eight cellular holding companies, each in one of eight cellular regions, holding one or more operating companies that provide cellular services; (ii) three wireline holding companies, each in one of three wireline regions, holding one or more operating companies that provide local and intraregional long distance services; and (iii) Embratel Participações S.A., a holding company of Empresa Brasileira de Telecomunicações S.A. Embratel.

TCP was one of the New Holding Companies. In connection with the reorganization of the Telebrás system, or the Breakup of Telebrás, TCP was allocated all of the share capital held by Telebrás in Telesp Celular, one of the cellular operating companies that provided cellular telecommunications service in the state of São Paulo. In July 1998, as part of its restructuring and privatization plan, the federal government sold substantially all its common shares of the New Holding Companies, including TCP, to private sector buyers.

The federal government's shares of TCP were purchased by Portelcom Participações S.A., or Portelcom, a consortium comprised of Portugal Telecom S.A., or Portugal Telecom, which owned 64.2% of Portelcom and Telefônica, which owned the remaining 35.8% of the shares in Portelcom. In July 1998, Portelcom acquired 51.8% of the common stock of TCP.

Reorganization

As part of a corporate reorganization conducted in 1999 and 2000 to allow us to use certain tax credits, Portelcom established a subsidiary called Celular Telecom Holding S.A., or CTH, and it contributed goodwill and its shares of TCP to CTH. Effective December 14, 1999, CTH was merged into TCP. Effective January 14, 2000, TCP conducted a partial spin-off and merged the spun-off assets and liabilities into Telesp Celular. Effective January 14, 2000, all the shares of Telesp Celular owned by shareholders other than TCP were exchanged for newly-issued shares of TCP. As a result of these transactions, in January 2000, Telesp Celular, which previously had a substantial public float, became our wholly owned subsidiary.

Public Offering

In a public offering in June 2000, Portugal Telecom acquired 30.29% of the common stock of TCP. As a result, Portugal Telecom's ownership increased to 83.6% of our common stock, representing 35.5% of TCP's total capital.

Capital Increase

In October 2000, TCP had a capital increase of R\$1.125 billion. As a consequence, Portugal Telecom increased its participation in TCP to 36.2% corresponding to 85.1% of the common shares and 17.7% of the preferred shares.

Swap With Telefônica

In November 2000, after Anatel's approval, Telefônica participated in a stock swap transaction with Portugal Telecom, involving their participations in Telesp Celular and Telecomunicações de São Paulo S.A.-TELESP, known as Telesp, respectively. In the stock swap transaction, Telefônica swapped 35.8% of its direct and indirect stake in Portelcom for Portugal Telecom's 23% indirect stake in SP Telecomunicações Holding. This transaction increased Portugal Telecom's participation in Telesp Celular from 36.2% to 41.2%.

Ceterp Celular S.A.

On November 27, 2000, we acquired 100% of the share capital of Ceterp Celular S.A., or Ceterp Celular, from Centrais Telefônicas de Ribeirão Preto S.A. Ceterp Celular is the A Band mobile operator in the Ribeirão Preto region of Brazil. The Ribeirão Preto region is a medium-sized metropolitan area in the northwest region of the state of São Paulo with approximately 500,000 inhabitants. During the

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reorganization of Telesp Celular, Ceterp was merged into Telesp Celular S.A.

Global Telecom

Global Telecom was formed to acquire a B Band cellular concession in the states of Paraná and Santa Catarina, known as Area 5. In April 1998, Global Telecom won the concession for Area 5 and, after building out its network, it began commercial operations in December 1998.

In February 2001, we acquired an 81.61% indirect economic interest in Global Telecom, through the acquisition of 49% of the voting shares and 100% of the non-voting shares of each of three holding companies that collectively held 95% of the voting shares and 100% of the non-voting shares of Global Telecom. The remaining 5% of Global Telecom's voting shares were held by another investor who, upon authorization from Anatel in July 2001, sold them to the three holding companies.

On December 11, 2002, after all of the TCP operators had switched over to the SMP system, Anatel approved our acquisition of the remaining capital stock of Global Telecom Holdings and, on December 27, 2002, we acquired the remaining portion of those three holding companies. We own, directly and indirectly, 100% of the voting stock and economic interest of Global Telecom.

On March 31, 2003, after a restructuring process, TCP became the direct holder of 100% of the capital stock of Global Telecom S.A.

Increase in Capital

In September 2002, TCP's R\$2.5 billion capital increase was successfully completed. After this capital increase of TCP, Portugal Telecom's participation in TCP increased to 93.7% of the voting shares, 49.8% of the preferred shares and 65.1% of the total capital.

Brasilcel

On January 23, 2001, Portugal Telecom and Telefónica Móviles entered into a strategic agreement to create a mobile services company in Brazil that would aggregate all of their investments in cellular telecommunications businesses to the extent permitted under Brazilian law. In December 2002, Anatel approved the joint venture between Portugal Telecom and Telefónica Móviles. This joint venture, named Brasilcel N.V., or Brasilcel, with headquarters in the Netherlands, created a company that has 40% of the total market in Brazil, with 13.7 million users at December 31, 2002. Its operations cover an area of more than 100 million inhabitants, or 56% of the Brazilian population, and approximately 71% of its GDP. Portugal Telecom and Telefónica Móviles are managing the joint venture on an equal basis.

In December 2002, Portugal Telecom and Telefónica transferred to Brasilcel all of their direct and indirect interests in:

- TCP, which controls an A Band operator in the state of Sao Paulo and a B Band operator in the states of Parana and Santa Catarina;
- Tele Sudeste Celular Participações S.A., which controls A Band operators in the states of Rio de Janeiro and Espirito Santo;
- Tele Leste, which controls A Band operators in the states of Bahia and Sergipe; and
- Celular CRT Participações S.A., which controls an A Band operator in the state of Rio Grande do Sul.

Portugal Telecom and Telefónica Móviles agreed to propose to the operating companies controlled by Brasilcel to retain financial services of related third parties, at market conditions.

Acquisition of TCO

On April 25, 2003, TCP acquired 61.10% of the voting capital stock of TCO for approximately R\$1.505 billion, corresponding to R\$19.48719845 per each lot of 1,000 shares acquired. At the date hereof, we have paid R\$284.7 million of the total amount and the remaining will be paid in installments. TCO is an A Band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO's B Band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

We will launch, in the third quarter of 2003, a tender offer for the voting shares of the minority shareholders of TCO, as legally required by the acquisition of the control of TCO. The price per share to be offered is fixed by law at 80% of the price paid to the controlling shareholders. After the acquisition and the tender offer, TCP expects to issue shares in exchange of the preferred shares of TCO and the remaining common shares that were not tendered in the tender offer. Considering merge TCO into TCP. With the acquisition of its participation in TCO, Brasilcel provides services to approximately 50% of the total Brazilian market. Brasilcel, including TCO, covers 86% of the Brazilian territory.

Capital Expenditures

The following table sets forth Telesp Celular's capital expenditures for the periods indicated:

	Year ended December 31,		
	2000	2001	2002
	(R\$ million)		
Switching equipment	339.2	153.0	105.7
Transmission equipment	225.5	387.8	90.8
Information Technology	130.1	245.0	76.2
Others ⁽¹⁾	89.2	151.0	54.6
Total capital expenditures	784.0	936.8	327.3

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

The following table sets forth Global Telecom's capital expenditures for the periods indicated:

	Year ended December 31,		
	2000	2001	2002
	(R\$ million)		
Switching equipment	10.9	93.0	23.0
Transmission equipment	100.3	268.4	89.3
Information Technology	32.8	46.9	22.2
Others ⁽¹⁾	6.6	14.3	17.8
Total capital expenditures	150.6	422.6	152.3

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

We anticipate that our capital expenditures for 2003 will be approximately R\$402.1 million, of which R\$116.1 million is related to Global Telecom. We expect to increase our capital expenditures for 2003 due to the consolidation of TCO's financial results into our consolidated financial statements to reflect TCO's capital expenditures. We expect to fund these expenditures with cash generated from operations.

The primary focus of our capital expenditure program has been, and continues to be, the expansion of the capacity of the services we currently offer and the provision of new services.

B. Business Overview**Overview**

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 Anatel, and Global Telecom is one of the cellular operators in the states of Paraná and Santa Catarina. TCP's net operating revenues in 2000, 2001 and 2002 were R\$2,766.7 million, R\$2,946.2 million and R\$3,390.6 million, respectively. Until December 27, 2002, Global Telecom's results were not fully consolidated into TCP. The table below sets forth the net operating revenues in each of our operating subsidiaries:

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Year ended December 31,⁽¹⁾

	2000	2001	2002
		(R\$ million)	
Telesp Celular	2,766.7	2,946.2	3,390.6
Global Telecom	246.7	425.9	512.2

(1) Global Telecom's net revenues were not consolidated in the periods indicated.

The state of São Paulo covers an area of 248,209 square kilometers, representing approximately 2.9% of Brazil's territory. Its population is approximately 38.3 million, and represents 21.9% of Brazil's total population. In 2002, the state of São Paulo was the most economically developed in Brazil, and its gross domestic product, or GDP, in 2002 was an estimated R\$461.3 billion, or approximately U.S.\$130.6 billion, representing approximately 34.9% of Brazil's GDP in 2002. Its per capita income during 2002 was an estimated R\$12,055.51, or approximately U.S.\$3,412.26, according to *Brasil em Foco - Target 2002*, our estimates based on percentages of the states' GDP published by IBGE in previous years and Brazil's GDP 2002 calculated by IBGE and published by the *Diário Oficial do Estado de São Paulo* on March 28, 2003.

The states of Paraná and Santa Catarina cover an area of 294,661 square kilometers, representing approximately 3.5% of Brazil's territory. The population of the states of Paraná and Santa Catarina is approximately 15.3 million, representing 8.8% of Brazil's total population. The GDP of the states of Paraná and Santa Catarina in 2002 was an estimated R\$132.0 billion, or approximately U.S.\$37.4 billion, representing approximately 10.0% of Brazil's GDP for 2002. The income per capita in the states of Paraná and Santa Catarina during 2002 was an estimated R\$8,539.11 and R\$8,719.24, respectively, or approximately U.S.\$2,416.96 and U.S.\$2,467.94, respectively, according to *Brasil em Foco - Target 2002*, our estimates based on percentages of the states' GDP published by IBGE in previous years and Brazil's GDP 2002 calculated by IBGE and published by the *Diário Oficial do Estado de São Paulo* on March 28, 2003.

Telesp Celular uses a frequency range known as A Band that covers 76% of the municipalities in the state of São Paulo and 97% of the population of São Paulo. At December 31, 2002, Telesp Celular had 6.1 million cellular lines in service, which represented an 18.7% increase from December 31, 2001, and a market share of approximately 67% in São Paulo.

Global Telecom uses a frequency range known as B Band that covers 28% of the municipalities in the states of Paraná and Santa Catarina and 74% of the population of Paraná and Santa Catarina. At December 31, 2002, Global Telecom had 1.2 million cellular lines in service, which represented a 36.5% net increase from December 31, 2001, and a market share of approximately 41% in those states.

Our Operations

The following tables set forth information on Telesp Celular and Global Telecom's cellular telecommunication base, coverage and related matters at the dates and for the years indicated.

Telesp Celular

	Year ended December 31,		
	2000	2001	2002
Cellular lines in service at year-end (in thousands)	4,302	5,104	6,060
Contract customers	1,604	1,369	1,426
Prepaid customers	2,698	3,735	4,634
Digital	3,496	4,764	5,913
Analog	806	340	147
Growth in cellular lines in service during year	48.7%	18.6%	18.7%
Churn ⁽¹⁾	14%	20%	17%
Estimated population of concession areas (million) ⁽²⁾	37.1	37.7	38.3
Estimated covered population (million) ⁽³⁾	36.4	36.7	37.2
Percentage of population covered ⁽⁴⁾	98.1%	97.3%	97.1%
Penetration at year-end ⁽⁵⁾	18.0%	21%	23.8%
Percentage of authorization areas covered	NA	63%	63%

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Average monthly minutes of use per customer ⁽⁶⁾	125	117	110
Estimated market share ⁽⁷⁾	63%	65%	67.2%

- (1) Churn is the number of customers that leave us during the year, calculated as a percentage of the simple average of customers at the beginning and the end of the year.
- (2) Projections based on estimates of the Instituto Brasileiro de Geografia e Estatística - IBGE and Target 2002 - Brasil em Foco.
- (3) Number of people within our Region that can access our cellular telecommunication signal. The decrease in covered population was due to a decrease of the population in the municipalities covered.
- (4) Percentage of the population in our Region that can access our cellular telecommunication signal. The decrease in covered population was due to a decrease of the population in the municipalities covered.
- (5) Number of cellular lines in service in our Region, including our competitors, divided by the population of our Region.
- (6) Average monthly minutes of use per lines in service is the total minutes of calls received and made by our customers divided by the simple average of lines in service during the relevant year (includes roaming in and excludes roaming out).
- (7) Estimated percentage of all lines in service in our Region at year-end.

Global Telecom

	Year ended December 31,		
	2000	2001	2002
Cellular lines in service at year-end (in thousands)	463	862	1,177
Contract customers	353	323	252
Prepaid customers	110	539	924
Growth in cellular lines in service during year	282%	86%	36.5%
Churn ⁽¹⁾	16%	23%	20%
Estimated population of concession areas (million) ⁽²⁾	14.9	15.1	15.3
Estimated covered population (million) ⁽³⁾	8.9	10.6	11.0
Percentage of population covered ⁽⁴⁾	60%	71%	74%
Penetration at year-end ⁽⁵⁾	13%	17%	19%
Percentage of authorization areas covered	17%	30%	35%
Average monthly minutes of use per customer ⁽⁶⁾	183	133	97
Estimated market share ⁽⁷⁾	25%	35%	41%

- (1) Churn is the number of customers that leave us during the year, calculated as a percentage of the simple average of customers at the beginning and the end of the year.
- (2) Projections based on estimates of the Instituto Brasileiro de Geografia e Estatística - IBGE and TARGET 2002 - Brasil em Foco .
- (3) Number of people within our Region that can access our cellular telecommunication signal.
- (4) Percentage of the population in our Region that can access our cellular telecommunication signal.
- (5) Number of cellular lines in service in our Region, including our competitors, divided by the population of our Region.
- (6) Average monthly minutes of use per lines in service is the total minutes of calls received and made by our customers divided by the simple average of lines in service during the relevant year (includes roaming in and excludes roaming out).
- (7) Estimated percentage of all lines in service in our Region at year-end.

Our Services

We provide cellular telecommunications services using both digital and analog technologies. Our network provides both CDMA digital service and AMPS, or analog services. We began providing digital services in the São Paulo metropolitan area in November 1998. All our services are provided in the frequency of 850 MHz. We offer ancillary services, including voicemail and voicemail notification, call forwarding, three-way calling, caller identification, short text messaging for our digital network customers and wireless Internet access, or Waaap. Our services can be offered in packages or prepaid plans.

In June 2000, we launched Waaap, which allows our CDMA customers to access Internet pages on their cellular phone display. They can also send and receive e-mails, use search engines, play games, and access the banking system and other Internet-based services and applications. Through our Waaap PAG service, our CDMA customers can also conduct secure micro payments, or small value payment transactions, through their WAP-enabled mobile handsets. Customers who subscribe to our prepaid plans are now able to recharge their prepaid minutes directly through their handsets. The Waaap PAG service plans offer customers the ability to purchase a wide variety of products and services, such as movie tickets and gasoline, from their WAP-enabled handsets. At December 31, 2002, more than 46% of our total customers already had WAP-enabled handsets and more than 13% of these had already accessed Waaap in December at Telesp Celular. At Global Telecom, 58% of the

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total customers had WAP-enabled handsets and 13% of these had already accessed Waaap in December 2002.

In September 2001, we launched a line of products focused on providing mobile telecommunication solutions to small-and medium-sized companies and large corporate customers called Telesp Celular Empresas.

We divide up our corporate customer base in accordance with value criteria, increasing our ability to protect ourselves against new competitors, as well as our ability to attract new high-value customers.

In 2002 Global Telecom implemented a sales model focused on small- and medium-sized companies, with tariffs adjusted to meet the needs of customers and competitive pressures. In an effort to take advantage of opportunities in its market, Global Telecom launched the Elections project, which consisted of the temporary activation of handsets to be used in the election campaigns, and the Summer project to be used for temporary workers at Santa Catarina's seaside.

We began to offer 2.5G services using CDMA 1xRTT technology in December 2001, enabling us to provide high-speed packet data service by increasing potential data transmission speeds from current Waaap circuit switched at 14.4 kb per second to packet switched at up to 144 kb per second. Our current commercial pilot program has an average speed of approximately 100 kb per second, ranging from a low of 60 kb per second to a high of 144 kb per second. Building on our 2.5G network, we are now offering three types of high-speed data services:

- Waaap Turbo, which provides access to existing Waaap services from 2.5G cellular phones, and bills customers according to the amount of information transferred (Kbytes) rather than on a per-minute basis;
- Zaaap, which offers direct access to the Internet through either PCMCIA cards designed to connect compatible PDAs and laptops to 2.5G service or through 2.5G cellular phones by cable connection; and
- Zaaap VPN, which offers our corporate customers secure access to their intranet and office resources.

Waaap Turbo, Zaaap and Zaaap VPN customers are billed monthly and their subscriptions include the transfer of a certain amount of megabytes for free.

We offer roaming services through agreements with local cellular service providers throughout Brazil and in other countries that allow our customers to make and receive calls outside of our Region. In turn, we provide reciprocal roaming services in our Region to customers of those cellular service providers while they are in our authorization areas. See Roaming Agreements.

Global Telecom launched 1xRTT service in the Curitiba and São José dos Pinhais areas in March 2003.

Our Regions

Telesp Celular provides mobile telecommunications services on the A Band frequency range in two authorization areas of Region III of the General Authorization Plan PGA, which together cover approximately 248,209 square kilometers, representing approximately 2.9% of Brazil's territory, or our Region. These authorization areas consist of more than 38.3 million people, representing 21.9% of Brazil's population, and 63 municipalities with populations in excess of 100,000, including the City of São Paulo, Brazil's largest city, with more than ten million people.

Global Telecom provides mobile telecommunications services on a frequency range known as B Band in its authorization area, which encompasses the states of Paraná and Santa Catarina in area II of the General Authorization Plan. This area is composed of 294,661 square kilometers, representing approximately 3.5% of Brazil's territory, with a population of approximately 15.3 million people, representing 8.8% of Brazil's population, and 22 municipalities with populations in excess of 100,000 people.

Before December 2002, we provided telecommunication services under an SMC concession. In December 2002, we began providing our services under an SMP authorization. Under our SMP authorization, we will provide cellular telecommunication services with more flexibility. See also Our Network and Regulation of the Brazilian Telecommunications Industry SMP Regulation.

The following tables set forth population, GDP and per capita income statistics for each state in our Regions at the dates and for the year indicated.

Telesp Celular

At December 31, 2002		Year ended December 31, 2002		
Population	% of Brazil's	GDP (billions of	% of Brazil's	Per capita income

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Area	(million) (1)	population (1)	reais) (2) (3)	GDP (3)	(reais) (2) (3)
Sao Paulo state	38.3	21.9%	461.3	34.9%	12,055.51

(1) Estimates from Target 2002 Brazil em Foco.

(2) Our estimates expressed in nominal reais.

(3) Nominal Brazilian GDP was R\$1,320 billion as of December 2002 calculated by IBGE and published by the *Diário Oficial do Estado de São Paulo* on March 28, 2003. Source: IBGE. We calculated the GDP for the states based on percentages published by IBGE in previous years.

Global Telecom

Area	At December 31, 2002		Year ended December 31, 2002		
	Population (million) (1)	% of Brazil's population (1)	GDP (billions of reais) (2) (3)	% of Brazil's GDP (3)	Per capita income (reais) (2) (3)
Parana state	9.8	5.6%	83.7	6.3%	8,539.11
Santa Catarina state	5.5	3.2%	48.3	3.7%	8,719.24
Our Region	15.3	8.8%	132.0	10.0%	8,604.16

(1) Estimates from Target 2002 Brazil em Foco.

(2) Our estimates expressed in nominal reais.

(3) Nominal Brazilian GDP was R\$1,320 billion as of December 2002 calculated by IBGE and published by the *Diário Oficial do Estado de São Paulo* on March 28, 2003. Source: IBGE. We calculated the GDP for the states based on percentages published by IBGE in previous years.

Our business, financial condition, results of operations and prospects depend in part on the performance of the Brazilian economy. See Item 3D. Risk Factors.

Marketing and Sales

During 2002, we continued to invest in the expansion of our customer base and in the increase of our penetration rate, building on the increased capacity made available by our intensive investment program during 2000 and 2001.

In 2001, we launched our prepaid Peg & Fale Gol service, which was targeted at the soccer fans in the state of São Paulo, because its handsets are identified with the main soccer teams of the state. During the soccer season, customers of Peg & Fale Gol have the right to reduced tariffs in cellular-to-cellular calls within our network.

In 2001, we also launched our prepaid Baby MTV service targeted at the teenage segment. The Baby MTV handsets have headphones for listening to radio broadcasts. Baby MTV customers receive a 50% discount on calls made between 8:00 p.m. and 8:00 a.m. from Monday to Thursday, and on the weekends between 8:00 p.m. on Friday and 8:00 a.m. on Monday.

In 2002, we created a plan targeted at younger segments of the population and other plans designed to increase the use of the SMS service, known as *Coisa*, which offers users a 50% discount on local calls between Telesp Celular handsets in our Region from Monday through Friday, from 8 p.m. until 8 a.m. and during the weekends. Customers using this plan may also choose one Telesp Celular number, register the number, and obtain a 50% discount on local calls for any time of the day.

Telesp Celular kept its focus on profitable growth and customer value in 2002, with an emphasis on investment returns. We implemented the new model for service and customer management (call center and marketing) on the basis of segmentation by customer profitability in 2001, and in 2002 targeted increased loyalty and focused on customer retention. One of our main strategies concentrated on attracting the younger population set, with the launching of the *Coisa* campaign.

In 2002, we developed several campaigns for prepaid customers, including the *Carrega Brasil* promotion during the World Cup, and the call discount promotions implemented at the end of the year, in order to celebrate our growth to a customer base of six million. Our campaigns will continue in 2003, with such plans as the *Recarregou Identificou* promotion, launched in February, whereby customers recharging their credits for any amount will be entitled to caller ID at no charge, for varied lengths of time depending upon the amount that is recharged.

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Global Telecom also developed several campaigns for prepaid customers in 2002.

Since March 2003, as a result of the *Tagarela* promotion, prepaid customers in Paraná and Santa Catarina (as well as in Rio Grande do Sul, Rio de Janeiro, Bahia and Sergipe) may earn up to 100% in bonuses for local calls between handsets of the same operating company by recharging their cellular credits. This promotion enables customers to speak for twice as much time, with the same amount of prepayment.

We divide our consumer market into two main categories: individual customers and business customers. We market and promote our services in varied ways and occasionally develop special plans and services for particular categories of customers. We promote our services to large corporations through a major accounts program pursuant to which we identify contacts and support large corporate customers.

As required by Brazilian regulations, we provide cellular telecommunications service to all individual applicants, regardless of income level, in the order in which we receive applications. Nonetheless, in May 1998, we began performing credit checks on potential customers to assist in management of payment default risk. We may interrupt services if a customer fails to make timely payments. See [Billing and Collection](#).

In addition to our consumer marketing efforts, and to enhance public relations and institutional marketing, we contributed approximately R\$8 million in sponsorships for several major cultural and sporting events in the state of São Paulo in 2002, including the Summer Project (Blue Summer), Skol Beats, Casa Cor 2002, Winter Festival at Campos do Jordão, a Red Hot Chili Peppers concert, the Peace Parade, the [Circuito Universitário Project](#) and the tenth series of Formula Renault Brasil.

Our marketing efforts for Internet-based and messaging services have been primarily focused on our Waaap and SMS services and applications, in an effort to increase the usage and number of customers for these services. Our marketing and sales efforts have resulted in almost doubling Telesp Celular's net revenues from data-related services, from R\$30.8 million in 2001 to R\$51.5 million in 2002. The *Coisa* plan offers a broad portfolio of Waaap and SMS services. This plan was launched in October 2002 by Global Telecom and is responsible for an increase in its net revenues from R\$1.6 million in 2001 to R\$6.8 million in 2002.

The launch of our 2.5G commercial pilot program in December 2001 made us the first mobile operator in Latin America to offer 2.5G services using 1xRTT technology. Before the launch, we joined with leading application service providers in order to provide high quality applications that run on 1xRTT technology to customers of our 2.5G services. See [Our Services](#). Global Telecom launched this 2.5G service in March 2003.

On April 13, 2003, Brasilcel launched a new trademark and logo, known as Vivo, for all of its telecommunication companies in Brazil, including us. In connection with the launch of the new trademark, we are changing the names of the services we offer to our customers.

Network Sales

We market our services and provide customer service through a network of stores. In December 2002, Telesp Celular's network included 2,345 point of sale stores, covering substantially all of the cities in its Region. We operated 65 stores, while independent distributors operated the remaining 2,280 stores. We also had three regional centers in the City of São Paulo and three in the interior of the state of São Paulo to supervise the stores and to strengthen marketing and customer relations.

In December 2002, Global Telecom's network included 776 point-of-sale stores, covering substantially all of the cities in its Region. We operated 26 stores, while independent distributors operated the remaining 750 stores.

In 2002, we opened 21 new stores, reaching a total of 65 stores by December 2002. Until the end of the first quarter of 1999, our stores had focused on customer services, but, as a result of a renovation effort that began in 1999, their focus shifted to the sale of products and services, in addition to customer services. The Excellency Program was initiated in 2002 against this background, with the purposes of standardizing the processes and visual identities of our stores, as well as improving customer services. The granting of the ISO 9002 award at the end of 2000 marked the successful development of this program.

Customer Service

We have outsourced to Mobitel S/A Telecomunicações, a subsidiary of Portugal Telecom, all customer service for Telesp Celular and Global Telecom, including managing the call center and dealing with customer complaints. Customer Service is available 24-hours a day through the call centers and through our website.

Telesp Celular

On December 31, 2002, Telesp Celular had 2,135 attendants working in 894 positions during peak hours, which represented one customer service attendant per 2,839 customers. During 2002, the customer service team answered, on average, 182,147 calls per business day.

Telesp Celular's back office (technical assistance and billing customer service department) consist of 275 employees, who respond to requests made by e-mails, letters, faxes, the website, the call center and in the stores. In 2002, the department answered approximately 73,894 requests per month.

Global Telecom

On December 31, 2002, Global Telecom had 642 attendants working in 325 positions during peak hours, which represented one customer service attendant per 1,833 customers. During 2002, the customer service team answered, on average, 23,933 calls per business day.

Global Telecom's back office (technical assistance and billing customer service department) consists of 35 employees, who respond to requests made by e-mails, letters, faxes, the website, the call center and in the stores. In 2002, the department answered approximately 21,365 requests per month.

Quality of Service

Telesp Celular's and Global Telecom's services, and customers' perception of the quality of our services, are an important aspect of our business. Both companies consider three main points when evaluating the way in which customers perceive the quality of our services:

- infrastructure;
- terminal equipment and its performance in its environmental conditions (either in home area or when roaming nationally or internationally); and
- our Customer Care departments and their effectiveness in handling customers' complaints.

Telesp Celular and Global Telecom have addressed these concerns in several ways:

- through frequent network performance evaluations based on drive-testing and collected data analyses;
- by evaluating the data gathered from the several event counters available in the network as well as specific analysis tools; and
- through customer complaints handled by the Customer Care and Corporate Sales teams.

Another important aspect of our quality-of-service analysis relates to our methods for comparison with our competitors. We use the following three types of analyses to analyze the competition:

- tests and performance comparisons, to address issues such as call completion, dropped calls, interference levels or signal-to-noise ratios, voice quality scoring, etc.;
- comparisons with the monthly data reported to Anatel and the data that is publicly available; and
- use of competitors' services in the guise of customers, in order to evaluate the way that their customer care centers evaluate and solve complaints.

Recent tests have increasingly shown that Telesp Celular and Global Telecom QoS's services compare favorably with those provided by its competitors in all geographic areas. Its technology minimizes the potential problems that can be linked to "bugs" in the software programs or hardware malfunctioning.

As a standard procedure of both companies, before making a product available for the general public, a device (either a cell phone or a PCMCIA card) must be closely evaluated:

- Suppliers are required to present a CDG2 certificate issued by each major infrastructure manufacturer, along with a general compliance statement. This certificate provides assurance that the device has been tested in a laboratory environment, and is able to operate properly with the particular manufacturer's technology. This is a "pass/fail" procedure with the standard infra version, which does not guaranty that the terminal equipment will operate properly in the specific and customized implementation in the operator plant.
- In an effort to eliminate any possible problems resulting from that implementation, the device is also evaluated in another set of tests (known as CDG3), which will show clearly if the equipment complies with the issued specification, and is able to function properly

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with the network in all aspects related to the regular service provisioning. If not, it will be possible to immediately identify which function does not meet the requirements, and locate the source of the problem. The device also supplies the manufacturers with information that will allow them to solve the problem in a short period of time.

- Some other characteristics are also tested and evaluated in a lab before the device is submitted for legal approval. These characteristics are mainly related to their radio properties (transmitted frequencies, spurious, radiation level, etc.).

The Customer Care department is one of our key areas of operation, and it has been made a priority in terms of organization and human resources management.

In 2000 the Customer Care department received the ISO 9002 certificate of quality for its operation of the call centers for São Paulo and Campinas. On May 1, 2001, the system of Quality Control was extended to the Relationship Board with customers accomplishing the transition of Regulation ISO 9002 certification for the servicing of the required regulation NBR ISO 9001/1994.

In the continued search for quality during 2002, regulation ISO 9001 was updated to a newer version called Regulation 2000. This newer version incorporated fundamental changes, such as increasing the focus on customer service, systematically encouraging products quality, demanding clearer measures and results, and continuously striving for excellence. We received this certificate On October 23, 2002. The certificate has a validity of three years, with a yearly re-evaluation by the Certification department.

Our Network

Before November 1998, our network used only AMPS analog technology. After our privatization in 1998, we began to use CDMA digital technology. Digitalization offers certain advantages, such as greater network capacity and additional revenue through the sale of value-added services. Digital cellular telecommunications service also reduces the risk of fraud. We continue to increase network capacity and coverage to improve the quality of service and to meet customer demand.

At December 31, 2002, Telesp Celular's telecommunications network, which provides both CDMA digital and AMPS analog services, covered 76% of the municipalities in the state of São Paulo, representing 97% of the population in its Region. Telesp Celular's network is connected primarily through a fiber-optic transmission system leased from Telesp, consisting of 48 cellular switches, 15 of which are digital, 24 are dual mode and nine are analog, 2,920 base stations, 2,141 of which are digital (12 mobile base stations may be added to these, if necessary) and 779 are analog, and 90 other network elements such as voicemail, prepaid service, short message service and home location registers and gateways, as of December 31, 2002. NEC do Brasil S.A., Nortel Networks Northern Telecom do Brasil, Motorola do Brasil Ltda. (presently Motorola Industrial Ltda. and Motorola Services Ltda.), Lucent Technologies do Brasil, Ind. e Com. Ltda. and Ericsson Telecomunicações S.A. are Telesp Celular's main suppliers.

Global Telecom began its activities in December 1998 and only offers services through CDMA digital technology.

At December 31, 2002, Global Telecom's telecommunications network covered 28% of the municipalities in the Region, representing 74% of the population. Global Telecom's network is primarily connected by a fiber-optic transmission system leased from fixed operating companies (Brasil Telecom and Embratel) and Copel Companhia Paranaense de Energia S.A., consisting of eight cellular switches, 633 base stations and 24 other network elements, such as: voicemail, prepaid service, short message service and home location registers and gateways, as of December 31, 2002. Motorola and Ericsson are Global Telecom's main suppliers.

Our advanced network management technology ensures global management and supervision of all our network processes and network performance. The network management center is located in São Paulo and monitors the base stations, switching centers and all critical network operational parameters of Telesp Celular and Global Telecom. This center is able to identify abnormalities in both our network and in other networks, using the failure and signal monitoring systems. In addition, quality and service standards are constantly monitored. The network management center is integrated into the maintenance and operations center and is designed to maintain network elements, as well as cellular infrastructure and transmission, in addition to operating the radio network elements and computing bases, service platforms and backbone.

Our network is prepared to provide continuity of service for our customers in the event of network interruptions due to power failures. We have developed the following standard operating and maintenance procedures for use in such emergencies:

- *Contingency plan for catastrophes in our switching centers.* This plan allows us to recover the most important BTSs, or digital base stations, which are connected to the trunk line that has been affected by an accident, by redirecting the transmission route of these BTSs.
- *Contingency plan for interruption of the public power supply.* This plan ensures autonomy in our network, through a battery system in all BTSs that provides between six and eight consecutive hours of power, in addition to generators at strategic sites.
- *Security contingency plan.* This plan includes a detection and alarm system, restricted access and a fire combat system for our sites.

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The introduction of the 2.5G network in December 2001 in Telesp Celular has provided for the development of new services, diversification and the improvement of Internet applications available to our customers. This technological advance allows for always on services, meaning that the customer is constantly connected to the Internet. Customers of these services are billed for the amount of information transferred (Kbytes) rather than on a per-minute basis. Notebooks, palmtops and PDAs that are connected to standard PCMCIA 1xRTT cards operating like a wireless modem or that are connected to 2.5G handsets by cable are now able to access Internet services and corporate intranets. Our 2.5G network allows for greater spectrum efficiency, accommodating approximately 1.6 times more customers than the standard second-generation network.

During 2002, Telesp Celular experienced significant growth:

- 92 new sites were activated;
- 90 1xRTT carriers were activated;
- a new prepaid platform was activated allowing data billing in packet way rather than in time basis;
- prepaid roaming between Telesp Celular and Global Telecom was activated;
- chat platform was implemented, connecting Global Telecom's and Telesp Celular's networks;
- the transmission system in the state of Sao Paulo was improved, reducing the leasing cost of the transmission system; and
- the interconnection IP between Telesp Celular and Telerj Celular S.A. was activated.

Likewise, Global Telecom also experienced significant growth by:

- deploying 127 sites;
- servicing 22 new municipalities;
- reducing costs by sharing 70 sites with its competitors;
- improving the fiber optical system;
- reducing monthly lease lines costs by optimization of the transmission system routes;
- activating a new switching center in Curitiba;
- replacing the prepaid platform;
- activating the voice chat platform; and
- activating the interconnection of SMS with a competitor.

Under our authorizations, we are obligated to meet certain requirements for service quality and annual network expansion. See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies. We have already achieved all of our required network expansion obligations.

Sources of Revenue

We generate revenue from:

- usage charges, which include measured service charges for calls and other similar charges;
- network usage charges (or interconnection charges), which are amounts we charge other cellular and fixed-line service providers for the use of our network;
- monthly subscription charges, which are not charged to our prepaid customers;
- the sale of cellular handsets and accessories; and
- other charges, including charges for call forwarding, call waiting, short message service and call blocking, which are charged only when the customer's plan does not include these services.

Our rates are subject to approval by Anatel. See Regulation of the Brazilian Telecommunications Industry Rate Regulation.

Contract Customers

Since October 1994, cellular telecommunications service in Brazil has been offered on a calling party pays basis, under which the customer pays only for calls that it originates. In addition, customers pay roaming charges on calls made or received outside their home registration area.

Customer charges are calculated based on the customer's calling plan, the location of the party called, the place from which the call originates and certain other factors, as described below. Our Region is divided into 18 areas, called registration areas, designated for payment purposes.

Interconnection Charges

We earn revenues from any call that originates from another cellular or fixed-line service provider network connecting one of our customers. We charge the service provider from whose network the call originates a network usage charge for every minute that our network is used in connection with the call. See *Operating Agreements Interconnection Agreements*. For Telesp Celular, our average interconnection charges for 2000, 2001 and 2002 were R\$0.1964, R\$0.2407 and R\$0.2670 per minute net of value-added taxes, respectively. For Global Telecom, our average interconnection charges for 2001 and 2002 were R\$0.2321 and R\$0.2667 per minute net of value-added taxes, respectively. In February 2003, Anatel authorized the increase of Telesp Celular's tariff per minute to R\$0.3296, and Global Telecom's tariff per minute to R\$0.3329. Cellular operating companies, once authorized to increase the tariff, are now obligated to grant a 30% discount on certain tariffs for local calls during off peak hours originating with Telecomunicações de São Paulo S.A., in the case of Telesp Celular and Brasil Telecom and Sercomtel, in the case of Global Telecom.

Bill and Keep

Under the SMP system, usage of the network remuneration between SMP mobile operators will only be due if traffic carried in the same registration area between two networks, in a given direction, exceeds 55% of the total traffic exchanged between them. In this case, only those calls which have surpassed the 55% threshold will be subject to payment for network usage. This rule is valid until June 30, 2005. Thereafter, SMP operators will adopt full Bill and Keep, by which no remuneration will be due for network usage among SMP networks, regardless of the amount of carried traffic.

Roaming Fees

We receive revenue pursuant to roaming agreements with other cellular service providers. When a customer of another cellular service provider makes a call within our Region, that service provider pays us for the call at the applicable rate. Conversely, when one of our customers makes a cellular call outside of our Region, we must pay the charges associated with that call to the cellular service provider in whose Region the call originates. See *Operating Agreements Roaming Agreements*.

Handset Sales

We sell dual-mode (800MHz CDMA-1xRTT/AMPS and 800MHz CDMA/AMPS) and tri-mode (1900MHz CDMA and 800MHz CDMA/AMPS) cellular handsets and PCMCIA boards through our own stores and dealers. Although we still have some customers using analog service (approximately 2.4% of our total customer base at December 31, 2002), we have implemented a series of actions, such as providing discounts on digital handsets, discounts on monthly fees for digital services, digital handset rentals and free digital handsets to our high value customers, to encourage analog customers to transfer to digital service. Our current suppliers are Motorola, LG, Samsung, Nokia and Toshiba.

Operating Agreements

We have an agreement with Telesp, which enables us to share physical space and real estate and that pertains to the supply of air conditioning, energy, security and cleaning services. Under this agreement, we use approximately 520 of Telefónica's sites and Telefónica uses approximately 207 of our sites.

We also lease from Telesp, transmission capacity necessary to complete the construction of our network infrastructure. In December 2001, we renegotiated this leasing arrangement with Telesp. The lease will last for five years, expiring on December 31, 2006.

Interconnection Agreements

The terms of our interconnection agreements include provisions with respect to the number of connection points and traffic signals. See *Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies and Interconnection*. At the beginning of our operations, we entered into interconnection agreements with Embratel Participações S.A., or Embratel, and the Predecessor Companies.

Telesp Celular entered into a new interconnection agreement with Telesp in January 1998, with BCP S.A., or BCP, in May 1998, with Tess S.A., or Tess, its competitor, in November 1998, and with Vésper S.A., or Vésper, a WLL (Wireless Local Loop) company that provides fixed-line services in December 1999. In May 2000 and in June 2001, Telesp Celular entered into new interconnection agreements with two long

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distance carriers, Intelig Telecomunicações Ltda., or Intelig, and Embratel. During 2002, Telesp Celular also entered into interconnection agreements with Nextel Telecomunicações Ltda., or Nextel, and our new competitor, TIM São Paulo S.A.

Global Telecom entered into interconnection agreements with Brasil Telecom and Sercomtel S.A. Telecomunicações, in April 1999, with Telepar Celular S.A. and Telesc Celular S.A. in September 1999, with Global Village Telecom S.A. a WLL (Wireless Local Loop) company that provides fixed line services, in May 2000, and with Sercomtel Celular S.A., its competitor, in May 2002.

In July 1998 and in December 2000, Global Telecom entered into interconnection agreements with two long distance carriers, Embratel and Intelig. In addition, in 2002, Global Telecom also entered into interconnection agreements with Nextel.

In 2002, we entered into an interconnection agreement with our competitors for the supply of SMS among our customers and, through the Brazilian Roaming Committee, we entered into an interconnection agreement for remitting and receiving SMS to and from all operating companies in Brazil.

Roaming Agreements

We are a member of the Brazilian Roaming Committee, a group comprised of 21 cellular telecommunications service providers operating in Brazil through either A Band or B Band. The Brazilian Roaming Committee was created to independently conduct the activities related to roaming services in Brazil and the international roaming agreements entered into by Brazilian companies with telecommunications service providers operating in the member countries of the Mercosur.

Automatic roaming permits our customers to use their cellular handsets on the networks of other cellular service providers while traveling or roaming outside our Regions. Conversely, we provide cellular telecommunications service to customers of other cellular service providers from outside of our Regions when those customers are within our Regions.

The roaming agreements require us and the other cellular service providers to provide service to roaming customers on the same basis that each member provides service to its own customers, and to carry out a monthly reconciliation of roaming customer usage charges.

We offer international roaming in United States, Canada, Mexico, the Caribbean, Argentina and Uruguay. In 1999, we began providing international GSM (Global System for Mobile) services, through the use of GSM handsets, in most parts of Europe, Africa, Asia and Oceania. In the first half of 2002 we launched international roaming in South Korea.

Taxes on Telecommunications Services and Handset Sales

The cost of telecommunications services and handset sales to customers incorporates a variety of taxes, including:

- **ICMS.** The principal tax is the *Imposto sobre Circulação de Mercadorias e Serviços*, or the ICMS. The ICMS is a tax that the Brazilian states impose at varying rates on certain revenues from the sale of goods and services, including telecommunications services. The ICMS rates for domestic telecommunications in the States of São Paulo, Santa Catarina and Paraná are 25%, 25% and 27%, respectively. During 2002, the states of São Paulo and Paraná imposed ICMS rates of 7% for Motorola and LG handsets, and 18% for other handsets. In the state of Santa Catarina the ICMS rate was 7% for all handset sales.
- **COFINS.** The *Contribuição Para Financiamento da Seguridade Social*, or COFINS, is a social contribution tax on gross operating revenues. On November 27, 1998, the Brazilian federal government, through Law No. 9,718, increased the COFINS rate from 2% to 3%, allowing a set-off of up to one-third of the COFINS amount with the amount owed as a result of the *Contribuição Social Sobre Lucro Líquido*, or CSLL. On January 1, 2000, we began to include the COFINS tax in our bills at a rate of 3%.
- **PIS.** The *Programa de Integração Social*, or PIS, is another social contribution tax that is imposed on gross operating revenue at a rate of 0.65%. Law No. 9,718 also indirectly raised the PIS contribution tax owed by Telesp Celular and Global Telecom, leading our subsidiaries to challenge such increase judicially. See Item 8A. Consolidated Statements and Other Financial Information Legal Matters. In October 2002, Law No. 10,637 was enacted, making such contribution noncumulative and increasing the rate to 1.65%, except in connection with telecommunication services, where the rate continues to be 0.65%.
- **FUST.** On August 17, 2000, the Brazilian federal government, through Law No. 9,998, created the *Fundo de Universalização dos Serviços de Telecomunicações*, or FUST, a social contribution tax applicable to all telecommunications services. The purpose of the FUST tax is to fund a portion of the costs incurred by telecommunication service providers to meet the universal service targets required by Anatel, in case these costs are not entirely recoverable through the provision of the telecommunications services. The FUST is imposed at a rate of 1% of gross operating revenues exclusively from telecommunication services, net of ICMS, PIS and COFINS and its cost may not be passed on to customers. It became effective on January 1, 2001.
- **FUNTTEL.** On November 28, 2000, the Brazilian federal government, through Law No. 10,052, created the *Fundo para Desenvolvimento Tecnológico das Telecomunicações*, or FUNTTEL, a social contribution tax applicable to all telecommunications

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services. The purpose of the FUNTTEL tax is to promote the development of telecommunications technology in Brazil and to improve competition in the industry by:

- encouraging research and the development of new technologies;
- promoting the training of personnel;
- creating new employment opportunities; and
- allowing small-and medium-sized companies to access the lending market.

FUNTTEL is imposed at a rate of 0.5% of gross operating revenues exclusively from telecommunication services, net of ICMS, PIS and COFINS, and its cost may not be passed on to customers. It became effective on March 1, 2001.

- **FISTEL.** On July 7, 1966, the Brazilian federal government, through Law No. 5,070, created the *Fundo de Fiscalização das Telecomunicações*, or FISTEL, a tax applicable to telecommunications transmission equipment. The purpose of FISTEL is to provide financial resources for the Brazilian federal government to control and inspect the industry.

The FISTEL tax is comprised of two different fees:

- an installation and inspection fee that is assessed every time we activate a new cellular number, as well as every time an authorization certificate is issued with respect to new equipment in telecommunications stations; and
- an operation and inspection fee, assessed annually on the basis of the total number of cellular numbers in use and the total number of radio base stations installed at the end of the fiscal year, which is equal to 50% of the installation and inspection fee.

Effective April 2001, the installation and inspection fee has been assessed based on the net activation of cellular numbers, i.e., the number of new cellular activations subtracted from the number of cancelled subscriptions, as well as on the basis of the net additions of radio base stations.

Billing and Collection

In 2002, we improved our billing system by implementing revenue assurance processes throughout all of our operational cycles, including traffic recording, rating, billing and collections in an effort to maximize performance. We improved our practices in order to increase our level of service and to meet customers' expectations.

We offer over 165 price plans and other services in our billing system, targeted towards different customer profiles. Telesp Celular uses six staggered billing cycles and six different payment dates each month while Global Telecom uses eight staggered billing cycle and eight different payment dates each month. The customer can choose the date of payment when the contract is signed.

Pursuant to Brazilian law, customers must receive a bill at least five days before the due date, and companies must allow customers at least 15 days from the due date before suspending outgoing service for nonpayment. Customers may choose from a number of billing options, including traditional paper bills, direct withdrawal from the customer's bank account and some deferred payment options. We have also introduced a new billing service through which customers can receive and pay bills via the Internet.

Telesp Celular and Global Telecom have established a uniform policy for dealing with delinquent customer accounts. Service may only be suspended after notice has been provided to the customer. If a customer's payment is more than 15 days past due, outgoing service is suspended, and if payment is more than 90 days past due, both outgoing and incoming services are suspended until full payment for all outstanding charges is received. If a customer's payment is more than 180 days past due, service is discontinued. In 2002, approximately 58% of our mobile bills were paid in full within the due date, 76% were paid before the first reminder was sent, and 94% of our mobile bills were paid by the time that the second reminder was sent.

Telesp Celular's collection system has a mechanism for tracking customers who are delinquent in making payments, and its collections department has had a high rate of success in the collection of payments from customers. In addition, Telesp Celular employed six outside collection agencies to recover payments from accounts from customers that were over 95 days past due.

We make provisions for customer accounts when we determine that the likelihood of collection is no longer probable, and write off customer accounts that are over 180 days past due. We wrote off R\$53.4 million in Telesp Celular and R\$8.1 million in Global Telecom for accounts more than 180 days past due in 2002 related to telecommunication service charges.

Telesp Celular's provisions for doubtful accounts (Provision for doubtful accounts including handsets/Gross operating revenue) were 3.5%, 2.45% and 1.57% of gross operating revenue of service in 2000, 2001 and 2002, respectively. Global Telecom Holdings's provisions for doubtful accounts (Allowance for doubtful accounts including handsets/Gross operating revenue) were 6.03% and 1.39% of gross operating revenue of service in 2001 and 2002, respectively. See Item 5A. Operating Results Results of Operations for 2000, 2001 and 2002 for TCP Operating Expenses.

After each collection cycle, we and other telecommunications service providers settle the roaming and network usage fees outstanding balances. See Sources of Revenue Roaming Fees and Sources of Revenue Network Usage Charges. For international calls made by our customers, we forward the gross amounts collected for such calls to the international long distance carrier and charge them a fee for the use of our cellular telecommunications network. Domestic long distance fees are reconciled and distributed to each Brazilian telecommunication operating company by a clearinghouse operated by Embratel.

Fraud Detection and Prevention

We incur costs associated with the unauthorized use of our wireless networks, particularly our analog cellular networks. These costs include administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs, capacity costs, administrative costs and payments to other carriers for unbillable fraudulent roaming.

The three most prevalent types of fraud are cloning fraud, subscription fraud and default fraud. Cloning fraud consists of duplicating the cellular signal of a *bona fide* customer, enabling the perpetrator of the fraud to make calls using the customer's signal. We ultimately bear the costs of all fraudulent calls originating from our cell phone base. We have installed a fraud detection system that analyzes various aspects of customers' usage in order to detect cloning fraud. In addition, the introduction of digital service is significantly reducing the incidence of cloning fraud. We do not consider cloning fraud a significant problem.

Subscription fraud occurs when a person, typically using false or stolen documents, obtains cellular telecommunications service, and then incurs substantial charges that are billed to a customer who does not exist or who did not request the service.

Default fraud is similar to subscription fraud, except that the customer does not make use of false documentation, but nonetheless fails to pay for services used.

Historically, the majority of our fraud-related losses are related to the types of fraud listed above. In order to safeguard ourselves against these fraudulent activities, we review documentation provided by customers and conduct a credit check prior to initiating service. We use credit bureaus to enhance our reviews.

We have implemented certain fraud detection and fraud prevention measures in an effort to reduce fraud-related losses, including the automatic review of call detail records in the state of São Paulo, Paraná and Santa Catarina. These records are analyzed to identify abnormal calling patterns. When abnormal patterns are found, our fraud control staff contacts the customer and, if cloning has occurred, the customer's number is changed or an exchange of handsets is made. Fraud prevention measures include restrictions on international calls from a given number, restrictions on international calls to certain high-risk destinations, automatic blocking of calls to certain high-risk destinations and restrictions on three-way calling by customers with international direct-dial access.

We have installed, and are a part of, a nationwide fraud detection system. This system aids in fraud detection in various ways, including identifying simultaneous usage by a single customer, call frequency and unusually high usage patterns. We are able to monitor telecommunication usage by our customers even when they are located outside of our Region. In the state of São Paulo, the antifraud system became operational in 1998.

Competition

A Band

The Brazilian territory was initially divided by Anatel into eight separate cellular service regions, each known as A Band, and each serviced by one of the New Holding Companies operating in the cellular telecommunications business, created with the Breakup of Telebrás (see Our History and Development Telebrás and the Privatization).

The New Holding Companies operate in the 800+ MHz frequency, according to concessions or authorizations granted and regulations issued by Anatel. TCP is one of these companies operating in the state of São Paulo and using AMPS/CDMA technology.

Global Telecom's current competitor, Tele Celular Sul Participações S.A., or TIM Sul, is another of these companies and uses AMPS/TDMA technology. TIM Sul, which is controlled by Telecom Italia Mobile, or TIM, migrated to authorization and announced its intention of doing an overlay in GSM/GPRS technology.

B Band

The General Telecommunications Law provided for the introduction of competition to telecommunications services in Brazil. The Brazilian federal government has granted ten licenses to provide cellular telecommunications service within certain regions in Brazil, known as B Band. There are two B Band service providers operating in Telesp Celular's region, BCP Telecomunicações S.A., or BCP, which operates in the metropolitan area of the state of São Paulo, and Tess, which operates in the rest of São Paulo.

Global Telecom is the B Band operator in the states of Paraná and Santa Catarina and uses CDMA technology.

BCP is controlled by a consortium led by BellSouth and the Safra family. Tess is controlled by Telecom Américas Ltd. (controlled by América Móvil S.A. de C.V.). The rights and obligations of BCP and Tess under their respective licenses are substantially identical to Telesp Celular's right and obligations under its authorizations. Although BCP and Tess provide only digital service, their customers use dual-mode cellular handsets that can operate with analog networks.

C Band

There are no providers of C Band services in our Region.

D Band and E Band

In February 2002, TIM acquired the D Band license for the entire state of São Paulo (Region III-SMP). In September 2002, TIM began operations in São Paulo, using the GSM/GPRS technology.

In November 2002, the Telecom Américas Group acquired an E Band license for the metropolitan area of São Paulo (Region III-SMP). Vésper acquired the E Band license for the São Paulo countryside (Region III-SMP). Both companies are scheduled to begin operations in 2003.

On February 13, 2001, Anatel held an auction for the D Band SMP licenses. Tele Norte Leste Participações S.A., or Telemar, the primary fixed-line operator in Region I-SMP, bid successfully for the license covering the region in which Telemar offers fixed-line telecommunications services, comprising 16 states in northeastern Brazil. TNL PCS S.A. started its operating activities on June 24, 2002 under the brand name Oi and provides SMP services using GSM/GPRS digital technology.

The D Band license of the mid-south region of Brasil was awarded to TIM.

On March 13, 2001, Anatel held an auction for the E Band SMP authorization. TIM was the only bidder and acquired a license to provide services in the region comprising 16 states in northeastern Brazil, in which Telemar operates as a fixed-line provider.

At that time, there were no bidders for the E Band authorizations covering the two remaining SMP service regions.

Through an auction held in October 2002, the remaining D Band and E Band licenses were allocated to the remaining nine areas as follows: three licenses to the Telecom Américas Group, controlled by América Móvil, three licenses to Brasil Telecom in the regions in which it already operated wireline telecommunications and three licenses to Vésper.

TIM controls two A Band operators serving the states of Paraná and Santa Catarina and the Northeast region, and two B Band service providers, one operating in the state of Minas Gerais and the other in the states of Bahia and Sergipe. TIM also acquired two D band licenses and one E band license in the SMP service auctions carried out by the Brazilian government during 2001. However, TIM had to give back part of its SMP license to provide mobile services in those areas within the D Band, including Paraná and Santa Catarina, and the E Band where it is already providing mobile services. TIM is able to offer wireless services nationwide. TIM began its operations in the new areas in September 2002.

The Telecom Américas Group, which already controls ATL (B Band operator in Rio de Janeiro and Espírito Santo), Tess (B Band operator in the inner region of the state of São Paulo), Telet (B Band operator in Rio Grande do Sul) and Americel (B Band operator in the Region encompassing the states of Mato Grosso do Sul, Minas Gerais, Goiás, Tocantins, Rondônia and Acre), purchased the D Band remaining license in connection with the region of Paraná and Santa Catarina. It also purchased the E Band SMP license in the states of Bahia and Sergipe and the metropolitan region of São Paulo. These operators migrated to SMP service and, in March 2003, Telecom Américas Group communicated that it is acquiring BSE (B Band operator in the northeastern area).

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Brasil Telecom S.A., or Brasil Telecom, purchased the remaining E Band license in the region of Rio Grande do Sul and in the region encompassing the states of Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Rondônia and Tocantins and the Federal District. It also purchased the E Band SMP service licenses in the states of Paraná and Santa Catarina. Brasil Telecom is controlled by Grupo Opportunity, which also has shareholding in Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A.

Vésper purchased the remaining E Band license in the inner region of São Paulo. In the region of Minas Gerais, Vésper purchased the E Band SMP license, and it also purchased the E Band SMP license in the states of the northeastern region: Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte.

We estimate that Telesp Celular's and Global Telecom's market share in their respective Region as of December 31, 2002 were approximately 67% and 41%.

Other Competition

We also compete with wireline telecommunication service providers. Some existing and potential customers may shift to wireline service providers for a number of reasons, including price, if sufficient capital is invested in the wireline telecommunication industry in our Regions to increase wireline availability and improve service. The main wireline service provider in Telesp Celular's Region is Telesp and in Global Telecom's Region is Brasil Telecom.

We also compete with certain other wireless telecommunications services, such as mobile radio (including digital trunking technology, offered by Nextel), paging and beeper services, which are used by some in our Region as a substitute for cellular telecommunications services. Satellite services, which provide nationwide coverage, are also available in Brazil. Although satellite services have the benefit of covering a much greater area than cellular telecommunications services, they are considerably more expensive than cellular telecommunications services and do not offer comparable coverage inside buildings. We do not plan to offer mobile satellite services (other than pursuant to a roaming arrangement with a satellite service provider).

Regulation of the Brazilian Telecommunications Industry

General

Our business, the services we provide and the prices we charge are subject to regulation under the General Telecommunications Law and various administrative enactments, which regulate the services provided by Brazilian telecommunications operators.

Anatel is the agency that regulates telecommunications under the General Telecommunications Law and the July 2001 Regulamento da Agência Nacional de Telecomunicações, known as the Anatel Decree. Anatel is financially autonomous, and administratively independent of the federal government. Anatel maintains a close relationship with the Ministry of Communications. Any regulation proposed by Anatel is subject to a period of public comment, which may include public hearings. Anatel's actions may be challenged in the Brazilian courts. On November 25, 1998, Anatel enacted Resolution 73 Regulation of Telecommunication Services, which regulates in detail the new comprehensive framework for the provision of telecommunications services in Brazil established by the General Telecommunications Law.

Concessions and Authorizations

Before January 2000, Anatel had only authorized two mobile service providers in each of the ten franchise areas under A Band and B Band. A Band and B Band mobile service providers were granted concessions pursuant to the *Lei Mínima*, or the Minimum Law. Each concession is a specific grant of authority to supply cellular telecommunications services, subject to certain requirements contained in the applicable list of obligations appended to each concession. If a mobile service provider wishes to offer any telecommunications service other than those authorized by its concession, it may apply to Anatel for an authorization to offer such other services.

In accordance with the General Telecommunications Law, a concession relates to the provision of telecommunication services under the public regime, as determined by the public administration. A concession may only be granted upon a prior auction bidding process. As a result, regulatory provisions are included in the relevant concession agreements and the concessionaire is subject to public service principles of continuity, changeability and equal treatment of customers. Also, Anatel is empowered to direct and control the performance of the services, to apply penalties and to declare the expiration of the concession and the return of assets of the concessionaire to the government authority upon termination of the concession. Another distinctive feature is the right of the concessionaire under the concession agreement to be able to maintain certain economic and financial standards. The concession is granted for a fixed period of time and is generally renewable only once.

An authorization is a permission granted by the public administration under the private regime, which may or may not be granted upon a prior auction bidding process, to the extent that the authorized party complies with the objective and subjective conditions deemed necessary for the rendering of the relevant type of telecommunication service in the private regime. The authorization is granted for an indeterminate period of time. Under the authorization, the government does not guarantee to the authorized company certain economic and financial standards, as was the case under the concessions.

SMP Regulation

In November 2000, Anatel adopted certain regulations for the issuance of new licenses, which are authorizations to provide wireless communication services through SMP, personal mobile service, to compete with the then existing cellular operators in the various regions of Brazil. These regulations divided Brazil into three main regions covering the same geographic areas as the concessions for the fixed-line telecommunication services. Anatel organized auctions for three new licenses for each of those regions. The new licenses provided that the new services would be operated in the 1,800 MHz radio frequency bands, and they were denominated C Band, D Band and E Band. These new licenses were auctioned by Anatel and awarded during the first quarter of 2001 and at the end of 2002.

Under these new licenses:

- services are to be provided using the 1,800 MHz frequency;
- each operator may provide domestic and international long distance services in its licensed area;
- existing cellular service providers, as long as they do not have partnerships with fixed-line operators, as well as new entrants into the Brazilian telecommunications market can bid for C Band, D Band and E Band licenses. However, fixed-line operators, their controlling shareholders and affiliated cellular providers can only bid for D Band and E Band licenses;
- a cellular or SMP operator, or its respective controlling shareholders, may not have geographical overlap between licenses; and
- current A Band and B Band cellular service providers can apply for an extra frequency range.

Pursuant to the SMP services regulation, each of the three main regions is divided into registration areas, or tariff areas.

In order to transfer our services to SMP, we were required to comply with several technical and operational conditions, including, among others, the adoption of a carrier selection code for long distance calls originating from our network.

Under the General Telecommunications Law, all mobile telecommunications service providers must provide interconnection upon the request of any other mobile or fixed-line telecommunications service provider. Until June 30, 2004, SMP service providers may opt to establish a price cap or freely negotiate their interconnection charges. Thereafter, the terms and conditions of the interconnection are freely negotiated between wireless and fixed-line operators, subject to compliance with regulations established by Anatel relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties. If a service provider offers any party an interconnection tariff below the price cap, it must offer the same tariff to any other requesting party on a nondiscriminatory basis. If the parties cannot reach an agreement on the terms of interconnection, including with respect to the interconnection tariff, Anatel will act as the final arbiter. Because Anatel considers us to be affiliated with Telefónica, which already provides wireline long distance services in the state of São Paulo and was awarded a license to provide these services nationwide, Anatel will not award a wireline long distance license to us. Though we and other mobile operators have requested that Anatel revise the current SMP regime, there can be no assurance it will do so. Under the SMP regime, we will receive revenues from interconnection fees paid to us by wireline long distance operators due to long distance traffic originating and terminating on our network.

The authorizations consist of two licenses one to provide mobile telecommunications services, and another to use the frequency spectrum for a period of 15 years. The frequency license is renewable for another 15-year period upon the payment of an additional license fee.

Benefit of the SMP System

According to the General Telecommunications Law and Decree No. 2056/96, control of the concessionaire can only be transferred after five years from the date of the privatization in the case of A Band concessionaires or the commencement of services in the case of B Band concessionaires. On the other hand, under the SMP system, the authorization or control of the authorized party can be transferred through merger of the relevant cellular mobile service provider, whether it is providing services under the A Band or the B Band.

Obligations of Telecommunications Companies

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As a telecommunications service provider, we are subject to regulations concerning quality of service and network expansion, as established in our authorizations and our original concession agreements.

Any breach by the companies of telecommunications legislation or of any obligation set forth in their authorizations may result in a fine of up to R\$50 million.

Telesp Celular's and Global Telecom's authorizations impose obligations to meet such quality of service standards as: the system's ability to make and receive calls, call failure rates, the network's capacity to handle peak periods, failed interconnection of calls and customer complaints. Anatel published the method for collecting these quality service standards data on April 23, 2003 (Anatel Resolution No. 335/03).

Interconnection

Under the General Telecommunications Law, telecommunications service providers are classified as providers of either collective or restricted services. All cellular operators, including SMP service providers, are classified by Anatel as collective service providers. All providers of collective services are required to provide interconnection upon request to any other collective service provider. The terms and conditions of interconnection are freely negotiated between parties, subject to price caps and other rules established by Anatel. Providers must enter into interconnection agreements, regarding, among other things, tariffs, commercial conditions and technical issues, with all requesting parties on a nondiscriminatory basis. If the parties cannot agree upon the terms and conditions of interconnection, Anatel may determine terms and conditions by arbitration.

Interconnection agreements must be approved by Anatel and may be rejected if they are contrary to the principles of free competition and the applicable regulations.

Rate Regulation

Our authorizations continue to provide for a price-cap mechanism to set and adjust rates on an annual basis. The cap is a maximum weighted average price for a package of services. The package consists of the services in our Basic Plan, including activation fees, monthly subscription fees, and certain roaming charges, which are charged for the use of mobile services under the SMP regime. The price cap is revised annually to reflect the rate of inflation as measured by the IGP-DI. However, mobile operators are able to freely set the rates for alternative service plans.

The initial price cap agreed to by Anatel and us in our authorizations had been based on the previously existing or bidding prices, and was adjusted annually on the basis of a formula contained in our authorizations. The price cap has been revised to reflect the rate of inflation as measured by the IGP-DI. The weighted average price for the entire package of services may not exceed the price cap, but the price for individual services within the package may be increased.

Other telecommunications companies that interconnect with and use our network must pay certain fees, primarily an interconnection fee. The interconnection fee is a flat fee charged per minute of use. The interconnection fee charged by us and other A and B Band service providers is still subject to a price cap stipulated by Anatel. The price cap for the interconnection fee varies from company to company, on the basis of the underlying cost characteristics of each company's network. B Band service providers are subject to price caps established during the auction process for their licenses.

Internet and Related Services in Brazil

In Brazil, Internet service providers, or ISPs, are deemed to be suppliers of value-added services and not telecommunications service providers. Anatel's Resolution 190 requires cable operators to act as carriers of third-party Internet service providers. The Brazilian House of Representatives is considering a law that would penalize Internet service providers for knowingly providing services that allow illegal goods or services to be sold on the Internet, and would impose confidentiality requirements on Internet service providers regarding nonpublic information transmitted or stored on their networks.

C. Organizational Structure

As of December 31, 2002, our voting shares were indirectly controlled by two major shareholders: Portugal Telecom and Telefónica Móviles, through Brasilcel N.V., with 93.7% of our voting stock, 49.8% of our preferred shares and 65.1% of our total capital stock.

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For a more detailed description of our ownership structure and the joint venture between Portugal Telecom and Telefónica Móviles, see Our History and Development.

D. Property, Plant and Equipment

Our principal physical property consists of transmission equipment, switching equipment and base stations. All switches, cell sites, administrative buildings, administrative facilities, warehouses and stores are insured against damages for policy operation risks.

At December 31, 2002, Telesp Celular had 48 cellular switches and other equipment installed in nine owned spaces and 29 shared spaces. Telesp Celular leases almost all of the sites in which its cellular telecommunications network equipment is installed. Its 2,920 permanent base stations were installed in 2,244 cell sites, administrative buildings, administrative facilities and warehouses, and the average term of these leases is five years. In addition, Telesp Celular leases administrative facilities (approximately 41,063 square meters), warehouse space (approximately 4,483 square meters) and 66 retail stores (1 of which is under construction) throughout its Region.

At December 31, 2002, Global Telecom had eight cellular switches and other equipment installed in five owned spaces. Global Telecom leases almost all of the sites in which its cellular telecommunications network equipment is installed. Its 633 permanent base stations and other network equipment were installed in 724 cell sites, and the average term of these leases is five years. In addition, Global Telecom has one administrative building (approximately 4,272 square meters) in which it has one store, and leases administrative facilities (approximately 3,547 square meters), one kiosk and 25 retail stores (one of which is under construction) throughout its Region.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion in conjunction with our consolidated financial statements and accompanying notes and other financial information included elsewhere in this annual report, and in conjunction with the financial information included under Item 3A. Selected Financial Data.

Critical Accounting Policies

The significant accounting policies that we believe are critical to aid in fully understanding and evaluating our reported financial position and results of operations reported under Brazilian Corporate Law are described in Note 3 to our consolidated financial statements. A description of the differences in accounting policies between Brazilian Corporate Law and U.S. GAAP is included in Note 37 to our consolidated financial statements. The accounting policies require us to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. The most important estimates include: (i) the valuation and useful lives of our permanent assets, including equipment, concession/authorization/license intangible assets, and goodwill on our investments; (ii) the allowance for doubtful accounts; (iii) realization of deferred tax assets; (iv) reserve for loss contingencies; and (v) the fair value of our financial instruments, including derivatives, as further explained below. While our revenue recognition policy does not require the exercise of significant judgment or the use of estimates, we believe that our policy is significant as revenue is a key component of our results of operations.

- Depreciation on property, plant and equipment is calculated on a straight-line method of the estimated useful lives of the underlying assets, which consider historical information available to us, as well as known industry trends. The sensitivity of an impact in changes in the useful lives of property, plant and equipment was assessed by applying a hypothetical decrease of 10% to the useful lives of switching and transmission equipment existing at December 31, 2002. This hypothetical change would result in an incremental increase in the annual depreciation expense of R\$81 million in the year of the change.
- Realization of the deferred tax assets is dependent on our ability to generate future taxable income. Income and Social Contribution Taxes are calculated and recorded based on the tax rates in effect on the balance sheet date, on an accrual basis. The deferred taxes attributable to temporary differences, tax losses and social contribution tax loss carryforwards of Telesp Celular are recorded as assets, based on the assumption of their future realization. The deferred tax assets of TCP and Global Telecom have not been recorded since their realization is not considered to be more likely than not. However, there can be no assurance that we will meet our expectations of future income. Management frequently evaluates the likelihood of realizing the deferred tax assets and assesses the need for valuation allowances. A future possible increase in our estimate of the valuation allowance would result in a reduction in net income in the period that the increase in valuation allowance is recorded.
- We are subject to proceedings, lawsuits and other claims related to tax, labor and civil matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after careful analysis of each individual issue, based on legal advice. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters. Future possible changes in the recorded reserve amounts would impact our results of

operations in the period that such changes are recorded.

- With respect to financial instruments, we must make assumptions as to future foreign currency exchange and interest rates. For a discussion of the possible impact of fluctuations in the foreign currency exchange and interest rates on our principal financial instruments and positions, see Item 11 Quantitative and Qualitative Disclosures About Market Risk.

As of December 31, 2002, we have U.S.\$12.9 million in off-balance sheet financing related to the leasing of network equipment. The expenses related to this financing are included as costs and amounted to R\$26.7 million.

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.

U.S. GAAP Reconciliation

We prepare our consolidated financial statements in accordance with the Brazilian corporate law method, which differs in significant respects from U.S. GAAP, as described in more detail in Note 37 to our consolidated financial statements. Net income (loss) for 2000, 2001 and 2002 was R\$36.9 million, (R\$1,204.1 million) and (R\$1,495.7) million under U.S. GAAP, compared to a net income (loss) of R\$152.2 million, (R\$1,113.6) million and (R\$1,140.8) million under the Brazilian corporate law method. Shareholders' equity at December 31, 2001 and 2002 was R\$2,430.9 million and R\$3,307.3 million under U.S. GAAP, compared to R\$2,742.6 million and R\$4,010.0 million under the Brazilian corporate law method.

The principal differences between U.S. GAAP and the Brazilian corporate law method that affected our net income (loss) as well as our shareholders' equity, relate to the accounting for purchase of Global Telecom the treatment of derivative instruments, the deferred tax effect of the U.S. GAAP adjustments, and the accounting for prepaid installment plan revenues.

See Note 37 to our audited consolidated financial statements for a description of the principal differences between the Brazilian corporate law method and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net income/loss and total shareholders' equity. See Note 27 to the combined financial statements of Global Telecom Holdings for a description of the principal differences between Brazilian Corporate Law and U.S. GAAP as they relate to Global Telecom Holdings and a reconciliation to U.S. GAAP of its results of operations and total shareholders' deficit.

New U.S. GAAP Accounting Pronouncements

SFAS No. 141 Business Combinations

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), Business Combinations. SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board, or APB Opinion No. 16 (APB No. 16), Business Combinations and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. All business combinations within the scope of SFAS No. 141 are to be accounted for using the purchase method. In addition, SFAS No. 141 requires that intangible assets be recognized as assets apart from goodwill if they meet two criteria: the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, SFAS No. 141 also provides a list of intangible assets that meet either one of these criteria. In addition to the disclosure requirements prescribed in APB No. 16, SFAS No. 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by a major caption on the balance sheet. SFAS No. 141 also requires that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. SFAS No. 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The adoption of SFAS No. 141 on January 1, 2002, did not have any impact on our financial position, cash flows or results of operations.

SFAS No. 142 Goodwill and Other Intangible Assets

In June 2001, FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. SFAS No. 142 also amends SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of, to exclude from its scope goodwill and intangible assets that are not amortized. SFAS No. 142 addresses the manner in which intangible assets that are acquired

individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses the way that goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provision of SFAS No. 142 is required to be applied in fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued. An exception to the SFAS No. 142 application date is for goodwill and intangible assets acquired after June 30, 2001, which will be immediately subject to the non-amortization and amortization provisions of this statement. The adoption of SFAS No. 142 on January 1, 2002 did not have any impact on our financial position, cash flows or results of operations.

SFAS No. 143 Accounting for Asset Retirement Obligations

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations, (SFAS No. 143). SFAS No. 143 basically requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Under SFAS No. 143, the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS No. 143 will provide more information about asset retirement obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with earlier application encouraged. Based on an initial assessment of the provisions and requirements of SFAS No. 143, our management believes that the implementation of this statement will not result in any impact on our financial position, cash flows or results of operations.

SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) which supersedes Statement of Financial Accounting Standards No. 121 (SFAS No. 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of but retains SFAS No. 121's fundamental provisions for (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30 (APB No. 30), Reporting the Results of Operations for segments of a business to be disposed of but retains APB No. 30's requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those years. The adoption of SFAS No. 144 on January 1, 2002, did not have any impact on our financial position, cash flows or results of operations.

SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 of SFAS 145"

In April 2002, the FASB issued Statements of Accounting Standards No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 (SFAS No. 145). SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in ABP No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. We are currently evaluating the impact that the adoption of SFAS No. 145 will have on our results of operations, cash flows and financial position, but do not believe that the impact will be material.

SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued Statement of Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) (EITF 94-3). SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be

recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also states that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. In addition, SFAS No. 146 establishes that fair value is the objective for initial measurement of the liability. The requirements of SFAS No. 146 apply prospectively to activities initiated after December 31, 2002, and, as such, we cannot reasonably estimate the impact that the adoption of these new rules will have until and unless they affect relevant activities in future periods.

FIN No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN No. 45). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods ending after December 15, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Based on an initial assessment of the provisions and requirements of FIN No. 45, our management believes that the implementation of this statement will not result in any impact on our financial position, cash flows or results of operations.

EITF 00-21 Revenue Arrangements with Multiple Deliverables

At the September and October 2002 meetings of the Emerging Issues Task Force (EITF), the Task Force reached a tentative conclusion on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, which outlines an approach to be used to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. Specifically, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if: (1) the delivered item(s) has value to the customer on a stand-alone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

The arrangement consideration allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

The guidance in EITF 00-21 is effective prospectively for revenue arrangements entered into for the fiscal years beginning after December 15, 2002. In the alternative, entities may elect to report the change in accounting as a cumulative-effect adjustment in accordance with APB Opinion No. 20, *Accounting Changes*. We are currently evaluating the impact of EITF 00-21 on our financial statements, specifically our treatment of revenue from handset sales under U.S. GAAP. We currently cannot reasonably estimate the impact that the adoption of the new rule would have on us.

A. Operating Results

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. See Item 4A. *Our History and Development - 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. Beginning December 27, 2002, we are consolidating 100% of the results of Global Telecom. Except as otherwise specified, the following discussion does not reflect our investment in Global Telecom.

In 2002 and 2001, our results of operations were significantly impacted by our investment in Global Telecom Holdings. We recorded our equity in the losses of Global Telecom of R\$890.7 million and R\$653.6 million, respectively. In addition, we recognized additional losses on our investment in Global Telecom Holdings of R\$170.9 million and R\$278.8 million for the same periods.

Our investment in Global Telecom will continue to have a material effect on our financial condition and results because of three factors: (1) the indebtedness we incurred to make the investment; (2) our expectation that Global Telecom (which began operations in December 1998) will continue to report net losses for an indeterminate period; and (3) we will consolidate 100% of such losses (as opposed to 83%) in 2003. Please see *Results of Operations for 2001 and 2002 for Global Telecom Holdings* below.

Results of Operations for 2000, 2001 and 2002 for TCP*Net Operating Revenue*

Our operating revenue consists of the following:

- usage charges, which include charges for outgoing calls, roaming and similar services, and revenues from the sale of airtime for prepaid services;
- revenues from the sale of cellular handsets and accessories;
- monthly subscription charges paid by our contract customers;
- network usage charges, which are amounts we charge other cellular, fixed-line or long distance service providers for calls completed by our network; and
- other charges, including charges for the transfer of cellular lines, call forwarding, call waiting, additional voicemail services and call blocking, SMS and WAP services.

The composition of our operating revenues has been affected by the shift toward prepaid services (which generate usage charges and interconnection charges but do not generate monthly subscription charges, and which have attracted lower income customers to our services) and more recently by our new strategic focus on profitability and selective customer growth. The shift from contract services to prepaid services was greatest in 2000. Our contract customer base stabilized in 2001. Net additions increased the number of contract customers by 4.2% to 1.426 million in 2002 and decreased by 14.7% to 1.369 million in 2001 from 1.604 million in 2000. Net additions increased the number of prepaid customers by 24.1% to 4.634 million in 2002 and by 38.4% to 3.735 million in 2001 from 2.698 million in 2000. Interconnection charges increased by 12.1% in February 2002 and 21.9% since February 2003. Anatel authorizes cellular operators to increase tariffs based upon the prior 12-month period's cumulative inflation, measured by the IGP variation from February to January of each year.

The composition of operating revenues by category of service is presented in our consolidated financial statements and discussed below before deduction of value-added and other taxes. 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 years ended December 31, 2000, 2001 and 2002.

	Year ended December 31,			% Change	
	2000	2001	2002	2000-2001	2001-2002
	(R\$ million)			(in percentages)	
Usage charges	1,128.5	1,158.1	1,272.1	2.6	9.8
Sales of handsets and accessories	1,004.4	706.2	717.9	(29.7)	1.7
Monthly subscription charges	798.7	820.7	972.5	2.8	18.5
Interconnection	706.3	1,120.0	1,346.7	58.6	20.2
Other	44.5	36.2	43.0	(18.7)	18.8
Total gross operating revenue	3,682.4	3,841.2	4,352.2	4.3	13.3
Value-added and other indirect taxes	(701.6)	(675.8)	(787.9)	(3.7)	16.6
Sales and services discount and return of goods sold	(214.1)	(219.2)	(173.7)	2.4	(20.8)
Net operating revenues	2,766.7	2,946.2	3,390.6	6.5	15.1

Net operating revenues increased by 15.1% to R\$3,390.6 million in 2002, and by 6.5% to R\$2,946.2 million in 2001 from R\$2,766.7 million in 2000. The growth in net operating revenues over the three-year period was primarily due to the growth of our customer base and tariff increases. The growth in customers has primarily reflected an increase in prepaid customers. The decrease in average monthly revenue in 2001

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was due to the increase in the participation of prepaid customers in the customer base, who generate lower average revenue per user than contract customers. Prepaid customers tend to be lower income customers or youngsters who select our prepaid service because it enables them to control and limit spending with the purchase of airtime prior to usage. Since the second quarter of 2001, we have been focusing more on profitability, and so we began targeting the corporate segment, high-income customers and the youth segment. Higher income and corporate customers tend to be contract customers and often use our ancillary services. Customers in the youth segment are generally prepaid customers but tend to be high volume users who also use our ancillary services. This approach has allowed us in 2002 to reverse the trend of decreasing contract customers and to improve average revenue per user in 2002.

Usage charges. Revenues from usage charges increased by 9.8% to R\$1,272.1 million in 2002 and by 2.6% to R\$1,158.1 million in 2001 from R\$1,128.5 million in 2000. These increases were principally attributable to the growth in the customer base. Usage charges grew only slightly in 2001 as a result of the increase in the number of prepaid customers and the launch of our customer loyalty plans that provided free minutes of usage.

Sales of handsets and accessories. Revenues from sales of handsets and accessories increased by 1.7% to R\$717.9 million in 2002 from R\$706.2 million in 2001, which in turn represented a 29.7% decrease from R\$1,004.4 million in 2000. Revenues from handset sales declined in 2001, as a result of a reduction in the number of handsets and accessories sold, as well as a decrease in handset prices. Revenues from handset sales grew in 2002 as a result of an increase in the number of handsets and accessories sold, in conjunction with an increase in prices. 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 varying 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. In 2000 and 2001, the subsidy strategy resulted in a gross loss (calculated as the difference from net operating revenues from sales minus the cost of goods sold) of approximately R\$16.4 million and R\$113.1 million on handset sales in 2000 and 2001, respectively. In 2002, we recorded a gross loss on handset sales of approximately R\$78.5 million, as a result of the lower subsidy strategy and lower handset costs.

Monthly subscription charges. Revenues from monthly subscription charges increased by 18.5% to R\$972.5 million in 2002 from R\$820.7 million in 2001, which in turn represented a 2.8% increase in 2001 from R\$798.7 million in 2000. The increase in 2002 was due to the introduction of new monthly plans, which, together with the loyalty plans, attracted new contract customers, increasing our contract customer base by 4.2% to 1.426 million. In 2001, our contract customer base decreased by 14.7% to 1.369 million, from 1.604 million in 2000. The increase in monthly subscription revenue in 2001 was a result of the launch of our loyalty plans, which include free minutes of usage, but have higher monthly subscription charges.

Interconnection charges. Revenues from interconnection charges increased by 20.2% to R\$1,346.7 million in 2002 and increased by 58.6% to R\$1,120.0 million in 2001 from R\$706.3 million in 2000. The increase in 2002 was due to the higher volume of incoming calls from outside our network due to the increase in our customer base as well as due to a rate increase in interconnection charges in 2002. The increase in 2001 was principally due to a higher volume of incoming calls from outside our network because of the increase in prepaid customers, which receive high numbers of incoming calls.

Value-added and other indirect taxes. Taxes on operating revenues were 19.1% of our gross operating revenues in 2000, 17.6% in 2001 and 18.1% in 2002. The principal tax is the ICMS, which is 25% on services and up to 18% on goods sold. ICMS is not payable with respect to interconnection charges. See Item 4B. Business Overview Taxes on Telecommunications Services and Handset Sales. Two federal social contribution taxes, the PIS and the COFINS, are imposed on gross revenues at a combined rate of 3.65%. Beginning in 2001, all telecommunications service providers were required to contribute 1.0% to FUST and 0.5% to FUNTEL. The effective rate of taxes on gross operating revenues varies depending upon the composition of our revenues; as interconnection charges are not subject to ICMS, the increase in our interconnection charges as a result of the increased use of prepaid plans tends to reduce our effective tax rate.

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 decreased by 20.8% in 2002 to R\$173.7 million, compared to R\$219.2 million in 2001, after an increase of 2.4% compared to R\$214.1 million in 2000, due to discounts on services that were offered in 2000 and 2001 to encourage the migration of customers from our analog to our digital service.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for 2000, 2001 and 2002.

Year ended December 31,			% Change	
2000	2001	2002	2000-2001	2001-2002

	(R\$ million)			(in percentages)	
Depreciation and amortization	510.5	519.8	564.1	1.8	8.5
Materials and services	395.5	457.0	422.9	15.5	(7.5)
Personnel	28.4	25.4	27.2	(10.6)	7.1
Rental, insurance, condominium fees	38.9	70.1	80.2	80.2	14.4
Cost of goods sold	666.6	580.6	548.9	(12.9)	(5.5)
Fistel and other taxes	49.3	3.5	5.1	(92.9)	45.7
Cost of services and goods	1,689.2	1,656.4	1,648.4	(1.9)	(0.5)

Cost of services and goods decreased by 0.5% in 2002 to R\$1,648.4 million, from R\$1,656.4 million in 2001, mainly as a result of the decrease in the cost of materials and services. The decrease in the cost of materials and services was, in turn, due principally to the renegotiation of rents for dedicated lines and base station sites with our fixed-line and long distance providers, which resulted in a decrease of R\$40.6 million. A decrease in equipment maintenance costs also accounted for an additional decrease of R\$13.9 million in the cost of materials and services. However, these decreases were partially offset by a R\$20.5 million increase in interconnection charges of other operators. Tariff increases of the network usage charges of the other operators (TU-M) and the larger customer base increased the number of outgoing calls.

Cost of goods in 2002 decreased by R\$31.7 million, mainly as a result of sharply lower cost of handsets, which was substantially offset by the devaluation of the *real*. Offsetting these declines was an 8.5% increase in depreciation and amortization from 2001 to 2002, resulting from the growth of our network. Our depreciation and amortization expenses in 2001 increased modestly to 1.8% because the effect of the expansion of our network in that year was largely offset by our re-evaluation of the expected life of our equipment, where, in many cases, we extended our assessment of useful life.

Cost of services and goods decreased by 1.9% in 2001 to R\$1,656.4 million, from R\$1,689.2 million in 2000, mainly as a result of decreased product costs due to a lower traded volume in 2001.

Gross margin, which is defined as gross profit as a percentage of net revenues, increased to 51.4% in 2002 from 43.8% in 2001, and from 38.9% in 2000.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the years ended December 31, 2000, 2001 and 2002.

	Year ended December 31,			% Change	
	2000	2001	2002	2000-2001	2001-2002
	(R\$ million)			(in percentages)	
Selling expenses	554.2	605.0	617.9	9.2	2.1
General and administrative expense	217.9	271.2	288.5	24.5	6.4
Other net operating expense (income)	(33.9)	67.6	70.1	299.4	3.7

Selling expenses. Selling expenses increased by 2.1% to R\$617.9 million in 2002, from R\$605.0 million in 2001, which in turn represented a 9.2% increase from R\$554.2 million in 2000.

The main reasons for the variation from 2001 to 2002 were:

- The allowance for doubtful accounts decreased by 27.3% to R\$68.3 million in 2002 from R\$94.0 million in 2001. The decrease was mainly a result of the adoption of more effective credit standards and the continued growth in our prepaid customer base.
- These decreases were offset in large part by a substantial increase in depreciation and amortization expense, from R\$21.8 million in 2001 to R\$55.9 million in 2002, due to (i) the amortization of the premiums we pay to our dealers in order to guarantee the exclusivity of our products and services, and (ii) the larger number of loaned handsets resulting from our emphasis on corporate customers. The

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decreases were further offset by an increase in the Fistel tax expense, from R\$67.8 million in 2001 to R\$91.5 million in 2002.

The main reasons for the variation from 2000 to 2001 were:

- Expenses for outside services increased by R\$44.6 million, from R\$229.1 million in 2000 to R\$273.7 million in 2001, principally as a result of higher advertising and publicity costs, increased call center costs and an increase in agent commissions.
- An approximate R\$24.6 million increase in the Fistel tax and other taxes paid, from R\$43.2 million in 2000 to R\$67.8 million in 2001.
- An increase in depreciation and amortization expenses, from R\$8.8 million in 2000 to R\$21.8 million in 2001, reflecting the amortization of billing software and systems acquired in 2001.
- These increases were offset by a 27.1% decrease in the allowance for doubtful accounts, from R\$128.9 million in 2000 to R\$94.0 million in 2001. This decrease was mainly due to better credit policies and the growth in our prepaid customer base.

General and administrative expenses. General and administrative expenses increased by 6.4% in 2002 to R\$288.5 million and by 24.5% in 2001 to R\$271.2 million from R\$217.9 million in 2000. The R\$17.3 million increase in 2002 was due principally to higher personnel costs and higher depreciation and amortization costs. The R\$53.3 million increase in 2001 was due principally to higher personnel costs, increased depreciation relating to various new product systems, such as prepaid and Waaap service systems, substantial increases in third-party services relating to consulting and, finally, systems and building adaptations and maintenance.

Other net operating expenses (income). The net amount of other operating expenses increased by 3.7% to R\$70.1 million in 2002, from R\$67.6 million in 2001, and was R\$33.9 million in income in 2000.

Other operating expenses principally include provisions for tax and legal contingencies and the consulting fee payable to Portugal Telecom.

The variations in the components of other net operating expenses from 2001 to 2002 were not significant.

The R\$101.5 million variation in 2001, from other net operating income of R\$33.9 million to other net operating expense of R\$67.6 million in 2001, was due to the recording of significant income items in 2000 that did not recur in 2001. The most important of those were:

- The reversal of a provision we established in 1998 related to our share of the underfunding of the pension plan for employees of the former Telebrás System was R\$29.4 million in 2000. Pursuant to an agreement concluded in early 2000, we are no longer jointly liable for the underfunding of obligations to active employees of the other former Telebrás Companies.
- Other operating income for 2000 included a catch-up payment by the fixed-line provider in our Region for rural cellular connections that it had utilized but had not paid for since the Privatization.
- Our assessed late payment fees decreased approximately R\$10 million as a result of the introduction of our new billing system.

In 2001, other operating expenses increased mainly due to the establishment of an approximate R\$29.6 million contingency relating to AD/DSL litigation and an approximate R\$5.0 million increase in the consulting fee paid to Portugal Telecom. In 2001, we also amortized the goodwill related to Ceterp Celular.

Net Financial Expense

	Year ended December 31,			% Change	
	2000	2001	2002	2000-2001	2001-2002
	(R\$ million)			(in percentages)	
Financial income	66.7	65.9	69.2	(1.2)	5.0
Exchange gains and losses	(111.8)	(270.7)	(1,475.5)	142.1	445.1
Gains on foreign currency derivative contracts	96.5	175.3	1,079.1	81.7	515.6
Financial expenses	(188.5)	(512.0)	(481.2)	171.6	(6.0)
	(137.1)	(541.5)	(808.4)	295.0	49.3

Net financial expense reflects financial income, financial expense, exchange gain and loss and gains on foreign currency derivatives. See Note 9 to the consolidated financial statements. During 2000, the Brazilian government reduced the basic target interbank offer rate in Brazil, or the *Certificado de Depósitos Interbancário* (Interbank Deposit Certificate), or CDI, from 19.0% per annum to 15.75% per annum due to improved macroeconomic conditions. However, during 2001, the government raised the target CDI rate to 19.0% again as a result of a declining

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international environment. During 2002, following a reduction of 1% during the months of January through September, the basic rate started climbing again to close the year at 25.0% per annum.

Financial income decreased by 1.2% from R\$66.7 million in 2000 to R\$65.9 million in 2001 and increased by 5.0% to R\$69.2 million in 2002. Financial income remained largely unchanged in 2001 due to a reduction in the level of short-term investments that was offset by an increase in financial discounts from suppliers. Financial income in 2002 was R\$3.3 million higher than in 2001 due to higher interest on past dues received from customers, which compensated for a reduction in interest from treasury investments due to a lower level of interest rates from January through September 2002.

Financial expenses net of exchange gains and losses and gains on foreign currency derivative contracts increased by 49.3% to R\$808.4 million in 2002 and increased by 295% to R\$541.5 million in 2001 from R\$137.1 million in 2000. The increase in 2002 was mainly due to a R\$267.0 million provision for foreign exchange losses on those derivatives contracts that bear carrying costs indexed to the U.S. dollar. Some of our hedging contracts carry premium payments linked to the CDI that apply to the notional value in U.S. dollars. In previous years, increases in interest rates have been compensated by decreases in the exchange rate (or vice versa), in such a way that these contracts behaved and were accounted for essentially like a regular fixed U.S. dollar-floating *real* swap. With both the rising interest rates and the depreciation of the *real* in 2002, we decided to institute this provision. Also, we had no capitalization of interest in 2002, compared to R\$55.7 million of interest expenses that were capitalized in 2001. As a result of the devaluation of the *real* against the U.S. dollar during 2001, we had an exchange loss of R\$270.7 million, which was partially offset by a gain of R\$175.3 million on foreign currency derivative contracts. In 2000, we had an exchange loss of R\$111.8 million, which was significantly offset by a gain of R\$96.5 million on foreign currency derivative contracts.

The level of effective interest rates, represented by the CDI rate, affects the cost of *real*-denominated debt and the carrying cost of floating U.S. dollar-*real* swaps linked to the CDI. The effective CDI rate was 19.11% in 2002, 17.29% in 2001 and 17.32% in 2000. The increase in financial expenses from R\$188.5 million in 2000 to R\$512.0 million in 2001 was a reflection of higher indebtedness incurred by us due to the acquisition of Global Telecom in February 2001. The decrease in financial expenses from R\$512.0 million in 2001 to R\$481.2 million in 2002 was a reflection of the lower level of interest rates until September 2002, in addition to the debt reduction that followed the capital increase that occurred in September 2002.

Income Taxes

In 2002, net losses before income taxes were R\$1,094.3 million. Despite this net loss, we registered R\$46.5 million in income taxes, which are due solely to the operating results of Telesp Celular. According to Brazilian law, the results from the equity participation are not subject to taxes, while the losses from TCP's operations were not recognized as deferred assets, given that it is not more likely than not that these benefits will be offset with future taxable income.

Equity Losses in Subsidiaries

Despite better operational results (other than financial results) in 2002, due to the increase in revenues and a decrease in operational costs, Global Telecom had net losses of R\$771.1 million mainly due to financial expenses incurred in connection with its exposure to the U.S. dollar and euro exchange rates. In September 2002, Global Telecom effected a reorganization of its capital structure to decrease its debt. Nevertheless, the financial result was impacted due to the devaluation of the *real* against the euro (which was 86.7% in the first nine months of 2002).

Our equity losses in subsidiaries, all of which were attributable to Global Telecom, were R\$890.7 million and R\$653.6 million in 2002 and 2001, respectively.

Extraordinary Items

As a result of the significant operating losses incurred by Global Telecom during 2001 and 2002, we elected to record provisions for losses on our investment amounting to R\$278.8 million for 2001 and R\$170.9 million for 2002. This provision was recorded as an extraordinary item in the statement of income.

Net Income (Loss)

Our net loss decreased by 2.4% in 2002 to R\$1,140.8 million, compared to R\$1,113.6 million in 2001. Our net income in 2000 was R\$152.2 million.

Results of Operations for 2001 and 2002 for Global Telecom Holdings

As discussed in Item 3. Key Information, on February 6, 2001 we acquired 49% of the voting shares and 100% of the non-voting shares of Global Telecom Holdings, which collectively held 95% of the voting shares and 100% of non-voting shares of Global Telecom. Global Telecom Holding's financial results of operation are incorporated into our Brazilian corporate law method financial results on the basis of equity method of accounting. See Equity Losses in Subsidiaries and U.S. GAAP Reconciliation above. On December 27, 2002, we purchased the remaining 51% of the outstanding common stock of Global Telecom Holdings and began to consolidate Global Telecom Holdings.

The audited combined financial statements of Global Telecom Holdings have been presented in this annual report for the period that Global Telecom Holdings was a non-consolidated equity investment in order to comply with the requirement of Rule 3-09 of Regulation S-X of the Commission. The following discussion compares Global Telecom Holdings's results of operations and capital expenditures for the period from February 6, 2001 to December 31, 2001 with the period from January 1, 2002 to December 27, 2002. The variations are affected by the fact that the 2001 period presented is shorter than the 2002 period presented.

The table below presents the combined statements of operations of Global Telecom Holdings for the periods indicated:

	As of December 31,	
	2001⁽¹⁾	2002⁽²⁾
	(R\$ million)	
Net revenues	390.8	512.2
Cost of services and merchandise	(407.9)	(423.8)
Selling expense	(139.7)	(124.4)
General and administrative expense	(46.8)	(45.7)
Net interest expense	(536.5)	(663.1)
Operating loss	(791.9)	(770.9)
Net loss	(786.8)	(771.3)

(1) Period from February 6, 2001 to December 31, 2001.

(2) Period from January 1, 2002 to December 27, 2002.

Global Telecom Holdings's financial results of operations are incorporated into our Brazilian corporate law method financial results on the basis of the equity method of accounting. See Equity Losses in Subsidiaries and U.S. GAAP Reconciliation above.

On December 31, 2002, our results include our equity participation of R\$771.3 million in Global Telecom Holdings.

Global Telecom's net operating revenues increased 31.1% from R\$390.8 in 2001 to R\$512.2 in 2002, primarily as a result of an increase in the number of customers.

Global Telecom's new initiatives included: (i) acquisition of a new prepaid platform; (ii) expansion of the coverage of its network service; and (iii) increase of owned stores and qualification of reliable points of sale. These initiatives were undertaken in order to accommodate a significant growth in subscribers, from 862 thousand to 1.177 million lines in service between December 31, 2001 and December 31, 2002, as well as an expansion of the coverage area from 71% to 74% over the same period. Investments in network infrastructure also benefit us in two ways: (i) they enable us to use Global Telecom's existing network more efficiently and (ii) they enable Global Telecom to offer mobile data services to its subscribers (especially business subscribers who generate higher average revenue per user as a result of more stable postpaid service arrangements), an important component of future revenue growth.

Global Telecom's expenses, other than net interest expenses, increased at a lower rate than its net operating revenues. The costs of services and merchandise increased 3.9% from R\$407.9 million to R\$423.8 million in 2002. Selling expenses decreased 11% from R\$139.7 million in 2001 to R\$124.4 million in 2002. General and administrative expenses decreased 2.4% from R\$46.8 million in 2001 to R\$45.7 million in 2002. Net operating losses before interest decreased 57.8% from a loss of R\$255.4 million in 2001 to R\$107.8 million in 2002.

In 2002 there were significant structural and organizational changes in Global Telecom, which resulted in a decrease in selling expenses, general and administrative expenses and other operational expenses. Despite the improvement in operational expenditures, net operating loss only improved by R\$15.5 million, from R\$786.8 million in 2001 to R\$771.3 million in 2002, due to high exposure to foreign exchange fluctuations that were not fully compensated by derivatives transactions, which caused financial expenses to increase from R\$536.5 million in 2001 to R\$663.1 million in 2002. In the second half of 2002, through resources capitalized from shareholders, Global Telecom paid the loans

indexed in foreign currency, thereby reducing the exposure to foreign currency fluctuations.

Third-party loans and financing in connection with the expansion of Global Telecom's business decreased 85.4% from R\$2,307.2 million as of December 31, 2001 to R\$336.4 million as of December 31, 2002, due to the advance for a future capital increase of R\$2,630.3 million made by TCP in September 2002.

Net interest expenses increased 23.6% from R\$536.5 million in 2001 to R\$663.1 million in 2002 due to an increase in its total amount of indebtedness, as well as foreign exchange related losses associated with the cost of servicing foreign currency-denominated debt due to the devaluation of the *real* against the U.S. dollar and the euro during 2002. See U.S. GAAP Reconciliation above and Item 11. Quantitative and Qualitative Disclosures about Market Risk. Global Telecom's net interest expenses in 2001 reflect an annualized installment over a four-year period beginning in 1998 and ending on December 31, 2001, relating to payment for Global Telecom's license. As of December 31, 2001, the total amount paid for Global Telecom's license over the four-year period was R\$1,128 million. In 1998, 1999, 2000 and 2001, the payments amounted to R\$365 million, R\$213 million, R\$257 million and R\$290 million, respectively. No payment for Global Telecom's license will be payable in 2003 or in the subsequent 11 years (the expiration date of its license).

Capital expenditures decreased from R\$421.0 million in 2001 to R\$152.3 million in 2002. Global Telecom estimates that its capital expenditures for 2003 will be approximately R\$116.1 million.

In addition, Global Telecom intends to improve its profitability by increasing subscriber retention and focusing mainly on postpaid subscribers, particularly in the business sector, which generates higher average revenues per user.

B. Liquidity and Capital Resources

Sources of Funds

We generated cash flow from operations of R\$984.4 million, R\$779.7 million and R\$597.4 million in 2002, 2001 and 2000, respectively. See our consolidated statement of cash flows.

We had R\$2,392.7 million in long-term loans and financing as of December 31, 2002. Our R\$2,068.1 million in short-term indebtedness as of December 31, 2002 consisted primarily of funding from financial institutions applied to long lived assets.

At December 31, 2002, we had a working capital deficit (current liabilities minus current assets) of R\$1,853.7 million, attributable primarily to R\$2,068.1 million in short-term debt. Excluding financial items, working capital at December 31, 2002 was R\$263.9 million, representing an increase of R\$178.3 million compared to December 31, 2001, attributable primarily to (i) an increase of R\$97.7 million in accounts receivable from customers due to a 16% increase in service revenues; (ii) an increase of R\$62.8 million in handset inventories due to a higher sales volume, a higher number of different models and the need to hold enough inventory to be able to program and distribute pre-programmed handsets to a number of different calling areas throughout the region; and (iii) a decrease of R\$36.1 million in accounts payable due to a lower level of capital expenditures. In 2000, a capital increase of R\$1,125.1 million, subscribed almost entirely by Portugal Telecom, permitted us to fund capital expenditures and reduce indebtedness. In 2002, we also had a capital increase in the amount of R\$2,500.4 million, mostly subscribed by Portugal Telecom, R\$2,403.4 million of which were applied to reduce indebtedness at Global Telecom and R\$97.0 million were a non-cash contribution related to capitalization of reserves from tax benefits.

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

Uses of Funds

Our principal uses of funds are for capital expenditures, service of our debt, and payments of dividends to shareholders. In 2001 and 2002 we used our funds for the acquisition of Global Telecom.

Capital expenditures (including capitalized interest) consumed cash flows of R\$327.3 million in 2002, R\$835.3 million in 2001 and R\$731.5 million in 2000. Repayment of debt consumed cash flows of R\$3,597.8 million, R\$523.4 million and R\$1,367.0 million in 2002, 2001 and 2000, respectively. Dividends and interest on shareholders' equity payments consumed cash flows of R\$5.7 million, R\$87.1 million and R\$62.6 million in 2002, 2001 and 2000, respectively.

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We believe that our available borrowing capacity, together with funds generated by operations, should provide sufficient liquidity and capital resources to pursue our business strategy for the foreseeable future, with respect to working capital, capital expenditures and other operating needs.

Capital Expenditures

Our capital expenditures over the past three years related primarily to increasing our network capacity and coverage. See Item 4. Information on the Company Capital Expenditures for a breakdown of Telesp Celular and Global Telecom's capital expenditures on property, plant and equipment in 2000, 2001 and 2002.

Our capital expenditure budget for 2003 is R\$402.1 million, including R\$116.1 million of Global Telecom. Approximately R\$69.6 million of our budgeted capital expenditures is committed. Planned 2003 capital expenditures will be funded initially by cash generation from operations. Most of the planned 2003 capital expenditures will be dedicated to the expansion of the capacity of the services we currently offer and the provision of new services. We believe that our working capital is sufficient for funding our operations and almost all of our requirements. Should additional working capital be needed, we would seek loans from financial institutions.

Payments of Dividends to Shareholders

Holders of our preferred shares are entitled under Brazilian corporate law to receive, to the extent of available distributable profits and reserves, a noncumulative preferred dividend in the amount of the greater of (i) 6% of the share capital attributable thereto, and (ii) 3% of the shareholders' equity attributable thereto, or the preferred dividend. To the extent there are additional distributable profits, we are also required to distribute to all shareholders an amount equal to 25% of adjusted net income, or the general dividend, determined in accordance with Brazilian corporate law, including any realization of the unrealized net income reserve. Our obligation, if any, to pay a general dividend to holders of our preferred shares is satisfied to the extent of any preferred dividend paid. We may also make additional distributions to the extent of available distributable profits and reserves. Our subsidiaries are also subject to mandatory distribution requirements and, to the extent of distributable profits and reserves, are accordingly required to pay dividends to the minority shareholders as well as to us. All of the aforementioned distributions may be made as dividends or as tax-deductible interest on capital. In 2000, we recorded a provision for dividends and interest on equity of R\$39.4 million and R\$60.9 million, respectively. No dividends were declared in 2001 and 2002 due to our net losses in those years.

Investment in Global Telecom

We paid R\$932.4 million and R\$290.3 million in cash in February 2001, June 2001 and December 2002, respectively, for our interest in Global Telecom Holdings. We financed R\$700 million of the purchase price of part of our interest in Global Telecom with a *real*-denominated syndicated bridge loan that matured in May 2001. To refinance this loan, we issued R\$900 million of 180-day commercial paper in the domestic market that matured on November 28, 2001. This commercial paper was replaced with a floating rate note denominated in euros and fully subscribed by Portugal Telecom. In order to acquire the remaining 17% of our participation in Global Telecom Holdings in December 2002, we issued R\$268.3 million in short-term debt in the Brazilian market. We also issued R\$410.0 million in short-term debt in order to fund a euro 110 million-debt repayment at Global Telecom in December 2002. In September 2002 we made advances to future capital increases in Global Telecom in the total amount of R\$2,630.3 million and in December 2002, part of this advance for future capital increases (in the amount of R\$2,310.9 million) was capitalized. These amounts were used to repay floating rate notes in the amount of euro 862 million due to Portugal Telecom.

As a result of our investment in Global Telecom Holdings, we had R\$4,460.8 million of total indebtedness at December 31, 2002, representing an increase of R\$1,880.7 million since December 31, 2001 due to the full consolidation of Global Telecom Holdings and gross foreign exchange losses. Global Telecom had R\$336.4 million in indebtedness at December 31, 2002 in addition to R\$531.4 million in intercompany loans. Some of our debt agreements contain restrictive covenants. In terms of financial ratios, restrictive covenants presently only apply at the level of Global Telecom and involve (i) current ratio, (ii) capitalization, (iii) EBITDA margin, (iv) interest coverage, and (v) debt to capital ratio. At December 31, 2002, Global Telecom was not in compliance with certain of those covenants, but it has obtained a waiver from its creditors. At December 31, 2002, at Telesp Celular and Global Telecom, 15.7% of total debt, or R\$698.7 million, represented a *real*-denominated loan by Banco Nacional de Desenvolvimento Econômico e Social - BNDES, which is secured by a pledge of accounts receivable.

Contractual Obligations and Commercial Commitments

The following table represents our contractual obligations and commercial commitments as of December 31, 2002:

	Payments due by Period in millions of reais				
	Total	Less than 1 year	1-3 years	4-5; years	After 5 years
Contractual obligations:					
Long-term debt	3,592.3	1,199.6	2,024.1	368.6	-
Capital lease obligations	45.8	30.5	15.3	-	-
Operating leases	127.2	33.2	53.0	41.0	-
Unconditional purchase obligations	69.3	69.3	-	-	-
Other long-term obligations (1)	353.9	342.9	11.0	-	-
Total contractual cash obligations	4,188.5	1,675.5	2,103.4	409.6	-

(1) Contracted long-term suppliers or contracted short-term suppliers with penalties for early termination and exclusivity fees paid to dealers.

Additionally, we have a rental commitment with Telecomunicações de São Paulo S.A. Telesp, a related party, in an annual amount of R\$29.3 million that includes all costs related to the rental of certain facilities used in providing telecommunications services, including electrical and air conditioning equipment.

Debt

We have substantial debt denominated in foreign currency, primarily in U.S. dollars and euros. The amount outstanding at December 31, 2002 was R\$1,602.1 million (U.S.\$453.4 million) and R\$1,716.6 million (463.8 million), which constituted 74.4% of our indebtedness. Devaluation of the *real* results in exchange losses on foreign currency indebtedness. In order to protect against the risk of devaluation of the *real*, we have entered into over-the-counter derivatives transactions with international and domestic financial institutions. In 2002, our derivatives positions produced a gain of R\$1,079.1 million, which largely offset R\$1,475.5 million of exchange loss on our foreign currency-denominated debt. In 2001, our derivatives positions produced a gain of R\$175.3 million, which largely offset R\$270.7 million of exchange loss on our foreign currency-denominated debt. In 2000, our derivatives positions produced a gain of R\$96.5 million, which largely offset R\$111.8 million of exchange loss on our U.S. dollar-denominated debt. The unrealized gain, net of unrealized costs on foreign exchange derivatives contracts at December 31, 2002 was R\$1,670.9 million. At December 31, 2002, we had U.S.\$300 million and U.S.\$280 million in forward purchase agreements allowing us to purchase U.S. dollars in September 2004 and September 2006 at R\$1.1807 and R\$1.123 per U.S. dollar, respectively. 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 with the gains from the U.S.\$300 million forward contract. At December 31, 2002, 127.5% of our foreign currency-denominated debt was covered by hedging contracts. This unbalanced position resulted from debt capitalization that occurred in 2002 by virtue of a capital increase. We are following up on market conditions and will eventually unwind the position and/or apply it to other foreign currency-denominated commitments.

We are exposed to interest rate risk as a consequence of our floating rate debt. At December 31, 2002, approximately 64% 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 and TJLP for *real*-denominated debt. Accordingly, our financing expenses will increase if market interest rates, such as LIBOR, EURIBOR, CDI or TJLP, rise. At December 31, 2002, all of our foreign currency derivatives contracts bore interest payments linked to the Brazilian CDI rate. We have not hedged against the risk of interest rates increasing.

As of December 31, 2002, we have U.S.\$12.9 million of off-balance sheet financing related to the lease of network equipment. The expenses related to this financing are included as costs and amounted to R\$26.7 million.

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.

Investment in TCO

We finalized the acquisition of TCO on April 25, 2003. The total consideration was R\$1,505.5 million, of which R\$284.7 million was paid in cash and the remaining R\$1,220.8 million in debt and deferred payments, as further detailed in the table below:

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<u>Item</u>	<u>Maturity Date</u>	<u>Amount in R\$ million</u>	<u>Remuneration</u>
Deferred payment	04/25/2004	80.2	CDI plus 2% p.a.
Retained payment (*)	04/25/2004	42.8	CDI plus 1% p.a.
Retained payment (*)	Up to 04/25/2008	10.7	CDI plus 2% p.a.
Debentures - 1st Tranche	06/27/2003	561.2	CDI plus 2% p.a.
Debentures - 2nd Tranche	08/08/2003	296.5	CDI plus 2% p.a.
U.S. dollar-denominated debt	April 03 - Sept 04	45.7	LIBOR +2.625% p.a. to fixed 20.7% p.a.
Real-denominated debt	April 03 - April 04	183.7	108% to 110% of CDI

(*) payment has been retained as a guarantee for contingent liabilities

We will launch, in the third quarter of 2003, a tender offer for the voting shares of the minority shareholders of TCO, as legally required by the acquisition of the control of TCO. The price per share to be offered is fixed by law at 80% of the price paid to the controlling shareholders, or R\$15.58975876 per thousand common shares. After the acquisition and the tender their shares will be compensated pro rata, in the same manner offer, TCP expects to issue shares in exchange of the preferred shares of TCO and the remaining common shares that were not tendered in the tender offer. Considering the acquisition of its participation in TCO, Brasilcel provides services to approximately 50% of the total Brazilian market. Brasilcel, including TCO, covers 86% of the Brazilian territory.

We will rely on our cash flow generation and funding capability to meet these requirements. We are studying a combination of funding alternatives that will best serve our future cash needs, including but not limited to, a debenture issuance in the Brazilian market, medium-term note program and funding with export credit agencies and multilateral organizations.

C. Research and Development, Patents and Licenses, Etc.

In connection with the Breakup of Telebrás, we were required to enter into a three-year contract in May 1998 with the *Centro de Pesquisa e Desenvolvimento da Telebrás*, or the Center, the research and development center formerly operated by Telebrás. Since the Breakup of Telebrás, the Center has continued to develop telecommunications technology as a private, independently administered nonprofit foundation financed by resources from the public and private sector. While that agreement was effective, we had access to telecommunications software developed, and other technological services provided, by the Center, such as equipment testing and consulting and training services.

Our aggregate expenditures on research and development, including our contribution to the Center, were R\$2.788 million and R\$2.187 million for 2000 and 2001, respectively. We did not make any contributions or incur in any expenses relating to research and development during 2002.

D. Trend Information

We expect an increase in competition over the next few years. During 2001 and 2002, Anatel auctioned many telecommunications licenses and newcomers began operating in our Region. Nevertheless, we believe these newcomers may increase competition and the competition may affect our market share and profit margin.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Board of Directors

Our administration consists of a board of directors and a board of executive officers. Our shareholders elect the members of the board of directors. The board of directors should maintain a number of members ranging from eight to 12, each serving a three-year term. The board currently consists of 11 members. The term of office of the current members of the board of directors will expire in March 2006, except for Mr. Antônio Gonçalves de Oliveira, who was elected on April 10, 2001 (his term will expire in April 2004). The board of directors holds regular

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quarterly meetings, and the chairman or two board members may call special meetings.

The following are the current members of our board of directors and their respective positions.

<u>Name</u>	<u>Position</u>	<u>Date Elected</u>
Félix Pablo Ivorra Cano	Director	March 27, 2003
Iriarte José Araújo Esteves	Director	March 27, 2003
Fernando Xavier Ferreira	Director	March 27, 2003
Antonio Viana Baptista	Director	March 27, 2003
Ernesto Lopez Mozo	Director	March 27, 2003
Ignacio Aller Malo	Director	March 27, 2003
Zeinal Abedin M. Bava	Director	March 27, 2003
Carlos Manuel L. Vasconcellos Cruz	Director	March 27, 2003
Eduardo Perestrelo Correia de Matos	Director	March 27, 2003
Paulo Jorge da Costa G. Fernandes	Director	March 27, 2003
Antônio Gonçalves de Oliveira	Director	April 10, 2001

All of our directors (except for Antônio Gonçalves de Oliveira, who will serve until 2004) will serve until the general shareholders meeting to be held in 2006. Set forth below are brief biographical descriptions of the directors.

Félix Pablo Ivorra Cano, 56 years old, is the president of the board of directors. He has been a member of the board of directors of Tele Leste Participações S.A. since February 1999, and became its president in 2001. He is also the president of the board of directors of Celular CRT Participações S.A. and Tele Sudeste Celular Participações S.A., and a member of the board of directors of Telecomunicações de São Paulo S.A. Telesp and Tele Centro Oeste Celular Participações S.A. He is a director of Atento Brasil S.A., 4A Telemarketing, Telefónica Peru and Portelcom Participações S.A. He is the main executive officer for Telefónica Móviles in Brazil and the vice president of Telefónica Móviles Latino-America. He is also the president of the board of directors of Brasilcel N.V. After graduating, he joined the Telefónica Group where he worked in the areas of technical specifications, network planning, commercial planning and developed new services. In 1993 he was the general director of the group that funded and developed Telefónica Móviles. In 1997 and a portion of 1998, Mr. Cano was the president of the board of directors of Mensatel S.A. and Radiore S.A., which are part of Telefónica Móviles. He has a degree in telecommunication engineering from Escola Técnica Superior de Engenharia ETSI in Madrid, and a post-graduate degree in Business Administration from the Instituto Católico de Administração de Empresas ICADE.

Iriarte José Araújo Esteves, 53 years old, is currently also the chairman of the board of directors of TMN-Telecomunicações Móveis Nacionais, S.A., the chief executive officer of TMN, the chief executive officer of PT Móveis, S.G.P.S., S.A., and a member of the board of directors of each of Portugal Telecom S.G.P.S., S.A., PT Prime S.G.P.S., S.A., Celular CRT Participações S.A., Tele Leste Celular Participações S.A., Tele Centro Oeste Celular Participações S.A. and Tele Sudeste Participações S.A. From 1981 until 1992, Mr. Esteves performed several functions at CTT, Correios e Telecomunicações de Portugal, including regional telecommunications general manager, manager of the telecommunications business planning department, deputy general manager of telecommunications, director-general of telecommunications and member of the board of directors. From 1991 until 1997, Mr. Esteves was the chairman of the board of directors of Telepac, Serviços de Telecomunicações, S.A., and from 1991 until 1992 he was the vice chairman of the board of directors of TMN. Mr. Esteves was also a vice chairman of the board of directors of Portugal Telecom Internacional S.G.P.S., S.A. from 2000 until 2002. He holds a degree in electronic engineering from the Higher Education Technical Institute, Portugal.

Fernando Xavier Ferreira, 55 years old, is currently also the president of the Telefónica Group in Brazil, the chairman of the board of directors and chief executive officer of Sudestecel Participações S.A., TBS Celular Participações S.A., Iberoleste Participações S.A. and Telecomunicações de São Paulo S.A.-Telesp, and vice chairman of the board of directors of Telefónica Data Brasil Holding S.A. He is also member of the board of directors of each of Telefónica Móviles S.A., Brasilcel, N.V., Tele Leste Celular Participações S.A., Tele Sudeste Participações S.A., Celular CRT Participações S.A. and Tele Centro Oeste Celular Participações S.A. He also currently serves as chief executive officer of SP Telecomunicações Holding S.A. and Telefónica Data Brasil Holding S.A. Participações S.A. Beginning in 1971, he held various positions at Telecomunicações do Paraná S.A.-Telepar, including those of vice president, economic-financial and market relations officer and president. Since that time he has served on the board of directors of Telebrás, Telesp Participações S.A., Embratel Participações S.A., Embratel-Empresa Brasileira de Telecomunicações S.A., Empresa Brasileira de Correios e Telégrafos-ECT, CRT-Companhia Riograndense de Telecomunicações S.A., Teleshia Celular S.A., Telergipe Celular S.A. and Tele Sudeste Celular Participações S.A. Mr. Ferreira served as officer and chief executive officer of Telecomunicações Brasileiras S.A.-Telebrás, chairman of the board of directors of Telerj Celular S.A., chairman of the board of directors of Telesp Celular S.A., chairman of the board of directors of Ceterp-Centrais Telefônicas de Ribeirão Preto S.A., chief financial officer, chief executive officer, chairman and vice chairman of the board of directors of Tele Sudeste Celular Participações S.A. From December 2001 to April 2003, he was chief executive officer of Tele Leste Celular Participações S.A. and Celular CRT Participações S.A. During 1998, he has also served as a member of a consulting committee of Anatel, and at present is a member of the Latin American

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Committee of the New York Stock Exchange and the Global Information Infrastructure Commission-GIIC. He holds a degree in electrical engineering from the Catholic University of Rio de Janeiro, Brazil, and attended a business administration course at Western Ontario University, Canada, in 1982.

Antonio Viana Baptista, 45 years old, is an economist who graduated from the Catholic University of Lisbon in 1980. He has a post-graduate degree in European Economy (1981) and an MBA, obtained with a mention of distinction from INSEAD (Fontainebleu). In August 2002, he was appointed as Executive President of Telefónica Móviles, S.A. He is member of the board of directors, the Delegate Committee and the Executive Committee of Telefónica S.A. He is also a member of the board of directors of Terra Network, S.G.P.S., S.A., Portugal Telecom S.G.P.S., S.A., Brasilcel N.V., Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Tele Centro Oeste Celular Participações S.A. and Celular CRT Participações S.A. Until July 2002, he served as President of Telefónica Internacional and Executive President of Telefónica LATAM. Before that he also served from 1991 until 1996, as Executive Director of BPI (Banco Português de Investimento). From 1985 until 1991 he was Principal Partner of McKinsey & Co. in Madrid and Lisbon.

Ernesto Lopez Mozo, 39 years old, serves as Chief Financial Officer General Manager for Finance and Management Control of Telefónica Móviles S.A. Mr. Lopez is a member of the board of directors of each of Telefónica Móviles de España, S.A., Terra Mobile, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel N.V., Tele Sudeste Participações, S.A., Tele Leste Celular Participações, S.A., Tele Centro Oeste Celular Participações S.A. and Celular CRT Participações, S.A. He was previously a senior manager in the financing department of Telefónica, S.A., where he was also responsible for relationships with credit rating agencies. Before joining Telefónica in March 1999, Mr. Lopez worked for five years at J.P. Morgan where he was a vice president in charge of the interest rate derivatives trading desk for Spain and Portugal for three years. At J.P. Morgan, he was also involved in sales to mutual and pension funds. Before joining J.P. Morgan, Mr. Lopez worked as an engineer, managing the construction of highways and other infrastructure. He holds a degree in civil engineering from ETSICCP in Madrid and a master's degree in business administration from the Wharton School.

Ignacio Aller Malo, 58 years old, serves as Chief Operating Officer of Telefónica Móviles S.A. Mr. Aller is a member of the board of directors of Terra Mobile, S.A., Mobipay España, S.A., Mobipay Internacional, S.A., Medi Telecom, Telefónica Móviles de España, S.A., Telefónica Móviles México, S.A. de C.V., Brasilcel N.V., Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações S.A., Tele Centro Oeste Celular Participações S.A. and Celular CRT Participações, S.A. Mr. Aller has held several positions at Telefónica de España since 1967, including Director of Operations and Information Services in 1986, General Director of Mensatel in 1995 and General Executive Director of Operations of Telefónica Servicios Móviles in 1999. Mr. Aller has also served as a member of the board of directors of Venturini España, S.A., Mensatel and is currently a board member of Telyco and PMT.

Zeinal Abedin Mahomed Bava, 37 years old, is currently also the chief financial officer of Portugal Telecom S.G.P.S., S.A., the vice chairman of the board of directors of PT Multimédia-Serviços Telecomunicações e Multimédia, S.G.P.S., S.A., a member of the board of directors of Brasilcel N.V., the chairman of the board of directors of PT PRO-Serviços de Gestão S.A., and a member of the board of directors of each of BEST-Banco Electrónico de Serviço Total, S.A., Tele Leste Celular Participações S.A., Tele Sudeste Participações S.A., Tele Centro Oeste Celular Participações S.A. and Celular CRT Participações S.A. Mr. Bava was vice chairman of the board of directors of Portugal Telecom Internacional, S.G.P.S., S.A. from 2000 until 2002; the director and relationship manager for Portugal of Merrill Lynch International from 1998 until 1999; an executive director of Deutsche Morgan Grenfell from 1997 until 1998; and an executive director of Warburg Dillon Read from 1989 until 1996. He holds a degree in electronic and electrical engineering from the University of London B.S.C.

Carlos Manuel L. Vasconcellos Cruz, 45 years old, is currently also a member of the board of directors of Portugal Telecom S.G.P.S., S.A., the chairman and chief executive officer of PT Prime S.G.P.S., S.A., the chairman of the board of directors of PT Contact-Telemarketing e Serviços de Informação, S.A., chief executive officer of PT Comunicações, S.A. and a member of the board of directors of each of Brasilcel N.V., Telecomunicações Móveis Nacionais S.A., TMN, Celular CRT Participações S.A., Tele Leste Celular Participações S.A., Tele Centro Oeste Celular Participações S.A. and Tele Sudeste Participações S.A. From 1978 to 1983, Mr. Cruz was an economist at the Ministry of Finance of Portugal, and from 1983 to 1985 he was a senior economist at LEASEINVEST. From 1985 until 1999, Mr. Cruz performed several functions worldwide at Dun & Bradstreet Corporation, including president and chief executive officer of Dun & Bradstreet for Portugal, Iberia and the Middle East, executive vice president of Dun & Bradstreet for Europe, president and chief executive officer of Dun & Bradstreet GMC and member of the worldwide board and executive vice president of Dun & Bradstreet Corporation. From 1990 to 1993, he was also vice president of Associação Portuguesa para a Qualidade. In 1996, he was vice president of A.P.E.I.N.-Associação Portuguesa de Empresas de Informação de Negócios. From 1999 to 2001, Mr. Cruz was the president and chief executive officer of Tradecom S.G.P.S., and from 2000 he also served as executive manager of PT Prime S.G.P.S., S.A. From 2000 to 2001 he was an invited professor at Portuguese Catholic University and ISCTE for postgraduation courses and MBA programs. He also served as president of Telesp Celular S.A., from May 2001 until May 2002, and as our vice president from September 2001 until May 2002. Mr. Cruz holds a degree in business from the I.S.C.T.E. (Instituto Superior de Ciências do Trabalho e da Empresa or Higher Education Institute for Labor and Corporate Sciences), Portugal, and a post-graduate degree in management from D.S.E. (the German Foundation for International Development), Germany.

Eduardo Perestrelo Correia de Matos, 54 years old, is currently also the president of Portugal Telecom Brasil S.A. and a member of the board of directors of each of PT Móveis, Serviços de Telecomunicações, S.G.P.S., S.A., Tele Leste Celular Participações S.A., Tele Sudeste Participações S.A., Tele Centro Oeste Celular Participações S.A. and Celular CRT Participações S.A. From 1976 to 1984, Mr. Matos held various operational positions in the planning and control areas of CTT - Correios e Telecomunicações de Portugal S.A. and TLP-Telefones de

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Lisboa e Porto S.A. From 1984 to 1987 he served as general post master of CTT and from 1987 to 1990 he was the secretary of state for external transportation and communications in Portugal. In addition, he served as president at Marconi S.G.P.S. Comunicações, S.A. from 1990 to 1991 and at Mobitel S.A. from 1991 to 1996. Mr. Matos was also a member of the board of Portugal Telecom, S.G.P.S., S.A. from 1996 until May 2002. He holds a degree in economics from the Technical University of Lisbon, Portugal.

Paulo Jorge da Costa Gonçalves Fernandes, 37 years old, is currently also vice chairman of the board of directors of PT Ventures, S.G.P.S., S.A., the chairman of the board of directors of PT-Sistemas de Informação S.A. and a member of the board of directors of each of Portugal Telecom S.G.P.S., S.A., Brasilcel N.V., Celular CRT Participações S.A., Tele Leste Celular Participações S.A., Tele Centro Oeste Celular Participações S.A. and Tele Sudeste Celular Participações S.A. In the period from 1990 through 1991, he was manager and partner at Spades Lda., a company focused on consulting and information technology services. From 1991 to 2000, he acted as a consultant for McKinsey & Company, where he was admitted as a partner in 1997, and also worked as member of the leadership world groups for the telecommunications and transports industries. Mr. Fernandes holds an electric-technical engineering degree from the Higher Education Technical Institute of Lisbon, Portugal.

António Gonçalves de Oliveira, 58 years old, is currently also a member of the board of directors of Previ, a board member of the Small and Medium Company Working Group sponsored by the Brazilian government, a coordinator of the international integration foreign trade committee of the Small Company Permanent Forum sponsored by the Brazilian government, a coordinator for the Small Company National Seminar, the vice president of the Brazilian Businessmen Association for Market Reintegration (ADEBIM), a member of the orientation and steering council of Banco do Povo do Estado de São Paulo and a member of the decision council of the National Employee Association of Banco do Brasil (ANABB). From 1991 to 1995 he served as director of the Latin American Sociology Association and from 1993 to 1994 he served as the executive coordinator of the Small and Medium Company National Movement (MONAMPE). He was also a member of the Group for Company/University Technological Integration sponsored by the Development Forum of the state of São Paulo from 1992 to 1994, a member of the Science and Technology Group of the Competition Corporate Commission from 1991 to 1994; a consultant for the Inter-American Development Bank in 1995; a director of the Micro and Small Industry Union of the state of São Paulo SIMPI and the president of the ESP Sociology Association from 1990 to 1993. He holds a degree in social sciences from the University of São Paulo, Brazil, and a master's degree in communication sciences from the same university.

On January 23, 2001, Portugal Telecom S.G.P.S., S.A., PT Movéis S.G.P.S., S.A. and Telefónica Móviles S.A. entered into a strategic agreement to create a Joint Venture, named Brasilcel and a related shareholders' agreement. In accordance with the shareholders' agreement, PT Movéis is responsible for the appointment of our Chief Executive Officer and Telefónica Móviles is responsible to appoint the Chief Financial Officer. PT Movéis and Telefónica Móviles appointed 10 (five each) of the 11 members of our Board of Directors.

Board of Executive Officers

The board of executive officers consists of eight members, each elected by the board of directors for a term of three years. The chief executive officer is the chairman and, in his absence or temporary inability to perform his duties, he will be replaced by the vice president for finance, planning and control. In the case of a vacancy in any position in the board of executive officers, the respective replacement shall be appointed by the board of directors; in case of any inability, the chief executive officer shall choose a replacement for that officer among the remaining officers. One officer may be elected for more than one position on the board of executive officers, but the members of the board of executive officers cannot be elected to the board of directors. The board of directors may remove executive officers from office at any time.

The following are the current executive officers, appointed on April 16, 2003, and their respective positions.

Name	Position	Date appointed
Francisco José Azevedo Padinha	Chief Executive Officer	April 16, 2003
Fernando Abella García	Executive Vice President for Finance, Planning and Control and Investors Relations Officer	April 16, 2003
Paulo Cesar Pereira Teixeira	Executive Vice President for Operations	April 16, 2003
Gilson Rondinelli Filho	Executive Vice President for Marketing and Innovation	April 16, 2003
Javier Rodríguez García	Vice President for Technology and Networks	April 16, 2003
Guilherme Silvério Portela Santos	Vice President for Customers	April 16, 2003
Luis Filipe Saraiva Castel-Branco de Avelar	Vice President for IT and Product and Service Engineering	April 16, 2003

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José Carlos de la Rosa Guardiola⁽¹⁾

Vice President for Regulatory Matters and
Institutional Relations

April 16, 2003

(1) Mr. Guardiola will be formally elected and take office as soon as he receives his working permit from the Brazilian authorities. For the time being, his position is being temporarily filled by Mr. Paulo Cesar Pereira Teixeira.

Set forth below is a brief biographical description of our executive officers.

Francisco José Azevedo Padinha, 56 years old, is currently also the chief executive officer of each of Brasilcel N.V., Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A.; the chairman of the board of directors of each of PT Prime Tradecom Soluções Empresariais de Comércio Electrónico, S.A., Megamedia Soluções Multimédia, S.A., PT Prime, S.G.P.S., S.A., the vice chairman of the board of directors of PT Ventures S.A.; a member of the board of directors of PT Comunicações S.A.; and a member of the scientific committee of Taguspark Sociedade de Promoção e Desenvolvimento do Parque da Ciência e Tecnologia da Área de Lisboa, S.A. He was also the chairman of the board of directors of Prymesys - Soluções Empresariais S.A. From 1989 until 1992 Mr. Padinha was the manager of the central department for research and development of Companhia Portuguesa Rádio Marconi, S.A., and from 1992 until 1994 he was the chairman of the board of directors of Telecom Portugal, S.A. Mr. Padinha was also the chairman of the board of directors of each of Cabo TV Açoreana, S.A. (from 1993 until 1996) and INESCTEL Engenharia de Sistemas e Computadores nas Telecomunicações, Lda (from 1996 until 1999). From 1994 until 1998, he was a member of the board of directors of Taguspark Sociedade de Promoção e Desenvolvimento do Parque da Ciência e Tecnologia da Área de Lisboa, S.A., and from 1999 until 2000, he was the chairman of the board of directors of each of PT Inovação, S.A. and PT Sistemas de Informação, S.A. From 2000 until 2001, Mr. Padinha was the chief executive officer of PT Prime S.G.P.S., S.A., and from 1994 until 2002, he was a member of the board of directors of Portugal Telecom. He holds a telecommunications and electronic engineering degree from the Technical University of Lisbon, Portugal, a degree in corporate upper management from AESE/University of Navarra, Spain, and a master's degree in innovation and technology management from the Sloan School of Management/MIT, United States.

Fernando Abella Garcia, 39 years old, is currently also the executive vice president for finance, planning and control of each of Brasilcel N.V., Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A.; the investor relations officer of Tele Sudeste Celular Participações S.A. and Tele Leste Celular Participações S.A.; the temporary chief executive officer of Tele Sudeste Celular Participações S.A. and Tele Leste Celular Participações S.A.; and a member of the board of directors of Telefónica Factoring do Brasil Ltda. From 1994 until 1997, Mr. Garcia worked as an external consultant for the Telefónica Group in several different areas. He was admitted in the Telefónica Group in 1997, where he served in different positions in the financial and strategic planning areas in Spain and Brazil. He was also a member of the board of directors of Telefónica Móviles S.A.C. in Peru, Telefónica Móvil S.A. in Chile, Telefónica Móviles El Salvador, S.A. de C.V. in El Salvador and Telefónica Centroamérica Guatemala, S.A. in Guatemala. Mr. Garcia holds a degree in business from the Faculty of Economic and Corporate Sciences at Valladolid, Spain, and master's degree in business administration from the Corporate Institute of Madrid, Spain.

Paulo Cesar Pereira Teixeira, 45 years old, is currently also the executive vice president for operations of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A.; and temporary vice president for regulatory matters and institutional relations of Tele Sudeste Celular Participações S.A. and Tele Leste Celular Participações S.A. From 1980 until 1987, Mr. Teixeira performed several different managerial duties in Companhia Riograndense de Telecomunicações S.A.-CRT and was also a member of the board of directors (1985-1986). In 1987 and 1988, he served at several different positions in Telebrás or in the companies of the Telebrás group, including vice president of Tele Celular Sul Participações S.A., Superintendent Officer of Telepar Celular S.A., Telesc Celular S.A. and CTMR Celular S.A., engineering officer of Telecomunicações do Mato Grosso do Sul S.A., manager of the investment management department of Telecomunicações Brasileiras S.A.-Telebrás, assistant to the planning and engineering officer of Telecomunicações Brasileiras S.A.-Telebrás and manager of the coordination and expansion division of Telecomunicações Brasileiras S.A.-Telebrás. Mr. Teixeira holds an electrical engineering degree from the Catholic University of Pelotas, Brazil.

Gilson Rondinelli Filho, 54 years old, is currently also the executive vice president for marketing and innovation of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A.; and the temporary vice president for customers and temporary vice president for IT and service and product engineering of Tele Sudeste Celular Participações S.A. and Tele Leste Celular Participações S.A. Mr. Rondinelli served in different positions at Telecomunicações de São Paulo S.A., including manager of the long-term planning department (1974-1981), manager of the external network planning division (1981-1990), manager of the technical planning department (1990-1992) and manager of the mobile telecommunication department (1992-1995). From 1992 until 1995, he was also an officer at Associação Brasileira de Telecomunicações. From 1995 until April 2003, Mr. Rondinelli performed several different duties at Telesp Celular S.A.: business superintendent of the mobile unit (1996-1997), business and network officer (1998-2001), member of the board of directors (2000-2001), executive vice president (2001-2002) and chief executive officer (2002-2003). From April 2002 until April 2003, Mr. Rondinelli

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was our vice president. He holds a degree in electric engineering from the Faculty of Engineering of Mauá, Brazil, a degree in business from the Armando Álvares Penteado Foundation, Brazil, a master's degree in system engineering from the Technical Faculty of the University of São Paulo, Brazil, and a master's degree in operational research from the Faculty of Industrial Engineering, Brazil.

Javier Rodríguez García, 47 years old, is currently also the chief technology officer of each Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Tebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A. From 1986 until 1988, Mr. García worked at INDELEC Indústria Eletrônica de Comunicações S.A., as the manager responsible for the implementation of an automatic mobile telecommunications project for Telefónica de España S.A. From 1988 until 1990, he worked at Red Electrica de España S.A., as the person responsible for the project, installation and maintenance of radio mobile systems in Spain. From 1990 until 1992, Mr. García served as an engineering manager at Telcel S.A., where he was responsible for the implementation of automatic mobile telecommunication system for Telefónica de España S.A. in Barcelona, Madrid and Palma de Mallorca. From 1992 until 1996, he was an engineering manager responsible for the installation and maintenance of systems at Companhia Europeia de Radiobusqueda S.A., and from 1996 until 1998, he worked in cellular businesses for Telefónica Group in Spain and Peru, as a network quality manager and technical area sub-manager, respectively. From 1998 until 2000, Mr. García was the technology manager in the cellular business of Telefónica Group in Brazil and from 2000 until 2002 he was the network manager of Telerj Celular S.A. and Telest Celular S.A. He holds a degree in technical telecommunications engineering from the Technical University of Madrid, Spain.

Guilherme Silvério Portela Santos, 37 years old, is also currently the vice president for customers of each of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Tebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A.; and an executive manager at PT Móveis, S.G.P.S., S.A. From 1989 until 1993, Mr. Santos was a consultant at McKinsey & Co., and from 1994 until 1998 he worked as an officer for operations and an officer for special projects at Parque Expo '98, S.A. He was also a coordination officer at Companhia de Seguros Tranquilidade (1998-2000) and a member of our board of directors (April 2001-April 2003). Mr. Santos holds a civil engineering degree from the Higher Education Technical Institute, Portugal, and a master's degree from INSEAD, France.

Luis Filipe Saraiva Castel-Branco de Avelar, 49 years old, is also currently the vice president for IT and product and service engineering of each of Tele Sudeste Celular Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Tebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A. In 1989, 1991 and 1993, Mr. Avelar was respectively the corporate accounts director of Telefones de Lisboa e Porto, an expert in telecommunications services for the European Commission (DG XIII, Telecom Policy Unit) and a strategic planning director at Comunicações Nacionais. From 1993 to 1998 he was a consultant in privatization and regulation projects for the World Bank, the European Bank for Reconstruction and Development and the European Commission. From 1996 to 1998 he was a portfolio director of Portugal Telecom Group in the strategic marketing board of Portugal Telecom. From 1998 to 2000, Mr. Avelar was a special consultant to the president of Telesp Celular Participações S.A. for the areas of marketing, sales, strategy, regulation and special projects, and, from 2000 to 2001, he was a director at the internet and e-commerce business unit at the same company. He holds an electrical-technical engineering degree (specialized in telecommunications and electronics) from the Lisbon Higher Education Technical Institute.

José Carlos de la Rosa Guardiola, 55 years old, is also currently the vice president for regulatory matters and institutional relations of each of Tele Sudeste Participações S.A., Tele Leste Celular Participações S.A., Celular CRT Participações S.A., Telerj Celular S.A., Telest Celular S.A., Tebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A., Telesp Celular S.A. and Global Telecom S.A. From November 1998 until February 2002, Mr. Guardiola was engaged in the Regulation and Operations Departments of these companies, and occupied the function of vice president of Operations responsible for the commercial, administrative and operations activities of each of Tebahia Celular S.A. and Telergipe Celular S.A. During the last 25 years, he worked in American, European and Japanese multinational companies in the areas of commercialization to security instrumentation equipments to petrochemical, semiconductors, IT companies and communication equipment. He occupies the position of chairman in companies as Saint Gobain (France), National Semiconductors (USA) and NEC Eletronics (Japan). He holds a degree in telecommunications engineering from Universidad Politécnica de Madrid, Spain.

Board of Auditors (Conselho Fiscal)

We have a permanent board of auditors that consists of a minimum of three and a maximum of five members. They are elected annually at the annual general shareholders' meeting. The board currently consists of three members.

The board of auditors is responsible for overseeing our management. Its main duties are:

- to review and provide an opinion on the annual report of our management;
- to review and approve the proposals of the management bodies to be submitted to the shareholders' meeting regarding changes to share capital, issuance of debentures and subscription rights, capital investment plans and budgets, distributions of dividends, changes in corporate form, consolidations, mergers or split-up; and
- to review and approve the financial statements for the fiscal year.

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The following are the current members of our board of auditors and their alternates:

Name	Position	Date Appointed
Sidney Alberto Latini ⁽¹⁾	Member	March 27, 2003
Norair Ferreira do Carmos	Member	March 27, 2003
José Alberto Bettencourt da Câmara Graça	Member	March 27, 2003
Nelson Jimenes ⁽¹⁾	Alternate	March 27, 2003
Wolney Quirino Schüller Carvalho	Alternate	March 27, 2003
João Luís Tenreiro Barroso	Alternate	March 27, 2003

(1) Appointed by our preferred shareholders.

B. Compensation

For the year ended December 31, 2002, we paid to our directors and executive officers as compensation an aggregate amount of R\$6.2 million, including bonuses and profit sharing plans. This amount includes performance remuneration and profit sharing arrangements applicable to all employees. Furthermore, the members of our board of executive officers are eligible to participate in the same complementary retirement pension plan available to our employees, called TCP Prev. In 2002, we contributed R\$71,556 to TCP Prev on behalf of our executive officers. The aggregate amount of compensation we paid to members of the board of auditors was approximately R\$1.107 million.

C. Board Practices

Our board of directors' duties and responsibilities are set forth by Brazilian law and our by-laws.

Our board of directors is comprised of a minimum of eight and a maximum of 12 members, serving for a term of three years. Our directors are elected by our shareholders at the annual general shareholders' meeting. There are no service contracts between us and our directors providing for benefits upon termination of employment. The board of directors holds regular quarterly meetings, and the chairman or two board members may call special meetings.

D. Employees

At December 31, 2002, we had 2,045 full-time employees, 3 temporary employees and 11 trainees. During 2002, we had an average of 12 trainees and temporary employees.

The following table sets forth the number of our employees and a breakdown of employees by main category of activity as of the dates indicated:

	December 31,		
	2000	2001	2002
Total number of employees (including trainees)	1,849	1,705	2,055
Number by category of activity:			
Technical and operations area	576	600	520
Sales and marketing	438	483	1,004
Finance and administrative support	380	296	429
Customer service	455	326	102

Employees are represented by the *Sindicato dos Trabalhadores em Empresas de Telecomunicações e Operadoras de Mesas Telefônicas no Estado de São Paulo* (SINTETEL) and by the *Sindicato dos Engenheiros do Estado de São Paulo* (SEESP). We negotiate new collective labor agreements every year with the labor unions. The collective agreements currently in force include a salary and benefit increase of 4% effective as of December 31, 2002.

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Our management considers the relations between our work force and us to be satisfactory. We have not experienced any work stoppage that materially affected our operations.

Each of our subsidiaries negotiates a new collective labor agreement every year with each local union. The collective agreements now in force expire on October 31, 2003.

At the time of the privatization, employees had the right to maintain their rights and benefits in *Fundação Sistel de Seguridade Social*, or Sistel, a multi-employer defined benefit plan that supplements government-provided retirement benefits. Under the Sistel plan, we made monthly contributions to Sistel equal to a percentage of the salary of each employee who was a Sistel member. Each employee member also made a monthly contribution to Sistel on the basis of age and salary. Members of Sistel qualified for pension benefits when they qualified for the government-provided retirement benefits. Sistel operates independently from us, and its assets and liabilities are fully segregated from us. Employees hired since January 1999 are not members of Sistel.

Before December 1999, the Sistel plan covered the employees of the former Telebrás System and we were contingently liable for all of the unfunded obligations of the plan. In January 2000, we and the other companies that formerly belonged to the Telebrás system agreed to divide the existing Sistel plan into 15 separate plans, resulting in the creation of private plans covering those employees already enrolled in the Sistel plan. These new private pension plans are still administered by Sistel and have retained the same terms and conditions of the Sistel plan. The division was carried out so as to allocate liability among the companies that formerly belonged to the Telebrás system according to each company's contributions with respect to its own employees. Joint liability among the Sistel plan sponsors will continue with respect to retired employees, who will necessarily remain members of the Sistel plan.

In 2000, we established the *Plano de Benefícios TCP Prev*, a new private pension plan for our employees. Unlike Sistel's defined benefits plan, the *Plano de Benefícios TCP Prev* calls for defined contributions by our operating subsidiaries, as sponsors, and by our employees, as participants. These contributions are credited to the participants' individual accounts. Those employees who were members of the Sistel plan had the option to transfer to the new pension plan by November 31, 2000. Newly hired employees may choose to become participants of the new plan within 30 days from the date of employment. As of December 31, 2002, approximately 60% of our employees were members of the *Plano de Benefícios TCP Prev*. We continue to have a contingent liability for the unfunded obligations of the plan with respect to all inactive employees of the former Telebrás and all post-retirement health care benefits for former Telebrás employees and current employees of all the new holding companies.

E. Share Ownership

As of December 31, 2002, each of the members of the board of directors and the board of executive officers owned, directly or indirectly, less than 0.01% of any class of our shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth the principal holders of common and preferred shares and their respective shareholdings as of May 31, 2003:

Name	Number of common shares owned	Percentage of outstanding common shares	Number of preferred shares owned	Percentage of outstanding preferred shares
Brasilcel	291,330,022,831	71.2	379,614,824,965	49.8
Portelcom Partic. S.A. (1)	92,112,338,122	22.5	719,908	0
All directors and executive officers as a group	37,846	0	93,138	0

(1) Portelcom is a wholly owned subsidiary of Brasilcel.

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Any significant change in the percentage ownership held by any major shareholders during the past three years is disclosed in Item 4A. Our History and Development.

We are not aware of any other shareholder owning more than 5.0% of the common shares.

Brasilcel has the ability to control the election of our board of directors and the direction of our future operations. See also Item 4A. Our History and Development Brasilcel.

B. Related Party Transactions

We entered into interconnection and roaming agreements with the following related parties: Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A. and Celular CRT S.A. Most of these agreements were entered into before the reorganization of Telebrás, and are subject to the rules set forth by Anatel.

We have an interconnection agreement with Telecomunicações de Estado de São Paulo S.A. Telesp for the interconnection with fixed-line phones and long distance. We also have an agreement with Telecomunicações de São Paulo S.A. Telesp that enables us to share physical space and real estate and that pertains to the supply of air conditioning, energy, security and cleaning services. Under this agreement, we use approximately 520 of Telefónica's sites and Telefónica uses approximately 207 of our sites. In addition, we lease from Telecomunicações de São Paulo S.A. TELESP, fiber-optic transmission capacity necessary to complete the construction of our network infrastructure. In December 2001, we renegotiated this leasing agreement with Telecomunicações de São Paulo S.A. TELESP. The new lease will expire on December 31, 2006. These companies became a related party on December 27, 2002, as a result of the joint venture described in Item 4A. Our History and Development and in Note 1 to our consolidated financial statements.

We pay Portugal Telecom S.G.P.S., S.A. in the amount of up to 2% of Telesp Celular S.A.'s net operating revenues relating to consulting services. This fee is due to a related agreement dated as of January 7, 1999 entered into between Portugal Telecom S.G.P.S., S.A. and Telesp Celular S.A. approved at a shareholders' meeting.

We also entered into a series of loans with Portugal Telecom S.G.P.S., S.A. (or PT SGPS) and PT Internacional Finance B.V. (or PT Finance), companies from the Portugal Telecom group. TCP has a EURIBOR plus 7% per annum debt with PT Finance, with a maturity date in November 2004, for 416.05 million euros (representing R\$1.54 billion at December 31, 2002). Our subsidiary Telesp Celular has three U.S. dollar-denominated loans with PT SGPS, with fixed interest rates ranging from 9.5% to 13.25% per annum, and maturity dates in 2003 and 2007. The aggregate amount of these loans is U.S.\$200 million (representing R\$706.7 million at December 31, 2002). Telesp Celular also has two other loans with PT Finance. One loan has floating interest rate of 7% plus EURIBOR per annum for 44.6 million euros (representing R\$164.96 million at December 31, 2002) and a maturity date in December 2003. The other loan amounts to U.S.\$120.0 million, representing R\$424.0 million at December 31, 2002, with a fixed interest rate of 9.5% per annum and a maturity date in July 2007. Interest on these transactions is paid on a quarterly basis, with the exception of the loan for 44.6 million euros, which pays interest on a semi-annual basis. The chart below sets forth the details of these loan agreements.

Loan	Currency	Interest	March 31, 2003	December 31, 2002
				(consolidated)
Commercial Paper	US\$	9.5% per annum	402,372	423,996
Resolution No. 4131		7.0% per annum plus EURIBOR	163,410	164,959
Resolution No. 4131	US\$	13.25% per annum (1)	301,779	706,660
Floating Rate Notes		7.0% per annum plus EURIBOR	1,525,428	1,539,886

(1) As of March 31, 2003, the interest rate as of December 31, 2002 was 9.5% per annum.

Mobitel S.A. provides us call center and back office customer services. See "Item 4B. Customer Service."

Primesys S.A. and Primesys Soluções Empresariais, companies that provide services in the areas of technologies, provide us with technical services, such as network support and Internet access services, among others.

Portugal Telecom Inovação Brasil Ltda., an information and technology development company, provides us with infrastructure and equipment related to prepaid services.

We have engaged in a number of transactions with related parties. See note 31 to our consolidated financial statements.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 3A. Key Information Selected Financial Data and Item 18. Financial Statements.

Legal Matters

Civil

Litigation Related to the Breakup of Telebrás

The Breakup of Telebrás is the subject of several lawsuits in which the plaintiffs are seeking injunctions. Some preliminary injunctions were granted, but all were quashed by decisions of the relevant federal court. These courts also decided that the courts of the state of Minas Gerais has original jurisdiction over the proceedings. Several decisions quashing preliminary injunctions are on appeal, and, if any such appeals are successful, the shareholders of Telebrás may have to reapprove the Breakup of Telebrás or legislative action may be required.

The theories on which the lawsuits regarding the Breakup of Telebrás are based include:

- that the Brazilian constitution requires that the General Telecommunications Law specifically authorize the creation of the 12 New Holding Companies;
 - that the Telebrás shareholders' meeting held on May 22, 1998, which approved the Breakup of Telebrás, was not properly convened;
 - that national sovereignty will be threatened if Brazil's telecommunications companies are controlled by foreign entities; and
 - that the General Telecommunications Law requires that certain matters, such as the entry of new competitors and the administration of development and technology funds, be regulated prior to the Breakup of Telebrás either by an executive order of the President or by an act of Congress.
- If any of these lawsuits ultimately succeeds, the Breakup of Telebrás will have to be reinitiated. This could require, depending upon the prevailing plaintiff's theory, one or both of the following actions:
- amending the Telecommunications Law; and
 - reconvening the May 22, 1998 Telebrás shareholders' meeting.

It is theoretically possible under Brazilian law for a court to require that the Breakup of Telebrás be unwound, although we believe that this would not be likely to occur. We believe that the ultimate resolution of the proceedings will be favorable and will not have a material adverse effect on our business or financial position. It is very difficult to quantify what the potential impact to us would be if the Breakup of Telebrás were to be unwound. This would require an assessment of the total amount of capital invested by controlling shareholders in the 12 New Holding Companies and a prediction as to any possible indemnification to which they may be entitled from the Brazilian government. The results could be very far reaching and would affect all of the New Holding Companies.

Litigation Arising Out of Events Prior to the Breakup of Telebrás

Telebrás and our subsidiaries Predecessor Companies, our legal predecessors, and our subsidiaries, respectively, are defendants in a number of legal proceedings and subject to certain other claims and contingencies relating to events prior to the Breakup of Telebrás. Liability for claims arising out of acts committed by the Predecessor Companies prior to the effective date of the spin-off of the cellular assets and liabilities of the Predecessor Companies to our subsidiaries remains with the Predecessor Companies, except for labor and tax claims (for which the Predecessor Companies and our subsidiaries are jointly and severally liable, as the case may be, by operation of law) and those liabilities with respect to which the Predecessor Companies had made specific accounting provisions prior to the Breakup of Telebrás, assigning them to our subsidiaries. Any claims against the Predecessor Companies which are not satisfied by the Predecessor Companies could result in claims against our subsidiaries to the extent that our subsidiaries have received assets which might have been used to settle those claims had they not been spun off from the Predecessor Companies. However, under the shareholders' resolution pursuant to which the spin-off was effected, our subsidiaries have contribution rights against their Predecessor Companies with respect to the entire amount of any payments made by our subsidiaries in connection with any labor or tax claims brought against our subsidiaries and relating to acts committed by the Predecessor Companies prior to the effective date of the spin-off.

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We believe that the likelihood that claims of this kind will materialize and have a material adverse financial effect on us is remote.

Litigation Related to Tax Credits

Under certain conditions, Brazilian law permits companies to benefit from tax credits related to the amortization of goodwill. Despite this fact, an action was filed on December 16, 1999 against Anatel and the New Holding Companies, including Telesp Celular, that have undergone a corporate restructuring in connection with the Breakup of Telebrás and that recognized tax credits to offset premiums paid by their controlling shareholders at the time of their acquisition. Telesp Celular did not become aware of its involvement as a defendant in this action until April 2002, and filed its answer on October 2, 2002. We do not think this action will succeed as we believe the restructuring was done in compliance with Brazilian law; however, based on the opinion of legal counsel, the chance of an unfavorable outcome is possible in this case.

The extent of any potential liabilities in connection with this action will be determined in a separate but related lawsuit known as the calculation of the award, which will only take place if Telesp Celular is unsuccessful in its defense.

Litigation Related to the Ownership of Caller ID

In July 2002, we, together with other Brazilian mobile telecommunications operators, were named as defendants in an action filed by Lune Projetos Especiais Telecomunicação Comércio Ind. Ltda., or Lune, pursuant to which Lune claims to be the owner of patents relating to *Equipamento Controlador de Chamadas Entrantes e do Terminal Telefônico*, or Caller ID, and also that the mobile telecommunications operators are using the patent without proper authorization. Therefore, Lune demands that the operators cease to provide Caller ID services and that it should be indemnified for the unauthorized use of the Caller ID system, upon payment of fees received by the operators in consideration for the use of the system by their customers.

Based on the opinion of our legal counsel, the chance of an unfavorable outcome is possible in this case. However the indemnification that is allegedly due from the mobile operators cannot be accurately calculated as of yet due to the fact that the cost of the caller ID service provided by the companies has never been separately calculated.

Litigation Related to the Validity of the Minutes in the Prepaid Plans

Telesp Celular and Global Telecom are the defendants in a lawsuit brought by the federal public prosecutor's office and associations for consumers' protection, which challenged the imposition of a deadline for the use of purchased prepaid minutes. The plaintiffs allege that any purchased prepaid minutes should not have a time limitation for usage.

This lawsuit is still in its initial stages, but our external counsel and we believe that our criteria for imposing the deadline were in strict compliance with Anatel's rules. We are also party to a similar lawsuit where an injunction was granted against us. The defendants appealed this decision and the court agreed, on May 21, 2003, to suspend enforcement of the injunction, but Telesp Celular has not yet received an official notice of the court's decision.

Litigation Related to the Adjustment of Tariffs

Telesp Celular is also a defendant in a civil action relating to the change in tariffs charged by it to its contract customers. Telesp Celular increased its promotional tariffs to new tariffs, which are within the limits established by Anatel. The prosecutor alleges that, according to Brazilian law, tariffs cannot be increased within a 12-month period. The adjustment affected by Telesp Celular was effected in a nine-month period, allegedly in contravention to Brazilian law.

We believe that our tariff adjustments were lawful but based on external counsel's opinion we understand that an unfavorable outcome is possible.

The indemnification allegedly due cannot be accurately estimated due to the fact that we have been unable to determine the final number of plaintiffs at that time.

Litigation Related to the Tariffs Charged by the Baby Plan

Telesp Celular and Global Telecom are defendants in lawsuits brought by an association for consumers' protection called ANADEC which challenges the way airtime is calculated in the Baby prepaid plan. We believe that Telesp Celular and Global Telecom's criteria are in strict compliance with the Anatel rules. In March 2001, a São Paulo lower court ruled in the Telesp Celular lawsuit that the criteria adopted violated the Brazilian consumer protection code and that, therefore, Telesp Celular would have to reimburse its customers the amounts established by the court. Telesp Celular considers this decision to be contrary to Anatel's regulations. Telesp Celular has appealed from this decision. The lawsuit involving Global Telecom is in its initial stages. The amount of damages should Telesp Celular and Global Telecom fail in their defense cannot

be accurately estimated due to the fact that the final number of plaintiffs at this time is uncertain.

Tax-Related

Litigation Related to the Application to the ICMS

Certain Brazilian state governments agreed to apply, effective July 1, 1998, the ICMS tax to certain service revenues, such as activation fees, and to make the application to such activation fees retroactive for the five years preceding June 30, 1998. We believe the extension of the ICMS tax to non-basic telecommunications services such as cellular activation is unlawful because:

- the state governments acted beyond the scope of their authority;
- their interpretation would subject certain services that are not telecommunications services to taxation; and
- new taxes may not be applied retroactively.

Telesp Celular filed lawsuits with the Treasury Court of the state of São Paulo, including a preliminary injunction proceeding against application of the ICMS to activation fees. The Treasury Court denied Telesp Celular's motion for temporary relief during the duration of the lawsuits. As a result, Telesp Celular has collected ICMS on activation fees from its customers since September 1, 1998. In July 1999, the Treasury Court decided that instead of Telesp Celular, only the customers would be entitled to seek injunctive relief. This decision is currently being appealed.

The Treasury Court has also reached a decision on Telesp Celular's initial lawsuit regarding the application of ICMS to cellular activation fees, ruling that ICMS should not be applied on or prior to June 29, 1998, but that it shall be applied after that date. Telesp Celular has appealed this decision.

Recently the Higher Justice Court (*Superior Tribunal de Justiça*) determined in an action filed by Teleamazon Celular, another wireless operating company, that the ICMS tax could not be assessed on activation fees. On the basis of this decision, in 2003 Telesp Celular reversed its \$68.5 million provision on its balance sheet.

Litigation Related to the Application of the COFINS and PIS

On November 27, 1998, Brazilian federal government through Law No. 9,718 altered the COFINS and PIS. This new law indirectly raised the COFINS and PIS contributions owed by the subsidiaries by widening their calculation basis to include finance revenues. Article 195 of the Brazilian federal constitution, which was in effect at the time Law No. 9,718 was enacted, provided for the payment of the COFINS and PIS contributions based on payrolls, invoicing and profits. However, Law No. 9,718 widened the calculation basis for the PIS contribution by determining that it be paid over the totality of revenues earned by companies, including revenues from investments, securitizations and monetary and exchange rate variations.

Law No. 9,718 also provided for an increase of the COFINS rate from 2% to 3% over the relevant contribution base, effective as of the date of enactment of the law.

We believe that the Brazilian federal government's attempt to increase the COFINS and PIS contributions through Law No. 9,718 is unlawful because it did not comply with the requisite ninety-day waiting period before applying such law, and because, at the time the law was enacted, the Brazilian federal constitution:

- set out a different calculation basis for the COFINS and PIS contributions, as described above; and
- required that tax burdens be increased only through the use of a *Lei Complementar*, and not a *Lei Ordinaria*.

Telesp Celular obtained an injunction allowing it to continue paying the COFINS and PIS contributions based on telecommunications services and sales revenues, and to continue paying the COFINS contribution at a 2% rate. A subsequent judicial decision confirmed the injunction and also authorized Telesp Celular to offset any PIS and COFINS amounts unduly paid with future payments of these contributions, but excluded the application of interest on the amounts unduly paid. Telesp Celular has appealed this decision.

Global Telecom attempted to obtain an identical injunction, but it was not successful. It continues to judicially dispute the COFINS and PIS increase, and, if it wins a favorable decision, it may recoup overpaid taxes.

Based on external counsel's opinion, we have created a provision for the amount corresponding to the increase of the COFINS rate (corresponding to R\$20.3 million in 2002), but we have not created any provision relating to the increase in the COFINS and PIS calculation basis because our external counsel believes that the possibility of loss in this lawsuit is remote.

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Notwithstanding the above, after the price war in the Brazilian cellular market stabilized, the management of our subsidiaries decided to incorporate the COFINS and PIS tax increase into their final price for goods and services.

Litigation Related to the Passing on of the COFINS and PIS to Customers

We, together with other telecommunication carriers, are defendants in a lawsuit brought by the federal public prosecutor's office challenging our policy of passing on the COFINS and PIS costs to our customers by incorporating them into our charges.

We are contesting the lawsuit on the basis that, according to our understanding, the COFINS and PIS are cost components of the services provided to our customers and, as such, should be incorporated into the price of these services, as is the practice throughout the telecommunications industry. We believe that our probability of success in challenging this claim is very high.

Litigation Related to the Charge of Surcharge and Roaming Tariffs

On November 22, 2001, IDEC, an association for the protection of consumer rights, filed suit against Telesp Celular challenging the application, since September 17, 2001, of certain tariffs to customers. On November 25, 2002, Telesp Celular has entered into an agreement and paid the amounts agreed to its customers.

The Departamento de Cidadania do Município de Campinas - Procon, a consumer protection agency in the city of Campinas in the state of São Paulo, and the federal public prosecutor's office have also brought suit against Telesp Celular and Anatel challenging the same charges. A preliminary injunction was granted requiring Telesp Celular to cease applying such tariffs and ordering Telesp Celular to reimburse customers located in 52 cities within the Campinas Region the amounts charged for such tariffs. However, Telesp Celular appealed this decision on March 18, 2002, and the court agreed to suspend enforcement of the injunction while the appeal is still pending. We have also filed a copy of the agreement and asked to terminate this lawsuit.

Other Litigation

We are also party to certain legal proceedings arising in the normal course of business. Our reserve amounts are sufficient to cover our estimated losses due to adverse legal judgments. We believe that adverse judgments arising from these other legal proceedings would not have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy and Dividends

We pay our shareholders both dividends and interest on shareholders' equity, which is a form of distribution that is tax deductible in Brazil. The following table summarizes our history of payments of dividends and interest on shareholders' equity for the years, 2000, 2001 and 2002. We will not be paying dividends or interest on shareholders' equity for the year-ended December 31, 2002, as a result of negative net income from equity in Global Telecom. The table sets forth amounts in *reais* per thousand common shares and preferred shares and amounts in U.S. dollars per ADS translated into U.S. dollars at the prevailing selling rate for Brazilian currency into U.S. dollars in the commercial rate exchange market on each of the respective dates of such payments.

Year ended December 31,

	2000(1)		2001(2)		2002(2)	
	(R\$ per thousand)	(U.S.\$ per ADS)	(R\$ per thousand)	(U.S.\$ per ADS)	(R\$ per thousand)	(U.S.\$ per ADS)
Dividends plus interest on shareholders' equity:						
Common	0.132880	-	N/A	N/A	N/A	N/A
Preferred	0.265152	0.280655	N/A	N/A	N/A	N/A

(1) TCP paid 2000 dividends on June 8, 2001.

(2) TCP did not pay dividends in 2002 and 2003 due to losses incurred from its equity investment in Global Telecom in 2001 and 2002.

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Each of our preferred shares is entitled to declared dividends, with priority to receive a noncumulative annual dividend, to the extent net profits or reserves are available for distribution, equal to the higher of (i) 6% of the amount obtained by dividing the amount of subscribed capital by the number of our shares and (ii) 3% of the amount obtained by dividing shareholders' equity by the number of our outstanding shares. To the extent there are additional distributable profits, we are also required to distribute to all shareholders an amount equal to 25% of adjusted net income, or the general dividend, determined in accordance with Brazilian corporate law, including any realization of the unrealized net income reserve. Each of our preferred shares is also entitled to receive declared profits on par with common shares, after our common shares have been paid dividends equal to the minimum priority distribution due to our preferred shares, which is 25% of our net profits for the year. The preferred dividend has priority in the distribution of our net profits for the preceding fiscal year after the following allocations:

- 5% of our net profits to a legal reserve, not to exceed 20% of our paid-in capital and
- an amount to a reserve for realizable revenue and to a contingency reserve against future losses, which amount is approved by the shareholders' meeting on the basis of what potential losses they consider probable.

Any amounts distributed after the preferred dividend are allocated first to dividend payments to holders of common shares in an amount equal to the preferred dividend and then distributed equally among holders of preferred and common shares.

The Brazilian corporate law method also provides for two additional discretionary allocations of net profits that are subject to approval by the shareholders at the annual shareholders' meeting:

- first, a percentage of net profits may be allocated to the contingency reserve for anticipated losses that may be charged to it in future years. Any amount so allocated in a prior year must be either:
 - ◆ reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur; or
 - ◆ written off in the event that the anticipated loss occurs; and
- second, if the amount of unrealized revenue exceeds the sum of:
 - ◆ the statutory reserve; and
 - ◆ retained earnings, such excess may be allocated to the unrealized profit reserve at the direction of the board of directors.

Allocations may not hinder the payment of mandatory dividends. Unrealized revenue reserve is defined under the Brazilian corporate law method as the sum of:

- the share of equity earnings of affiliated companies, which is not paid as cash dividends; and
- profits as a result of income from operations after the end of the next succeeding fiscal year.

The amounts available for distribution are determined on the basis of financial statements prepared in accordance with the Brazilian corporate law method.

Payment of Dividends

We are required by Brazilian law and by our by-laws to hold an annual shareholders' meeting by April 30 of each year, at which, among other things, an annual dividend may be declared by a decision of our shareholders on the recommendation of our board of directors. The payment of annual dividends in any given year is based on the financial statements prepared for the preceding fiscal year ending December 31. Under the Brazilian corporate law method, dividends are required to be paid within 60 days of the annual shareholders' meeting, or on the date determined at a shareholders' meeting, but in any case prior to the end of the fiscal year in which such dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which time unclaimed dividends revert back to us. Because our shares are issued in book-entry form, dividends will be credited to the depository, which is responsible for the delivery of the dividends to their respective holders. We are not required to adjust the amount of paid-in capital for inflation. Annual dividends may be paid to shareholders on a pro rata basis according to the date when the subscription price is paid to us.

Our preferred shares underlying the ADSs are held in Brazil by a Brazilian custodian, Banco Itaú S.A., as the agent for the depository, which is the registered owner of our shares.

Payments of cash dividends and distributions, if any, will be made in *reais* to the Custodian on behalf of The Bank of New York, as depository, which will then convert those proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depository for distribution to holders of ADRs. In the event that the Custodian is unable to immediately convert the *reais* received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the *real* that occur before such dividends are converted and remitted. Dividends in respect of our preferred shares paid to resident and non-resident shareholders, including holders of ADSs, are not currently subject to Brazilian withholding tax.

B. Significant Changes

On April 25, 2003, TCP acquired 61.10% of the voting capital stock of TCO for approximately R\$1.505 billion, corresponding to R\$19.48719845 per each lot of 1,000 shares acquired. At the date hereof, we have paid R\$284.7 million of the total amount and the remaining will be paid in installments. TCO is an A Band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO's B Band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

We will launch, in the second quarter of 2003, a tender offer for the voting shares of the minority shareholders of TCO, as legally required by the acquisition of the control of TCO. The price per share to be offered is equal to 80% of the price paid to the controlling shareholders. After the acquisition and the tender offer, TCP expects to incorporate TCO shares and ADSs. With the acquisition of its participation in TCO, Brasilcel provides services to approximately 50% of the total Brazilian market, representing coverage of 86% of the Brazilian territory.

On June 12, 2003, we announced that we expect to issue on June 24, 2003 eurobonds in the amount of US\$150 million and interest rate of 6.75%, which will mature on December 22, 2008. Payment under these eurobonds will be guaranteed by Telesp Celular.

ITEM 9. THE OFFER AND LISTING**A. Offer and Listing Details**

Brazilian private equity and debt are principally traded on BOVESPA, which is the trading market for our common and preferred shares. Our preferred shares began trading on the Brazilian stock exchanges on September 21, 1998. The following table sets forth the reported high and low closing sale prices for our preferred shares on BOVESPA, for the periods indicated.

	Nominal reais per 1,000 Preferred Shares	
	Low	High
1998		
Annual	6.80	14.50
1999		
Annual	6.70	32.00
2000		
Annual	16.66	45.30
2001		
Annual	5.20	23.00
First Quarter	12.68	23.00
Second Quarter	12.40	17.96
Third Quarter	5.21	15.17
Fourth Quarter	5.20	8.74
2002		
Annual	2.60	9.26
First Quarter	5.72	9.26
Second Quarter	4.30	6.08
Third Quarter	2.60	4.07
Fourth Quarter	2.66	4.42
Last Six Months		
December 2002	3.64	4.42
January 2003	3.54	5.05
February 2003	3.17	3.78
March 2003	3.46	4.55

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April 2003	4.19	4.72
May 2003	3.52	4.14
June (until June 18) 2003	4.43	4.81

In the United States, our preferred shares trade in the form of ADSs, each representing 2,500 preferred shares issued by The Bank of New York, as depositary pursuant to a Deposit Agreement among TCP, the depositary and the registered holders and beneficial owners from time to time of ADRs. The ADSs commenced trading on the New York Stock Exchange on November 16, 1998 under the symbol TCP. At December 31, 2002, there were approximately 134 holders of record of ADSs in the United States. The following table sets forth the reported low and high closing sales prices for ADSs on the New York Stock Exchange for the dates and periods indicated.

U.S. dollars per ADS

	Low	High
1998		
Annual	16.94	30.44
1999		
Annual	13.88	44.69
2000		
Annual	21.06	64.50
2001		
Annual	4.63	31.69
First Quarter	14.81	31.69
Second Quarter	14.12	19.50
Third Quarter	4.72	16.05
Fourth Quarter	4.63	9.55
2002		
Annual	1.71	10.03
First Quarter	6.33	10.03
Second Quarter	3.68	6.65
Third Quarter	1.73	3.66
Fourth Quarter	1.71	3.20
Last Six Months		
December 2002	2.41	3.20
January 2003	2.49	3.81
February 2003	2.20	2.71
March 2003	2.38	3.40
April 2003	3.31	4.02
May 2003	4.27	4.85
June (until June 18) 2003	3.85	4.25

B. Plan of Distribution

Not applicable.

C. Markets

Trading on the São Paulo Stock Exchange

The São Paulo Stock Exchange is a non-profit entity owned by its member brokerage firms. Trading on this exchange is limited to member brokerage firms and a limited number of authorized nonmembers.

Since April 7, 2003, BOVESPA has open outcry trading sessions each day, from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 4:45 p.m. Trading is also conducted from 10:00 a.m. to 5:00 p.m. on an automated system on BOVESPA. On September 20, 1999, BOVESPA launched the After-Market, with the objective of expanding business opportunities and offering investors a more flexible trading schedule. After-Market

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trading takes place from 5:45 p.m. to 7:00 p.m. All stocks traded during the regular trading session of the day may be traded on the After-Market. However, only cash market trading via BOVESPA's electronic trading system is allowed. The maximum variation allowed for stock prices, whether positive or negative, corresponds to 2% in relation to the closing price at the regular trading session.

In order to better control volatility, BOVESPA has adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever its indices fall below the limits of 10% in relation to the index registered in the previous trading session.

There are no specialists or market makers for our shares on BOVESPA. Trading in securities listed on the BOVESPA may be effected off the Exchange in certain circumstances, although such trading is very limited.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares is made through the facilities of a separate clearinghouse, which maintains accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for BOVESPA is *Companhia Brasileira de Liquidação e Custódia S.A. - CBLC*, which is wholly owned by that Exchange.

At December 31, 2002, the aggregate market capitalization of the 399 companies listed on BOVESPA was approximately U.S.\$124.0 billion. Although all the outstanding shares of an exchange-listed company may trade on BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons that rarely trade their shares. For this reason, data showing the total market capitalization of BOVESPA tends to overstate the liquidity of the Brazilian equity securities market.

The Brazilian equity market is relatively small and illiquid compared to major world markets. In 2002, the combined monthly trading volumes on BOVESPA averaged approximately U.S.\$4.1 billion. In 2002, the 10 most actively traded issues represented approximately 56.51% of the total trading in the cash market on BOVESPA. Trading on BOVESPA by nonresidents of Brazil is subject to certain limitations under Brazilian foreign investment legislation.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, by the *Conselho Monetário Nacional*, or CMN, the National Monetary Counsel and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law No. 6,385, as amended, known as the Brazilian securities law, and by the Brazilian corporate law.

Law No. 10,303 of December 31, 2001 amended the Brazilian corporate law and the Brazilian securities law. Consequently, some major modifications resulted for the businesses of the publicly traded companies.

Among the changes, Law No. 10,303, along with Executive Order No. 8 and Decree No. 3,995, all dated October 31, 2001, provided that the CVM was to have the scope of its authority altered and expanded. Additionally, CVM's positioning in the regulatory hierarchy as well as its autonomy were modified.

The modifications include changes in the proportions of common and preferred shares, new rules for the issuance of debentures, other parameters governing the exercise of the right of withdrawal, duties and powers of the members of the board of auditors and the board of directors, and the ability of publicly traded companies to make publications available over the Internet. Also provided is the pooling agreement, the so-called block voting by which the shareholders agree during a prior meeting on the direction of the votes that will be cast at the general meetings. The purpose of this type of vote is to prevent any possible individual dissidents or interests from harming corporate interests.

The period established for companies to adapt their by-laws is one year from the publication of the law on November 1, 2001. Our shareholders held a general shareholders' meeting on March 27, 2002, where they addressed these modifications in our by-laws.

The CVM, which is the agency in charge of regulating the market, now handles some functions that were reserved to the Banco Central, for example, the regulation and organization of the futures and commodities markets.

Under the Brazilian corporate law, a company is either public, a *companhia aberta*, such as our company, or private, a *companhia fechada*. All public companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on BOVESPA or on the Brazilian over-the-counter market. The shares of a public company may also be traded privately, subject to certain limitations. In order to be listed on the Brazilian stock exchanges, a company must apply for registration with the CVM and the stock exchange. Once the stock exchange lists a company and the CVM accepts its registration as a public company, its securities may start to be traded.

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Trading in securities on BOVESPA may be suspended at the request of a company in anticipation of a material announcement. Trading in the securities of a particular company may also be suspended on the initiative of the BOVESPA or the CVM, among other reasons, due to a belief that the company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or BOVESPA.

The Brazilian securities law, Brazilian corporate law and the regulations issued by the CVM, the CMN and the Central Bank provide, among other things, disclosure requirements and restrictions on insider trading, price manipulation and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in some other jurisdictions.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following summarizes certain material provisions of our by-laws and Brazilian law, the main bodies of regulation governing us. Copies of our by-laws have been filed as exhibits to this annual report on Form 20-F.

Register

Our amended and restated by-laws were registered with the Public Registry of the state of São Paulo (JUCESP), No. 82.466/03-8 on April 30, 2003, under company number (NIRE) 3530015879-2.

Objectives and Purposes

We are a publicly traded company duly registered with the Brazilian securities commission under No. 01771-0. Article 2 of our by-laws provides that our corporate purpose is to:

- exercise the control of operating companies which provide cellular mobile telecommunications services, personal mobile services and other services in conformity with the concessions, authorizations and permissions that have been granted to us;
- promote, through our subsidiaries or controlled companies, the expansion and implementation of the telecommunications services within our concessions, authorizations and permissions;
- promote, carry out and direct the financing of capital from internal or external sources to be used by us or our controlled companies;
- promote, carry out and encourage study and research activities aimed at the development of the telecommunications sector;
- perform, through our subsidiaries and affiliated companies, specialized technical services related to the telecommunications sector;
- promote, encourage, carry out and coordinate, through our subsidiaries or controlled companies, the development and training of personnel necessary to perform activities in the telecommunications sector;
- carry out and promote the import of goods and services for the operations of our subsidiaries and controlled companies;
- execute other activities connected or related to our objective;
- participate in the equity capital of other companies; and
- trade equipment and materials necessary or useful for providing telecommunications services.

Directors

Uses of Funds

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Following is a description of some of the provisions of our by-laws concerning the members of our board of directors:

- The board of directors has the power to approve investments and acquisition of assets, assume any obligation and execute contracts not included in the budget for an amount exceeding R\$300 million, the public issuance of promissory notes, and the acquisition of our shares for cancellation or deposit with a custodian; and
- The board of directors has the power to apportion the global remuneration set forth by the shareholders meeting between the directors and the executive officers.

Pursuant to Brazilian corporate law, each member of the board of directors must have at least one share of our capital stock to be elected as a director. There are no provisions in our by-laws with respect to:

- age limits for retirement of directors; and
- anti-takeover mechanisms or other procedures designed to delay, defer or prevent changes in our control.

Although there are no provisions in our by-laws with respect to the following, they are regulated by Brazilian corporate law and CVM regulations:

- a director's power to vote on proposals in which the director is materially interested;
- a director's power to vote compensation to him or herself in the absence of an independent quorum;
- borrowing powers exercisable by the directors;
- required shareholding for director qualification; and
- disclosure of share ownership.

Rights Attaching to Shares

Dividend Rights

See Item 8 Financial Information Consolidated Statements and Other Financial Information Dividend Policy and Dividends, and Payment of Dividends.

Voting Rights

Each common share entitles the holder to one vote at meetings of shareholders. Our preferred shares do not entitle the holder to vote except as discussed in our by-laws in Articles 7, 9 and 10. Holders of our preferred shares are each entitled to attend or to address meetings of shareholders and to elect members of our board of directors according to Article 141, fourth paragraph, II, and Article 141, fifth paragraph, of Law No. 6,404/76, as amended by Article 8, fourth paragraph of Law No. 10,303/01.

One of the members of our board of auditors and his or her alternative are elected by majority vote of the holders of our preferred shares present at the annual meeting of shareholders at which members of the board of auditors are elected.

Brazilian corporate law provides that certain non-voting shares, such as our preferred shares, acquire voting rights in the event we fail for three consecutive fiscal years to pay the mandatory minimum dividend to which such shares are entitled, until such payment is made.

Our preferred shares are entitled to full voting rights in the event that we fail to pay the mandatory minimum dividends to which they are entitled for three consecutive years, and with respect to:

- the approval of any long-term contract between us and our controlled subsidiaries, on the one hand, and any controlling shareholder or that shareholder's affiliates and related parties, on the other hand; and
- changes/eliminations of certain rights and obligations as provided for in our by-laws.

Any change in the preference, benefits, conditions of redemption and amortization of our preferred shares, or the creation of a class of shares having priority or preference over our preferred shares, would require the approval of holders of a majority of our outstanding preferred shares at a special meeting of holders of our preferred shares. Such a meeting would be called by publication of a notice in the state's official gazette and two other Brazilian gazettes, as determined by the shareholders, at least thirty days prior to the meeting, but would not generally require any other form of notice.

In any circumstances in which holders of our preferred shares are entitled to vote, each preferred share will entitle the holder to one vote.

Meeting of Shareholders

According to Brazilian law, shareholders must be previously convoked in order for a general or extraordinary shareholders meeting to be installed. The convocation must be published in the state's official gazette and two other gazettes, as determined by the shareholders, at least 15 days prior to the meeting's scheduled date. If the first meeting is not installed for some reason, the second convocation must be published at least eight days before the second meeting date.

On the first call, meetings may only be installed with a minimum quorum of one-fourth of the holders of voting shares. Extraordinary meetings, whose objective is the amendment of the by-laws, may only be installed on the first call with a minimum of two-thirds of the voting capital present. In addition, some decisions require the approval of at least one-half of the holders of voting shares (qualified quorum). On a second call, the meetings are installed regardless of quorum.

Preemptive Rights

Each of our shareholders has a general preemptive right to subscribe for shares in any capital increase in proportion to its shareholding. A minimum period of 30 days following the publication of notice of the capital increase is allowed for the exercise of the right.

In the event of a capital increase, which would maintain or increase the proportion of capital represented by our preferred shares, holders of ADSs, or of our preferred shares, would have preemptive rights to subscribe only to our newly issued preferred shares. In the event of a capital increase, which would reduce the proportion of capital represented by our preferred shares, holders of ADSs, or of our preferred shares, would have preemptive rights to subscribe to our preferred shares in proportion to their shareholdings and to our common shares only to the extent necessary to prevent dilution of their interest.

Preemptive rights to purchase shares may not be offered to U.S. holders of our ADSs unless a registration statement under the Securities Act is effective with respect to the shares underlying those rights, or an exemption from the registration requirements of the Securities Act is available. Consequently, if you are a holder of our ADSs who is a U.S. person or is located in the United States, you may be restricted in your ability to participate in the exercise of preemptive rights.

Right of Redemption

Brazilian corporate law provides for the right of redemption to minority shareholders under certain circumstances.

The right of a dissenting shareholder to seek redemption arises in case our shareholders representing more than 50% of the voting shares, common shares or preferred shares, as applicable, decide to:

- change the preference of our preferred shares or to create a class of shares having priority or preference over our preferred shares, except if such actions are expressly permitted in the by-laws at the time of their adoption by our shareholders;
- change the preference of our preferred shares, any right they carry, their amortization or redemption rights, or to create a class of shares having priority or preference over our preferred shares;
- reduce the mandatory distribution of dividends;
- change our corporate purposes;
- transfer all of our shares to another company in order to make us a wholly owned subsidiary of that company;
- approve the acquisition of another company, the price of which exceeds certain limits set forth in Brazilian corporate law;
- participate in a group of companies if certain liquidity standards are not met according to the Brazilian corporate law as amended by Law No. 10,303/01;
- merge or consolidate us with another company if certain liquidity standards are not met according to the Brazilian corporate law as amended by Law No. 10,303/01; and
- *cisão*, or split-up, Telesp Celular Participações S.A., according to the Brazilian corporate law, as amended by Law No. 10,303/01, in any of the following situations: (i) reduction of minimum dividends; (ii) participation in a group of companies; or (iii) change of our corporate purposes, except in case the company receiving our assets has a corporate purpose substantially identical to ours.

The right to redemption lapses 30 days after publication of the minutes of the relevant shareholders meeting or, whenever the resolution requires the approval of the holders of our preferred shares by vote taken in a special meeting of a majority of the holders of our preferred shares affected by the resolution, within 30 days from the publication of the minutes of that special meeting. We would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of those rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability.

Unless otherwise provided in our by-laws, which is not the case, shares are redeemable at their book value, determined on the basis of the last annual balance sheet approved by the shareholders. If the shareholders meeting giving rise to redemption rights occurs more than 60 days

after the date of the last annual balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet that is as of a date within 60 days of such shareholders' meeting.

Form and Transfer

Our shares are maintained in book-entry form with a transfer agent, Banco ABN-AMRO Real S.A., and the transfer of our shares is made in accordance with the applicable provision of Brazilian corporate law, which provides that a transfer of shares is effected by an entry made by the transfer agent on its books, debiting the share account of the seller and crediting the share account of the purchaser against presentation of a written order of the seller or judicial authorization or order in an appropriate document which remains in the possession of the transfer agent. Our preferred shares underlying our ADSs are registered on the records of BOVESPA in the name of The Bank of New York, as depository of the ADSs.

Transfers of shares by a foreign investor are made in the same way and executed by such investor's local agent on the investor's behalf except that, if the original investment was registered with the Central Bank of Brazil under the Brazilian foreign investment in capital markets regulations, the foreign investor should also seek amendment, if necessary, through its local agent, of the certificate of registration to reflect the new ownership.

BOVESPA operates a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system. All shares elected to be put into the system will be deposited in custody with the relevant stock exchange through a Brazilian institution duly authorized to operate by the Central Bank of Brazil and having a clearing account with the relevant stock exchange. The fact that such shares are subject to custody with the relevant stock exchange will be reflected in our register of shareholders. Each participating shareholder will, in turn, be registered in our register of beneficial shareholders maintained by the relevant stock exchange and will be treated in the same way as registered shareholders.

C. Material Contracts

On January 7, 1999, Telesp Celular entered into a consulting agreement with Portugal Telecom that requires Telesp Celular to make annual payments to Portugal Telecom of up to 2% of its net operating revenues arising from cellular services. See Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for 2000, 2001 and 2002 for TCP Operating Expenses.

On January 13, 2001, TCP, as Purchaser, and DDI Corporation, ITX Corporation and Inepar Telecomunicações S.A., as Sellers, entered into the following agreements:

- Share Sale and Purchase Agreement, under which we acquired 49% of the voting shares and 100% of the non-voting shares of three holding companies that collectively owned 95% of the voting shares and 100% of the non-voting shares of Global Telecom. The three holding companies purchased the remaining 5% of the voting shares of Global Telecom after receiving authorization from Anatel in July 2001.
- Irrevocable Promise of Purchase and Sale of Shares Agreement and other Covenants, whereby we agreed to purchase all the remaining shares of Global Telecom Holdings for U.S.\$76.3 million when the regulatory restrictions which prevented us from immediately acquiring the majority of the voting stock are lifted and Anatel has approved the acquisition. The purchase price of the remaining shares is adjusted at a rate of six-month LIBOR plus 4% per annum to the date of actual purchase.

On December 11, 2002, after all of the TCP operators had switched over to the SMP system, Anatel approved our acquisition of the remainder of the capital stock Global Telecom Holdings and, on December 27, 2002, we acquired the remaining portion of those three holding companies. On December 31, 2002, we owned, directly and indirectly, 100% of the voting stock and economic interest of Global Telecom.

For a description of such acquisitions, see Item 4. Information on the Company Our History and Development Global Telecom.

On December 10, 2002, Telesp Celular entered into an authorization agreement with Anatel, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the area corresponding to the state of São Paulo, with the exception of the following municipalities: Altinópolis, Aramina, Batatais, Brodowski, Buritizal, Cajuru, Cássia dos Coqueiros, Colômbia, Franca, Guaíra, Guará, Ipuã, Ituverava, Jardinópolis, Miguelópolis, Morro Agudo, Nuporanga, Orlândia, Ribeirão Corrente, Sales de Oliveira, Sta Cruz da Esperança, Sto Antonio da Alegria and São Joaquim da Barra. The authorization replaces the concession agreement entered into with Anatel on November 4, 1997, and authorizes Telesp Celular to provide SMP services until August 5, 2008. It may be renewed for an additional term of fifteen years upon payment of 2% of Telesp Celular's net revenues from usage charges in the region described above in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Telesp Celular was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

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On December 10, 2002, Telesp Celular entered into an authorization agreement with Anatel, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the municipalities of Ribeirão Preto and Guatarapá and the district of Bonfim Paulista. The authorization replaces the concession agreement entered into with Anatel on November 4, 1997, and authorizes Telesp Celular to provide SMP services until January 20, 2009. It may be renewed for an additional term of fifteen years upon payment of 2% of Telesp Celular's net revenues from usage charges in the municipalities mentioned above in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Telesp Celular was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

On December 10, 2002, Global Telecom entered into an authorization agreement with Anatel, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the area corresponding to the states of Paraná and Santa Catarina. The authorization replaces the concession agreement entered into with Anatel on April 8, 1998, and authorizes Global Telecom to provide SMP services until April 8, 2013. It may be renewed for an additional term of fifteen years upon payment of 2% of Global Telecom's net revenues from usage charges in its region in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Global Telecom was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

On April 25, 2003, TCP acquired 61.10% of the voting capital stock of TCO for approximately R\$1.505 billion, corresponding to R\$19.48719845 per each lot of 1,000 shares acquired. At the date hereof, we have paid R\$284.7 million of the total amount and the remaining will be paid in installments. TCO is an A Band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO's B Band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

D. Exchange Controls

There are no restrictions on ownership of preferred shares or common shares by individuals or legal entities domiciled outside of Brazil.

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our preferred shares represented by our ADSs or the holders of our preferred shares from converting dividends, distributions or the proceeds from any sale of these preferred shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the preferred shares underlying our ADSs and to remit the proceeds abroad.

Resolution No. 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. It restates and amends Annex V to Resolution No. 1,289 of the National Monetary Council, known as the Annex V Regulations. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are free of Brazilian foreign investment controls, and holders of the ADSs are entitled to favorable tax treatment. See [Taxation Brazilian Tax Considerations](#).

Under Resolution 2,689 of the CMN, foreign investors registered with the CVM may buy and sell Brazilian securities, including our preferred shares, on Brazilian stock exchanges without obtaining separate certificates of registration for each transaction. Registration is available to qualified foreign investors, which principally include foreign financial institutions, insurance companies, pension and investment funds, charitable foreign institutions and other institutions that meet certain minimum capital and other requirements. Resolution 2,689 also extends favorable tax treatment to registered investors. See [Taxation Brazilian Tax Considerations](#).

Pursuant to the Resolution 2,689 foreign investors must: (i) appoint at least one representative in Brazil with the ability to perform actions regarding the foreign investment; (ii) complete the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with CVM; and (iv) register the foreign investment with the Central Bank.

The securities and other financial assets held by a foreign investor pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in register, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, the trading of securities is restricted to transactions carried out on the stock exchanges or over-the-counter markets licensed by the CVM.

Registered Capital

Amounts invested in our preferred shares by a non-Brazilian holder who qualifies under Resolution 2,689 and obtains registration with the CVM, or by the depositary representing an ADS holder, are eligible for registration with the Central Bank. This registration (the amount so

registered is referred to as registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our preferred shares. The registered capital per preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per preferred share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (i) the average price of a preferred share on the Brazilian stock exchange on which the most preferred shares were traded on the day of withdrawal or (ii) if no preferred shares were traded on that day, the average price on the Brazilian stock exchange on which the most preferred shares were traded in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average commercial market rates quoted by the Central Bank on these dates.

A non-Brazilian holder of preferred shares may experience delays in effecting Central Bank registration, which may delay remittances abroad. This delay may adversely affect the amount in U.S. dollars, received by the non-Brazilian holder.

A certificate of registration has been issued in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary. Pursuant to the certificate of registration, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by our ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, such holder will be entitled to continue to rely on the depositary's certificate of registration for five business days after such exchange, following which such holder must seek to obtain its own certificate of registration with the Central Bank. Thereafter, any holder of preferred shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares, unless the holder is a duly qualified investor under Resolution 2,689 or obtains its own certificate of registration. A holder that obtains a certificate of registration will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See [Taxation](#) [Brazilian Tax Considerations](#).

If the holder does not qualify under Resolution 2,689 by registering with the CVM and the Central Bank and appointing a representative in Brazil, the holder will be subject to less favorable Brazilian tax treatment than a holder of ADSs. Regardless of qualification under Resolution 2,689, residents in tax havens are subject to less favorable tax treatment than other foreign investors. See [Taxation](#) [Brazilian Tax Considerations](#).

Under current Brazilian legislation, the federal government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately six months in 1989 and early 1990, the federal government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with federal government directives. There can be no assurance that the federal government will not impose similar restrictions on foreign repatriations in the future. See [Item 3.D Risk Factors](#) [Risks Relating to Brazil](#).

E. Taxation

The following discussion contains a description of the material Brazilian and United States federal income tax consequences of the purchase, ownership and disposition of preferred shares or ADSs by a holder, also called a U.S. holder, that is for U.S. federal income tax purposes a citizen or resident of the United States of America, a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States of America or any state thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust, if a court within the United States of America is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

This description does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors or that are generally assumed to be known by investors. In particular, this summary deals only with U.S. holders that will hold preferred shares or ADSs as capital assets and does not apply to certain classes of U.S. holders, such as holders of 10% or more of our voting shares, financial institutions, tax-exempt organizations, insurance companies, dealers in securities or currencies, securities traders who elect to account for their investment in preferred shares or ADSs on a mark-to-market basis, persons holding preferred shares or ADSs as part of a straddle, hedging transaction or conversion transaction, and persons that have a functional currency other than the U.S. dollar.

This summary is based upon tax laws of Brazil and the United States as in effect on the date of this annual report, which are subject to change, possibly with retroactive effect, and to differing interpretations. You should consult your own tax advisors as to the Brazilian, United States or other tax consequences of the purchase, ownership and disposition of preferred shares or ADSs, including, in particular, the effect of any non-U.S., state or local tax laws.

Although there is presently no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares or ADSs.

Brazilian Tax Considerations

The following discussion mainly summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by a U.S. holder not deemed to be domiciled in Brazil for Brazilian tax purposes (a U.S. holder). This discussion does not address all the Brazilian tax considerations that may be applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult its own tax advisor about the Brazilian tax consequences of investing in preferred shares or ADSs.

Taxation of Dividends

Dividends paid by us in cash or in kind from profits generated on or after January 1, 1996 (i) to the depositary in respect of preferred shares underlying ADSs or (ii) to a U.S. holder or non-Brazilian holder in respect of preferred shares will generally not be subject to Brazilian withholding tax. We do not have any undistributed profits generated before January 1, 1996.

Distributions of Interest on Capital

Brazilian corporations may make payments to shareholders characterized as interest on capital as an alternative form of making dividend distributions. The rate of interest may not be higher than the federal government's long-term interest rate, or the TJLP, as determined by the Central Bank from time to time (11% per annum for the three-month period beginning January 2003). The total amount distributed as interest on capital may not exceed the greater of (i) 50% of net income (before taking the distribution and any deductions for income taxes into account) for the year in respect of which the payment is made or (ii) 50% of retained earnings for the year prior to the year in respect of which the payment is made. Payments of interest on capital are decided by the shareholders on the basis of recommendations of the company's board of directors.

Distributions of interest on capital paid to Brazilian and non-Brazilian holders of preferred shares, including payments to the depositary in respect of preferred shares underlying ADSs, are deductible by us for Brazilian corporate income tax purposes. These payments to U.S. holders or non-Brazilian holders are subject to Brazilian withholding tax at the rate of 15%. If the recipient of the payment is domiciled in a tax haven jurisdiction (*i.e.*, a country that does not impose any income tax or that imposes tax at a rate of less than 20%), the rate will be 25%.

No assurance can be given that our board of directors will not recommend that future distributions of profits will be made by means of interest on capital instead of by means of dividends.

Amounts paid as interest on capital (net of applicable withholding tax) may be treated as payments in respect of the dividends we are obligated to distribute to our shareholders in accordance with our by-laws (*estatutos*) and the Brazilian corporate law. Distributions of interest on capital in respect of the preferred shares, including distributions to the depositary in respect of preferred shares underlying ADSs, may be converted into U.S. dollars and remitted outside of Brazil, subject to applicable exchange controls.

Taxation of Gains

Gains realized outside Brazil by a U.S. holder or a non-Brazilian holder on the disposition of ADSs or preferred shares to another U.S. holder or non-Brazilian holder are not subject to Brazilian tax.

Gains realized by a U.S. holder or a non-Brazilian holder on dispositions of preferred shares in Brazil or in transactions with Brazilian residents may be free of Brazilian tax, taxed at a rate of 20% or taxed at a rate of 15%, depending on the circumstances.

Gains on the disposition of preferred shares obtained upon cancellation of ADSs are not taxed in Brazil if the disposition is made and the proceeds are remitted abroad within five business days after cancellation, unless the investor is a resident of a jurisdiction that, under Brazilian law, is deemed to be a tax haven.

Gains realized through transactions with Brazilian residents or through transactions in Brazil off of the Brazilian stock exchanges are generally subject to tax at a rate of 15%.

Gains realized through transactions on Brazilian stock exchanges are generally subject to tax at a rate of 20%, unless the investor is entitled to tax-free treatment for the transaction under Resolution 2,689 of the National Monetary Council Regulations, described immediately below.

Resolution 2,689, which as of March 31, 2000 superseded the Annex IV Regulations that previously provided tax benefits to foreign investors, extends favorable tax treatment to a U.S. holder or non-Brazilian holder of preferred shares who has (i) appointed a representative in Brazil with power to take action relating to the investment in preferred shares, (ii) registered as a foreign investor with the CVM and (iii) registered its investment in preferred shares with the Central Bank. Under Resolution 2,689 securities held by foreign investors must be maintained under the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the CVM. In addition, the trading of securities is restricted under Resolution 2,689 to transactions on Brazilian stock exchanges or qualified over-the-counter markets. Investors previously holding preferred shares under the Annex IV Regulations were required to bring their investments into conformity with Resolution 2,689 by June 30, 2000. The preferential treatment generally afforded under Resolution 2,689 and afforded to investors in ADSs

is not available to residents of tax havens.

There can be no assurance that the current preferential treatment for U.S. holders and non-Brazilian holders of ADSs and U.S. holders and non-Brazilian holders of preferred shares under Resolution 2,689 will be maintained.

Gain on the disposition of preferred shares is measured by the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost of the shares sold, measured in Brazilian currency, without any correction for inflation. The acquisition cost of shares registered as an investment with the Central Bank is calculated on the basis of the foreign currency amount registered with the Central Bank. See Registered Capital.

Under current law, the tax rate for transactions on a Brazilian stock exchange is 20% for transactions occurring on or after January 1, 2002. Brazil's tax treaties do not grant relief from taxes on gains realized on sales or exchanges of preferred shares.

Gains realized by a U.S. holder and non-Brazilian holder upon the redemption of preferred shares will be treated as gains from the disposition of such preferred shares to a Brazilian resident occurring off of a stock exchange and will accordingly be subject to tax at a rate of 15%.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to the preferred shares will be treated differently for Brazilian tax purposes depending on (i) whether the sale or assignment is made by the depositary or the investor and (ii) whether the transaction takes place on a Brazilian stock exchange. Gains on sales or assignments made by the depositary on a Brazilian stock exchange are not taxed in Brazil, but gains on other sales or assignments may be subject to tax at rates up to 15%.

The deposit of preferred shares in exchange for the ADSs is not subject to Brazilian income tax if the preferred shares were registered under Resolution 2,689 and the respective holder is not in a tax haven jurisdiction. If the preferred shares are not so registered or the holder is in a tax haven jurisdiction, the deposit of preferred shares in exchange for ADSs may be subject to Brazilian capital gains tax at a rate of 15%.

The withdrawal of preferred shares in exchange for ADSs is not subject to Brazilian tax. On receipt of the underlying preferred shares, a U.S. holder or non-Brazilian holder entitled to benefits under Resolution 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank as described above, under Registered Capital. If a U.S. holder or non-Brazilian holder does not qualify under Resolution 2,689, he will be subject to the less favorable tax treatment described above in respect of exchanges of preferred shares.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes levied by some states in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant state to individuals or entities that are resident or domiciled within this state in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares or ADSs.

A financial transaction tax, or the IOF tax, may be imposed on a variety of transactions, including the conversion of Brazilian currency into foreign currency (*e.g.*, for purposes of paying dividends and interest). The IOF tax rate on such conversions is currently 0%, but the minister of finance has the legal power to increase the rate to a maximum of 25%. Any increase will be applicable only prospectively.

The IOF may also be levied on transactions involving bonds or securities, or IOF/Títulos, even if the transactions are effected on Brazilian stock, futures or commodities exchanges. The rate of the IOF/Títulos with respect to preferred shares and ADSs is currently 0%. The minister of finance, however, has the legal power to increase the rate to a maximum of 1.5% of the amount of the taxed transaction per each day of the investor's holding period, but only to the extent of gain realized on the transaction and only on a prospective basis.

In addition to the IOF tax, a second, temporary tax that applies to the removal of funds from accounts at banks and other financial institutions, or the CPMF tax, will be imposed on distributions in respect of ADSs at the time these distributions are converted into U.S. dollars and remitted abroad by the Custodian. The CPMF tax was to expire in June 2002, but was extended until December 31, 2004. It is currently imposed at a rate of 0.38%. This rate will continue until December 31, 2003. After that date, the rate will be decreased to 0.08% beginning on January 1, 2004. From July 13, 2002, transactions conducted through the Brazilian stock exchanges in current accounts specified for stock exchange transactions are exempt from the CPMF tax.

U.S. Federal Income Tax Considerations

The following is a description of the material United States federal income tax consequences of the ownership and disposition of our preferred shares or our ADSs by U.S. Holders, as defined below. This summary is based on the Internal Revenue Code of 1986, as amended (referred to herein as the Code), final, temporary and proposed Treasury regulations, administrative pronouncements and judicial interpretations thereof, all of which are subject to change (possibly with retroactive effect), and to different interpretations. It is also based in part on representations by the depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. This discussion deals only with preferred shares and ADSs held as capital assets. It does not discuss all of the tax consequences that may be relevant to a holder in light of the holder's particular circumstances or to holders subject to special rules, such as certain financial institutions, insurance companies, tax-exempt entities, dealers in securities or foreign currencies, partnerships and other pass-through entities, investors liable for the alternative minimum tax, persons who hold preferred shares or ADSs as part of an integrated investment (including a straddle) comprised of a preferred share or ADS and one or more other positions for tax purposes, persons whose functional currency is not the U.S. dollar or persons who actually or constructively own (directly or indirectly) 10% or more of our voting stock. Holders of preferred shares or ADSs should consult their own tax advisors with regard to the application of the United States federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any states or local or foreign taxing jurisdiction.

As used herein, the term U.S. Holder means a beneficial owner of preferred shares or ADSs that is, for United States federal income tax purposes, (1) a citizen or resident of the United States, (2) a corporation (or other entity treated as a corporation for United States federal income tax purposes) organized under the laws of the United States or of any political subdivision thereof, (3) an estate the income of which is subject to United States federal income taxation regardless of its source, or (4) a trust (i) if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (ii) if the trust has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

In general, for United States federal income tax purposes, holders of American depositary receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs. Deposits and withdrawals of preferred shares in exchange for ADSs will not result in the realization of gain or loss for United States federal income tax purposes.

Taxation of Dividends

Subject to the discussion under Passive Foreign Investment Company Rules below, distributions (including the amount of any Brazilian taxes withheld therefrom) paid in respect of our preferred shares or our ADSs, including distributions paid in the form of payments of interest on capital for Brazilian tax purposes, will constitute foreign source dividends includible as ordinary income for U.S. federal income tax purposes to the extent such distributions are made from our current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. To the extent, if any, that the amount of any distribution exceeds our current and accumulated earnings and profits as so computed, it will first reduce the U.S. Holder's tax basis in its preferred shares or ADSs to the extent thereof and, to the extent in excess of the U.S. Holder's tax basis, will be treated as capital gain.

The amount of a distribution paid in *reais* will be measured by reference to the spot rate for converting *reais* into U.S. dollars in effect on the date the distribution is received by the depositary, or by a U.S. Holder, in the case of a holder of preferred shares. If the depositary (or U.S. Holder, in the case of a holder of preferred shares) does not convert such *reais* into U.S. dollars at the spot rate in effect on the date it receives them, it is possible that the U.S. Holder will recognize foreign currency loss or gain, which would be ordinary loss or gain, when the *reais* are converted into U.S. dollars. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to certain limitations and restrictions, U.S. Holders will be entitled to a credit against its United States federal income tax liability, or a deduction in computing its United States federal taxable income, for Brazilian income taxes withheld by us. The limitation on foreign taxes eligible for credit is determined separately with respect to specific classes of income. For this purpose, dividends paid by us with respect to our preferred shares or ADSs will generally constitute passive income or, in the case of certain U.S. Holders, financial services income. The U.S. Treasury Department has expressed concerns that parties to whom depositary shares such as the ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of such ADSs. Accordingly, the analysis of the creditability of Brazilian taxes described above could be affected by future actions that may be taken by the U.S. Treasury.

Taxation of Capital Gains

Subject to the discussion under Passive Foreign Investment Company Rules below, upon a sale or exchange of preferred shares or ADSs, a U.S. Holder will recognize capital gain or loss for United States federal income purposes equal to the difference, if any, between the amount realized on the sale or exchange and the U.S. Holder's adjusted tax basis in the preferred shares or ADSs. This gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the preferred shares or ADSs exceeds one year. The deductibility of capital losses is subject to limitations under the Code. The gain or loss generally will be treated as U.S. source income or loss. Consequently, if a Brazilian

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withholding tax is imposed on the sale or disposition of preferred shares or ADSs, and a U.S. Holder does not receive significant foreign source income from other sources, such U.S. Holder may not be able to derive effective United States foreign tax credit benefits in respect of such Brazilian withholding tax. If a Brazilian tax is withheld on the sale or disposition of preferred shares or ADSs, a U.S. Holder's amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. See *Brazilian Tax Considerations Taxation of Gains* for a description of when a disposition may be subject to taxation by Brazil.

Passive Foreign Investment Company Rules

We believe that we will not be considered a passive foreign investment company, or PFIC, for United States federal income tax purposes. However, because the determination of whether the preferred shares or ADSs constitute shares of a PFIC will be based upon the composition of our income and assets, and entities in which we hold at least a 25% interest, from time to time, there can be no assurance that our preferred shares or our ADSs will not be considered shares to be of a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a United States Holder held a preferred share or ADS, certain adverse consequences could apply to the U.S. Holder, including the imposition of higher amounts of tax than would otherwise apply to a U.S. Holder and additional tax form filing requirements. U.S. Holders are urged to consult their tax advisors regarding the consequences to them if we were considered to be of a PFIC as well as the availability and advisability of making an election to avoid the adverse United States federal income tax consequences of PFIC status should we be classified as a PFIC for any taxable year.

Information Reporting and Backup Withholding

Information returns may be filed with the Internal Revenue Service in connection with distributions on our preferred shares or our ADSs and the proceeds from their sale or other disposition. A U.S. Holder may be subject to United States backup withholding tax on these payments if such U.S. Holder fails to provide its taxpayer identification number or comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such U.S. Holder's United States federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statement of Experts

Not applicable.

H. Documents on Display

We are subject to the information requirements of the Exchange Act, except that, as a foreign issuer, we are not subject to the proxy rules or the short-swing profit disclosure rules of the Exchange Act. In accordance with these statutory requirements, we file or furnish reports and other information with the Commission. Reports and other information filed or furnished by us with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material may be obtained by mail from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may also inspect these reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which our ADSs are listed.

In addition, the Commission maintains a website that contains information filed electronically, which can be accessed over the Internet at <http://www.sec.gov>.

We also file financial statements and other periodic reports with the CVM. Copies of our annual report on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our offices at Rua Abílio Soares 409, 04005-001, São Paulo, SP, Brazil.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. We are exposed to foreign currency exchange rate risk because certain of our costs (mostly interest on debt, capital expenditures and the purchase of handsets) are denominated in currencies (primarily the U.S. dollar and the euro) other than those in which we earn revenues (primarily the *real*). Similarly, we are subject to market risk resulting from changes in interest rates that may affect the cost of our financing. We do not hold or issue derivative or other financial instruments for trading purposes. We have a long position in euros due to debt capitalization following a capital increase in September 2002.

Exchange Rate Risk

The principal foreign exchange rate risk faced by us arises from our U.S. dollar and euro-denominated indebtedness. At December 31, 2002, we had U.S.\$453.4 million of debt denominated in U.S. dollars and 463.8 million denominated in euros. Our revenues are earned almost entirely in *reais* and we have no material U.S. dollar-denominated assets. At December 31, 2002, all of our U.S. dollar-denominated indebtedness was covered by long positions of hedging agreements. Under such hedging agreements, our subsidiaries' U.S. dollar- and euro-denominated obligations are swapped for *real*-denominated obligations bearing interest at rates linked to the CDI. At December 31, 2002, our outstanding hedging positions covered approximately 127.5% of our payments of principal on our foreign currency-denominated indebtedness. This unbalanced position resulted from debt capitalization that occurred in 2002 by virtue of a capital increase. We are following up on market conditions and will eventually unwind the position and/or apply it to other foreign currency-denominated commitments. At December 31, 2002, we recorded financial income from foreign currency hedging transactions of R\$1,079.1 million against financial expenses from monetary and foreign exchange variations of R\$1,475.5 million. At December 31, 2002 we had not engaged in hedging transactions for the purchase of equipment, handsets and other U.S. dollar- or euro-denominated liabilities. We constantly monitor this exposure and will consider hedging against this risk if market conditions improve.

Taking into account the effects of the long-term hedges, and assuming that the short-term hedges are not renewed, a hypothetical, instantaneous and unfavorable 10% change continuing for more than one year in foreign currency exchange rates as of December 31, 2002 would represent a foreign exchange gain of approximately R\$89.6 million.

Exchange rate sensitivity was assessed by applying a 10% change to the Brazilian Central Bank exchange rate on December 31, 2002 of R\$3.5 to U.S.\$1.0, which would represent a devaluation of the *real* of R\$0.35. We then assumed that this unfavorable currency move would be sustained from December 31, 2002 through December 31, 2003. The foreign exchange loss that affects financial expenses was calculated by applying such devaluation to our indebtedness and foreign exchange purchase commitments (essentially handset purchases), net of derivative instruments.

Interest Rate Risk

At December 31, 2002, we had approximately R\$4.5 billion in loans and financing outstanding, of which approximately R\$1.2 billion bore interest at fixed rates and approximately R\$3.3 billion bore interest at floating rates of interest (primarily LIBOR, EURIBOR, CDI and TJLP-based). Loans and financing in foreign currency are denominated in U.S. dollars and euros, and bear interest at fixed rates ranging from 7.3% to 31.5% per annum, or are subject to variable interest of 7.0% per annum above EURIBOR. On a swapped basis the cost of funding in *reais* is in line with market conditions taking into account the country risk and is equivalent to approximately 118.0% of CDI (the interbank offer rate in Brazil). At December 31, 2002 the CDI rate was 25.0%. We have financing in local currency with Banco Nacional de Desenvolvimento Econômico e Social - BNDES subject to a variable interest rate of 3.6% and 4.0% above the TJLP. We invest cash and cash equivalents (R\$17.8 million at December 31, 2002) mainly in short-term *real*-denominated instruments.

The potential loss to us over one year that would have resulted from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates applicable to financial assets and liabilities on December 31, 2002 would be approximately R\$55.5 million. The above sensitivity analyses are based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial assets and liabilities and sustained over a period of one year. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated, and assumes the same interest rate movement within each homogeneous category, such as U.S. dollars. As a result, our interest rate risk sensitivity model may overstate the impact of interest rate fluctuations for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

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Interest rate sensitivity was calculated by applying a 1% increase to all floating-rate-denominated debt, assuming that the different indexes (CDI and TJLP, LIBOR and EURIBOR) would all rise by 1% instantaneously on December 31, 2002 and that this unfavorable move would continue for one year.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this annual report pursuant to Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion.

Changes in internal controls. No significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses, were made as a result of the evaluation.

ITEM 16. [Reserved]

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

See our consolidated financial statements beginning at page F-1.

ITEM 19. EXHIBITS

Documents filed as exhibits to this annual report:

- 1.1 By-laws (Estatuto Social) of Telesp Celular Participações S.A. (together with an English translation).
- 2.1 Deposit Agreement dated as of July 21, 1998, as amended and restated as of November 16, 1998, and as further amended and restated as of April 22, 1999 (incorporated by reference to our registration statement on Form F-6 filed on April 20, 1999 (File No. 333-9514)).
- 2.2

ITEM 19. EXHIBITS

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Note Purchase Agreement relating to the issuance by Global Telecom S.A. of 710,000,000 of floating rate notes due 2004, dated July 27, 2001, among Portugal Telecom International Finance B.V., Global Telecom S.A. and Citibank N.A. London (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).

- 2.3 Agency Agreement relating to the issuance by Global Telecom S.A. of 710,000,000 of floating rate notes due 2004, dated July 27, 2001, between Citibank N.A. London and Global Telecom S.A. (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 2.4 Note Purchase Agreement relating to the issuance by Telesp Celular Participações S.A. of 416,050,488.19 of floating rate notes due 2004, dated November 28, 2001, among Portugal Telecom International Finance B.V., Telesp Celular Participações S.A. and Citibank N.A. London (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 2.5 Agency Agreement relating to the issuance by Telesp Celular Participações S.A. of 416,050,488.19 of floating rate notes due 2004, dated November 28, 2001, among Citibank N.A. London and Telesp Celular Participações S.A. (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.1 Standard Authorization Agreement for Personal Cellular Service together with an English translation.
- 4.2 Consulting Agreement (Instrumento Particular de Prestação de Serviços de Consultoria) dated as of January 7, 1999, between Telesp Celular S.A. and Portugal Telecom S.A. (currently Portugal Telecom S.G.P.S. S.A.) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.3 Shareholders Agreement dated as of February 6, 2001, among DDI Corporation, Inepar Telecomunicações S.A., ITX Corporation and Telesp Celular Participações S.A. (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.4 First Amendment to the Shareholders Agreement of Global Telecom S.A. dated August 14, 2001, among Telesp Celular Participações S.A., KDDI Corporation (formerly known as DDI Corporation), Inepar Telecomunicações S.A. and ITX Corporation (together with an English translation) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.5 Share Sale and Purchase Agreement dated January 13, 2001, among DDI Corporation, Inepar Telecomunicações S.A. and ITX Corporation (the Sellers) and Telesp Celular Participações S.A. (the Purchaser) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.6 Irrevocable Promise of Purchase and Sale of Shares Agreement and Other Covenants dated January 13, 2001, among DDI Corporation, Inepar Telecomunicações S.A. and ITX Corporation (the Sellers) and Telesp Celular Participações S.A. (the Purchaser) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.7 Supply Agreement (Contrato de Fornecimento) dated as of August 27, 2001, between Global Telecom S.A. and Motorola do Brasil Ltda. (together with an English summary) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 4.8

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Financing Agreement (*Contrato de Financiamento*) dated July 19, 2001, among the Brazilian Social and Economic Development Bank (Lender), Global Telecom S.A. (Borrower) and Telesp Celular S.A. (Guarantor) (together with an English summary) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).

- 4.9 Financing Agreement (*Contrato de Financiamento*) dated July 19, 2001, among Banco Bradesco S.A. and Banco Alfa de Investimento S.A. (Lenders) and Global Telecom S.A. (Borrower) and Telesp Celular S.A. (Guarantor) (together with an English summary) (incorporated by reference to our annual report Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002).
- 8.1 Significant subsidiaries.
- 12.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

There are omitted from the exhibits filed with or incorporated by reference into this annual report, certain promissory notes and other instruments and agreements with respect to our long-term debt, none of which authorizes securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the Securities and Exchange Commission copies of any such omitted promissory notes or other instruments or agreements as the Commission requests.

GLOSSARY OF TELECOMMUNICATIONS TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this annual report.

1xRTT (Single Carrier Radio Transmission Technology): An advanced data transfer technology, which is the evolution of CDMA.

AMPS (Advanced Mobile Phone System): A form of analog technology.

Analog: A mode of transmission or switching that is not digital, e.g., the representation of voice, video or other modulated electrical audio signals that are not in digital form.

ARPU: Average revenue per user.

ATM (Asynchronous Transfer Mode): A broadband switching technology that permits the use of one network for different kinds of information (e.g., voice, data and video).

A Band Service Provider: A former Telebrás operating subsidiary that has been granted a concession to provide cellular telecommunications services in a particular area within a radio spectrum frequency range referred to by Anatel as A Band.

B Band Service Provider: A cellular service provider that has been granted a concession or an authorization to provide cellular telecommunications services in a particular area within a radio spectrum frequency range referred to by Anatel as B Band.

Base station: A radio transmitter/receiver that maintains communications with the cellular handsets within a given cell. Each base station in turn is interconnected with other base stations and with the public switched telecommunication network.

BTS: A digital base station.

Cellular service: A cellular telecommunications service provided by means of a network of interconnected low-powered base stations, each of which covers one small geographic cell within the total cellular telecommunications system service area.

CDI (Certificado de Depósito Interbancário, or Brazilian Interbank Offered Rate): A benchmark Brazilian interest rate that is disclosed daily. It is the rate used (a) when banks borrow money from other banks and (b) in financial transactions between companies and banks.

CDMA (Code Division Multiple Access): A digital technology that divides the frequency spectrum into multiple code ranges.

COFINS (Contribuição para Financiamento de Seguridade Social): A social contribution tax imposed on gross revenues.

CPMF (Contribuição Provisória sobre Movimentação Financeira): A contribution tax imposed on financial transfers and withdrawals.

CSLL (Contribuição Social sobre o Lucro Líquido): A social contribution tax imposed on income results.

Digital: A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

Exchange: See Switch.

FGV (Fundação Getulio Vargas): A private economic research organization.

Frame relay: A data transmission service using fast protocols based on direct use of transmission lines.

GPRS (General Packet Radio Service): An advanced data transfer technology that is a result of the evolution of GSM.

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GSM (Global System for Mobile Communications): A form of digital technology.

ICMS (Imposto sobre Circulação de Mercadorias e Serviços): The value-added tax that Brazilian states impose on certain revenues from the sale of goods and services, including telecommunication, intermunicipal and interstate commerce.

IDSN (Integrated Digital Services Network): A system in which several services (e.g., speech and data) may be simultaneously transmitted end-to-end in digital form.

IGP-DI (Índice Geral de Preços Disponibilidade Interna or General Price Index Internal Availability): An inflation index calculated by the FGV.

IGP-M (Índice Geral de Preços Mercado or General Price Index Market): An inflation index calculated by the FGV.

Internet: A collection of interconnected networks spanning the entire world, including university, corporate, government and research networks from around the globe. These networks all use the IP (Internet Protocol) communications protocol.

IOF (Imposto sobre Operações Financeiras): A tax that may be imposed on a variety of financial transactions.

IP (Internet Protocol): An interconnection protocol for sub-networks, in particular for those with different physical characteristics. It is used by the Internet.

ISS (Imposto sobre Serviços): The value-added tax that Brazilian municipalities impose on revenues from any services that are not subject to the ICMS.

MOU: Minutes of use per customer.

Network: An interconnected collection of elements. In a telecommunication network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fiber optic or metallic cable or point-to-point radio connections.

Network usage charge: Amount paid per minute charged by network operators for the use of their network by other network operators. Also known as an access charge or an interconnection charge.

Optical fiber: A transmission medium that permits extremely high capacities. It consists of a thin strand of glass that provides a pathway along which waves of light can travel for telecommunications purposes.

PBX (Private Branch Exchange): Telecommunication switchboard for private use, but linked to the national telecommunication network.

PIS (Programa de Integração Social): A social contribution tax imposed on gross revenues.

Private leased circuits: Voice, data or image transmission mediums leased to users for their exclusive use.

QoS: A quality of service indicator that considers such variables as quality of coverage, noise level and dropped calls, and which permits quality comparisons between networks.

SDH (Synchronous Digital Hierarchy): A hierarchical set of digital transport structures, standardized for the transport of suitably adapted payloads over physical transmission networks.

SMC (Serviço Móvel Celular or Mobile Cellular Service): A system under which Anatel granted concessions to provide mobile service in a specific frequency range.

SMP (Serviço Móvel Pessoal or Personal Mobile Service): A service rendered pursuant to a new legislation for wireless companies by which Anatel has authorized wireless companies to provide mobile communication services.

SMS: A short message service provided by wireless telecommunications.

Switch: These are used to set up and route calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.

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TDMA (Time Division Multiple Access): A digital technology that divides the frequency spectrum into multiple time ranges.

Universal service: The obligation to supply basic service to all users throughout the national territory at reasonable prices.

WAP: Wireless Applications Protocol.

TELESP CELULAR PARTICIPAÇÕES S.A.
CNPJ/MF (Tax ID) nº 02.558.074/0001-73 - NIRE (State ID) 35.3.001.587
Publicly-Held Corporation

COMPANY BY-LAWS

CHAPTER I - CHARACTERISTICS OF THE COMPANY

CHARTER

Article 1 Telesp Celular Participações S.A., is an authorized capital corporation governed by the Corporation Law (Law No. 6,404/76), as amended, by these By-laws, and by other applicable legal provisions, with indefinite duration.

CORPORATE PURPOSES

Article 2 The purposes of the Company are:

I - to exercise of its operating companies, which provide mobile telephone services, personal mobile services and other kinds of telecommunications services in general, pursuant to concessions, authorizations and permissions they may be granted;

II - to promote, through subsidiaries or affiliates, the expansion and establishment of telecommunications services, in the respective concessions, authorizations and permissions areas where they have been authorized;

III - to promote, carry out or direct the financing of capital from domestic or international sources to be used by the Company or by its subsidiaries;

IV - to promote carry ou encouraged study and research activities aimed at the development of the telecommunications sector;

V - to provide, through subsidiaries or affiliates, specialized technical services in the telecommunications sector;

VI - to promote, encourage, carry out, provide and coordinate, through its subsidiaries or affiliates, the development and training of personnel necessary to perform activities in the telecommunications sector;

VII - to carry out or promote the importation of goods and services for its subsidiaries and affiliates;

VIII- to carry out other activities connected or related to its corporate purposes;

IX - participate in the equity capital of other companies; and

X - to sell equipment and materials necessary or useful for providing mobile telecommunications services.

HEADQUARTERS

Article 3 The Company is headquartered in the State of São Paulo, and may, by decision of the Executive Committee, incorporate or extinguish subsidiaries, agencies, branches, offices, departments and representative offices anywhere in Brazil or abroad.

CHAPTER II - CAPITAL

AUTHORIZED CAPITAL

Article 4 The Company may increase its capital stock up 1,800,000,000,000 (one trillion and eight hundred billion) shares, common or preferred, regardless of any change in the By-Laws, and the Board of shall authorize the increase and the consequent issuance of new shares up to the limit above.

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Paragraph 1 - There is no requirement maintain a proportion between the number of common and preferred shares, however the maximum proportion of 2/3 (two thirds, between the number of preferred non-voting shares, or shares with restricted voting rights, in relation to shares issued may be maintained.

Paragraph 2 - The shareholders have preemptive right in case of a capital increase, proportional to the number of shares they hold.

Paragraph 3 - By decision of the Board of Directors, (i) preemptive right may be excluded in the issuing of shares, debentures convertible into shares and subscription warrants, whose sale on a Stock Exchange or by public subscription, exchange for shares in a public offering for acquisition of control, in the terms of articles 257 and 263 of the Corporation Law, as well as, due to tax incentives, in the terms of special laws, as provided for in article 172 of Law 6.404/76; and, (ii) in the issuing of common shares used in accordance to the provision in Article 15, Section 2 of Law No. 6,404/76, the preemptive right provided for in article 171, Section 1 may not be extended to holders of preferred shares, (b) of the Corporation Law, may not be extended to the holders of preferred shares, concerning the subscription of shares of kinds and classes that are different from the ones belonging to same shareholders, as provided for in article 8, Section 2 of Law No. 10,330/01.

SUBSCRIBED CAPITAL

Art. 5 The Company's Subscribed and fully paid-in capital is R\$ 4,373,661,469.73 (four billion, three hundred and seventy-three million, six hundred and sixty-one thousand, four hundred and sixty-nine Reais and seventy-three cents), represented by 1,171,784,352,509 (one trillion, one hundred and seventy-one billion, seven hundred and eighty-four million, three hundred and fifty-two thousand, five hundred and nine) shares, of which 409,383,864,536 (four hundred and nine billion, three hundred and eighty-three million, eight hundred and sixty-four thousand, five hundred and thirty-six) are common shares and 762,400,487,973 (seven hundred and sixty-two billion, four hundred million, four hundred and eighty-seven thousand, nine hundred and seventy-three) preferred shares, all of which are book-entry, no-par value shares.

Sole Paragraph - The shares shall be kept in a deposit account at a financial institution under the name of their holders, without the issuing of certificates, and said institution may charge from the holders of shares the cost of transfer of their respective shares.

CHAPTER III - THE SHARES

COMMON SHARES

Article 7 Each common share is entitled to one vote at the Shareholders' Meeting.

PREFERRED SHARES

Article 20 Preferred shares have no voting rights, except for the cases provided for in articles 9 and 10 herein, and they have priority in any capital reimbursement, without premium, and the right to participate in the dividend distribution corresponding to at least 25% of net profit for the fiscal year, to be calculated pursuant to Article 202 of the Corporation Law, with priority in any distribution of minimum, non-cumulative dividends, equivalent to the highest of (a) 6% (six percent) a year, of the amount resulting from the division of the subscribed capital by the Company's total number of shares, or (b) 3% (three percent) a year, of the amount resulting from the division of shareholders' equity by the Company's total number of shares, as well as the right to any distribution of profits, on equal terms with common shares, after dividend, equal to the minimum established for preferred shares, is secured for the common shares. Sole Paragraph Preferred shares will become entitled to full vote if the Company fails to pay the minimum dividends they are entitled to of a minimum dividends, for a period of 3 (three) consecutive years, which voting right will be retained until the payment.

CHAPTER - THE SHAREHOLDERS' MEETING

Article 8 - The General Shareholders' Meetings shall be held: (i) ordinarily, once a year, in the four (4) first months following the closing of each fiscal year, for decisions on the issues referred to in Article 132 of Law 6404/76 and, (ii) extraordinarily, whenever necessary, whether by reason of the Company's interests, or as provided for herein, or when applicable legislation so requires.

Sole Paragraph - The General Shareholders' Meetings shall be called by the Board of Directors, and the Chairman of the Board will ratify such act.

Article 9 - The execution of any long-term contracts between the Company or its subsidiaries, on the one side, and the controlling shareholder or subsidiaries, affiliates, companies subject to common control or controllers of the latter, or that otherwise constitute related parties to the Company, on the other side, must be submitted to the prior approval of the General Shareholders' Meeting, except in the case of standard contract.

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Article 10 - Without prejudice to the provision in Section 1 of Article 115 of Law No. 6404/76, the holders of preferred shares shall have the right to vote in the decision of the Meeting referred to in Article 9, as well as in those relating to the change or revoking of the following statutory provisions:

I - Article 9;

II - sole paragraph or Article 11; and

III - Article 30.

Article 11 - The General Shareholders' Meetings shall be presided by the Chairman of the Board of Directors, who must appoint, among the attendees, the Secretary. In the case of absence of the Chairman of the Board of Directors, the shareholders shall elect the chairman of the meeting and the secretary.

Sole Paragraph - In the cases provided for in Article 136 of Law No. 6,404/76, the first notice of the Shareholders' Meeting shall be given at least thirty (30) days in advance and the second notice shall be given at least ten (10) days in advance.

Article 12 - Only the shareholders whose shares are registered under their name, no later than seventy-two (72) hours prior to the date scheduled for the relevant Meeting, may take part and vote in the General Meeting.

Paragraph 1 - The meeting call notice can require the submission, at the Company headquarters, of a proof of their status as shareholders, whether issued by the Company itself or by the depository institution of the Company's shares, no later than seventy-two (72) hours prior to the date scheduled for the General Shareholders' Meeting, for the shareholder to be able to attend the meeting.

Paragraph 2 - The meeting call notice can also require that the shareholder's representation by proxy at the Meeting be subject to the submission of the respective powers of attorney at the Company headquarters, no later than seventy-two (72) hours prior to the date scheduled for the General Shareholders' Meeting.

CHAPTER V - MANAGEMENT OF THE COMPANY

Article 13 - The Company shall be managed by the Board of Directors and by the Executive Committee, with the prerogatives conferred by law and these By-laws. Their members shall be elected for a three-year term, and may be reelected. They are not required to offer a guarantee to perform their duties.

Paragraph 1 - All members of the Board of Directors and the Executive Committee shall take office after signing their corresponding agreements, and shall remain in their respective offices until their successors take office.

Paragraph 2 - The General Shareholders' Meeting shall determine the aggregate remuneration of the Company's management, including benefits of any kind and the representation funds, and the Board of Directors responsible for distributing such remuneration among its members and the members of the Executive Committee.

Paragraph 3 - The General Shareholders' Meeting may provide profit sharing to the Company management, provided that it complies with the requirements of Article 152, Sections 1 and 2 of Law 6,404/76, according to the proposal submitted by the management.

THE BOARD OF DIRECTORS

COMPOSITION

Article 14 - The Board of Directors shall be composed of a minimum of three (3) and a maximum of twelve (12) members, including any member of the Board elected by the minority shareholders, if any, observing, in relation to the number of members set forth in this article, the provision in Section 7 of Article 141 of the Corporation Law. The members of the Board of Directors shall be shareholders of the Company and shall be elected and removed at the Shareholders' Meeting.

Sole Paragraph - The Board of Directors shall appoint, among its members, the Chairman and Vice-chairman of the Board.

SUBSTITUTION

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Paragraph 3 - Any member of the Board is entitled to be represented by another Member at meetings, provided the former grants the latter a power of attorney in writing.

THE EXECUTIVE COMMITTEE

COMPOSITION

Article 20 - The Executive Committee shall consist of eight (8) members, whether shareholders or not, and who are residents in Brazil, elected by the Board of Directors, to fill the following positions.

- a) Chief Executive Officer;
- b) Operations Executive VP;
- c) Finance, Planning and Control Executive VP;
- d) Marketing and Innovation Executive VP;
- e) Technology and Networks VP;
- f) Regulations and Institutional Relations VP;
- g) IT and Products and Services Engineering VP;
- h) Customers VP.

Sole Paragraph - The same Executive Officer may be elected to perform more than one duty and the members of the Executive Committee cannot serve as members of the Board of Directors.

Article 21 - In his temporary absences and impediments, the CEO shall be replaced by the Executive Finance, Planning and Control VP. If there's a vacancy in a position as Executive Officer, the respective substitution shall be decided by the Board of Directors; when there is an impediment, the CEO shall appoint the substitute for the impeded Executive Officer, among the remaining Executive Officers.

EXECUTIVE COMMITTEE'S COLLEGIATE AUTHORITY AND COMPANY REPRESENTATION

Article 22 - The Executive Committee is the Company's representative and it is responsible, along with its members, for the execution of all and any action necessary or timely for the management of corporate affairs. The Executive Committee is collectively responsible, without limitation, for the following actions:

- I. to submit to the Board of Directors general Company plans and programs, especially plant expansion and modernization investment plans;
- II. to authorize, within the limits determined herein, the disposal or encumbrance of assets, the establishment of encumbrances and the rendering of guarantees and obligations to third parties;
- III. to prepare the financial statements and results for the fiscal year and the proposal of distribution of dividends, including interim dividends, and the use of surplus resources to be submitted to the consideration of the Audit Committee, the External Auditors and the Board of Directors;
- IV. when appropriate, to perform the following acts, within the limits set forth herein: a) to ratify the purchase of material, equipment and goods and the hiring of works and services; b) to ratify the sale of current assets; and c) to authorize the acquisition of loans and financing by the Company;
- V. to approve the execution of other contracts, not mentioned above, within the limits of their capacities.

Sole Paragraph - The decisions by the Board of Directors shall be made by the majority, when the majority of its members is present.

Paragraph 2 - Pursuant to the provisions herein contained, in order to bind the Company, it's necessary to have, (i) the joint signature of two (2) Executive Officers, except in case of urgency, the separate signature of the CEO or, in case of his absence or temporary impediment, the signature of the Finance, Planning and Control VP, in any case "ad referendum" of the Executive Committee, (ii) the joint signature of one (1) Executive Officer with one (1) Attorney-in-fact, or (iii) the joint signature of two (2) Attorneys-in-fact, provided they are vested with specific powers.

Paragraph 3 - The proxies granted on behalf of the Company will always be made by two (2) Executive Officers, and they must specify the powers granted and, except for those for legal purposes, shall expire within one (1) year.

EXECUTIVE OFFICERS' AUTHORITY

Article 23 - The following are the specific authorities of each member of the Executive Committee:

- I - Chief Executive Officer:

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- a) to follow-up and make sure the decisions made at the General Shareholders' Meeting and by the Board of Directors are implemented;
- b) to follow and make sure the Company's strategy is implemented;
- c) to coordinate and supervise the activities of the other Statutory Executive Officers, representing the Executive Committee before the Shareholders' General Meeting and the Board of Directors;
- d) to coordinate the legal issues and day-to-day matters with State authorities, through the General Secretary and the Legal Department;
- e) to coordinate and follow-up on human resources issues, through the Human Resources Department; f) to coordinate and follow-up on institutional communication issues, through the Institutional Communications Department;
- g) to coordinate and follow-up on internal auditing issues, through the Auditing Department;
- h) to coordinate and follow-up on resources issues, through the General Resources Department.

II - Operations Executive VP:

- a) To determine the needs of different customer segments;
- b) To carry out the sale of products and services;
- c) To manage and develop sales channels (e.g.: own stores, resellers, reload and retail networks);
- d) To develop and implement cooperated merchandising and marketing actions;
- e) To manage the relationship with the customer portfolio;
- f) To determine the needs of different customer segments;
- g) To negotiate specific proposals and solutions for Companies;
- h) To determine opportunities and create solutions to be developed jointly with Products and Services Engineering to corporate customers;
- i) To coordinate interfaces in the development and implementation of proposed solutions for Corporations.
- j) To define sales targets by segment, product, channel, region, and salesperson;
- k) To monitor the performance of sales by segment, product, channel, region, and salesperson;
- l) To support marketing in the definition of the appliances portfolio;
- m) To design and manage commercial contracts; and
- n) To train and provide support to the sales team.

III - Finance, Planning and Control Executive VP:

- a) To map political, economic, social and technological scenarios and to monitor the stock market;
- b) To determine macro-directives in the strategic plan and indicators to be monitored;
- c) To support all departments in designing the strategic plan, to consolidate it and submit it to the Executive Committee;
- d) To carry out market surveys and/or economic feasibility studies requested by other areas;

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- e) To determine and evaluate business opportunities, as well as to evaluate acquisition and partnership opportunities;
- f) To make sure approved projects can be implemented (project management);
- g) To develop a relationship strategy and interact with market players and shareholders through an Investor Relations policy, to supply information to investors, the CVM, and entities before which the Company has its securities registered and to keep the Company's records up-to-date;
- h) To define and manage the Company's financial structure;
- i) To structure investments, make applications and attract financial resources;
- j) To manage financial and credit risk (hedging);
- k) To coordinate daily cash management (accounts payable and receivable);
- l) To establish policies and accounting criteria and to disclose fair reports to the management and to the market in general;
- m) To design, manage and maintain the books and records and respective database;
- n) To review, reconcile and close accounts;
- o) To define and follow financial and economic indicators;
- p) To prepare financial reviews for decision support;
- q) To monitor collections (revenue assurance);
- r) To prepare, reconcile and follow the budget.

IV - Marketing and Innovation Executive VP:

- a) To design a marketing strategy and plan for all market segments;
- b) To help the Company collect information on customers, the competition, products, and offerings;
- c) To match offerings among operations;
- d) To manage product and services life cycles;
- e) To determine opportunities/needs for innovation and to direct the development of new products and services;
- f) To determine new sales channels (in association with Sales);
- g) To manage different segments, develop and implement the acquisition, loyalty and retention strategy;
- h) To develop and implement offerings, products and services based on the needs of each segment so as to fulfill the demands of its internal clients;
- i) To harmonize local Marketing actions; j) To plan terminals and accessories needs, types and models (in association with Sales);
- k) To develop and implement nationwide and local sales actions;
- l) To develop and implement a publicity and brand management strategy;
- m) To develop and implement nationwide and local publicity campaigns;

n) To coordinate the participation and organization in the Company's marketing events;

V - Technology and Networks VP:

a) To coordinate the network's technological, development and expansion strategies;

b) To design, dimension and develop the cell radio, switched, interconnection and service platform networks;

c) To program and coordinate the projects;

d) To implement projects related with service platforms; e) To assure the implementation according to project specifications;

f) To monitor network management hubs, platforms and information systems;

g) To monitor the overall network performance;

h) Management of CGRs and services platforms;

i) Traffic management;

j) Signaling and roaming systems monitoring;

k) Physical and logic network security;

l) To implement network projects;

m) To manage networks and service platforms performance;

n) To provide network and platform elements preventive and corrective maintenance;

o) To manage the quality of service of vendors, and

p) To carry out network optimization projects.

VI - Regulations and Institutional Relations VP:

a) To monitor the regulations environment;

b) To maintain a working relationship and negotiations with regulatory agencies;

c) To prepare documents relating to regulatory issues; d) To publish indicators and make them official before the Anatel;

e) To internally disseminate important regulatory issues;

f) To maintain a working relationship with external entities;

g) To help with public consultations;

h) To review publicity materials;

i) To negotiate interconnection and interlink fees and agreements;

j) To manage interconnection agreements;

k) To design the network planning, analysis and cost optimization proposals;

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- l) To serve as an interface with the Network to make its optimization feasible and carry out improvements; and
- m) To determine the guidelines for Billing interconnection traffic control.

VII - TI and Products and Services Engineering VP:

- a) To develop/advance the data business;
- b) To develop and test voice products, services and/or data technical design to be launched on the market; c) To coordinate the implementation of voice products, services and/or data with the technical and commercial areas;
- d) To specify and provide an interface with SI platforms and services;
- e) To determine and control technically available options and suppliers for terminals and accessories;
- f) To coordinate new terminal and accessories implementation and test activities;
- g) To establish the information systems strategy and the respective systems plan;
- h) To support the respective damages in business and corporate systems design, development and implementation project processes;
- i) To manage the operationalization of systems and infrastructure, and coordinate the integration of systems and platforms;
- j) To manage production environments;
- k) To provide corrective and preventive maintenance of the systems, applications, platforms and equipment;
- l) To coordinate the supervision of the service providers;
- m) To provide a help desk service;
- n) To guarantee the implementation, maintenance and improvement of processes, and
- o) To manage the total quality programs.

VIII - Customers VP:

- a) To carry out customer knowledge management;
- b) To determine pricing and customer profitability analyses and directives;
- c) To determine criteria and tools for the development of CRM and billing systems;
- d) To take on and develop the functional ownership of the database and data care;
- e) To provide services to individuals, legal entities, data and wireless services;
- f) To carry out service operations aiming at customer retention, loyalty, acquisition and recovery;
- g) To perform back-office and resellers services;
- h) To control the traffic service and collect information to the database;
- i) To carry out the planning of alternative channels (Hotline, URA, Fax, SMS Self-service, Internet);
- j) To manage billing and fraud control;

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Article 29 - The Company shall be terminated in the cases provided for by law, and the Shareholders' Meeting shall determine the form of termination and appoint the liquidator.

Article 30 - The approval, by the Company, through its representatives, of merger, spin-off, incorporation or dissolution of its subsidiaries shall be preceded by the economic and financial analysis by a worldwide known independent company, confirming that there is an equitable treatment to all interested companies, whose shareholders will have full access to the report of said analysis.

Article 31 If not otherwise regulated by these By-laws, the Company shall be governed by the applicable legal provisions.

SECTION 3.2 THE AUTHORIZED shall exploit the service, subject-matter hereof at its own risks, within the regime of broad and fair competition set forth in LGT, being compensated by the prices charged, as per provisions herein.

§1º THE AUTHORIZED shall not be entitled to any type of exclusivity, any possibility of financial economical balance guarantee, and may not claim rights as to the admission of new providers of the same service.

§2º THE AUTHORIZED will not have acquired rights to the permanence of the conditions in force with the issuance hereof, or of the star of the activities, and shall observe the new conditions imposed by the law and by regulation.

§3º The norms shall grant enough time for the adjustment to the new conditions.

SECTION 3.3 THE AUTHORIZED shall keep free access to emergency public services according to what was set forth in the regulation.

SECTION 3.4 THE AUTHORIZED shall ensure to its user the free exercise of choice of STFC provider for long distance calls, as per the regulation of SMP, especially in the ADJUSTMENT RULE.

SECTION 3.5 Changes in the shareholder control of the Authorized are subject to control on the part of Anatel for purposes of verification of the conditions that are essential for the forwarding and maintenance of the Authorization, as per the regulation.

Single Paragraph. These are essential for the forwarding and maintenance of the Authorization, among others, those foreseen in the SMP General Authorization Plan, section 10, § 2º of the PGO and in article 133 of the LGT.

SECTION 3.6 The conveyance of the Authorization Plan is subject to the approval on the part of Anatel, once observed the requirements of the §2o of section 136 of the LGT.

Single Paragraph For the purposes of the paragraph I of section 98 of LGT, shall be considered the operation time of the Cellular Mobile Service during the enforcement of the SUBSTITUTED INSTRUMENT.

SECTION 3.7 The AUTHORIZED shall freely determine the prices to be charged for the rendering of the SMP, defining the Services Plan with structures, forms, criteria and values that shall be reasonable and non discriminatory, and that may vary due to technical characteristics, of specific costs and use offered to the users, as per definition of the SMP regulation, specially in the ADJUSTMENT RULE.

Chapter IV

Coverage Commitments

SECTION 4.1 Coverage commitments foreseen in the SUBSTITUTED INSTRUMENT shall be maintained, including the coverage and service obligations.

SECTION 4.2 The non-compliance of the commitments causes the Authorized to be subject to sanctions foreseen herein, and in the regulation, and as a result, the termination of the Authorization may occur.

Chapter V

Quality of Service

SECTION 5.1 It is an assumption hereof the adequate quality of the services rendered by the AUTHORIZED , being as such considered, the service that satisfies the conditions of regularity, efficiency, safety, updating, generality and courtesy.

§1º Regularity will be characterized by the continuous exploitation of the service with strict compliance with what is set forth in the Anatel rules.

§2º Efficiency will be characterized by the attainment and maintenance of the parameters contained herein and by the service to the user , rendered within the term foreseen herein.

§3º Safety in the exploitation of the service shall be characterized by the confidentiality of the data related to the use of the service by the users, as well as by the full maintenance of the confidentiality regarding the conveyed information in the scope of its exploitation.

§4º Update will be characterized by the modernity of the equipment, of the premises and techniques of exploitation of the service, with the use of technological advances that definitely will benefit the users, once respected the provisions hereof.

§5º Generality will be characterized by the non discriminatory rendering of services to any and all users, with the commitment on the part of the Authorized to render the service to whoever requests it as per the regulation.

§6º Courtesy will be characterized by the respectful and immediate service rendered to all users of the authorized service, as well as by the compliance with the obligations to inform and provide immediate and polite services to all, users or non users that may request from the AUTHORIZED, information, provisions or any kind of request as per the determinations hereof.

SECTION 5.2 THE AUTHORIZED shall meet the quality targets determined in the Plano Geral de Metas de Qualidade PGNQ (General Target Plan of Quality- PGMQ) for the SMP.

Single Paragraph. For the purposes of the provisions in the §5º of section 1st of the PGMQ SMP, it shall be considered as the starting point of the commercial operation of the SMP in a place where there already exists SMC services rendering, the publishing date of the extract hereof.

SECTION 5.3 The exploitation of the authorized service may only be interrupted according to the Regulation of the SMP, published by Anatel.

Chapter VI

Numbering Plan

SECTION 6.1 THE AUTHORIZED compromises to obey the Numbering Regulations published by Anatel, and shall ensure to the user of the service, the portability of the access codes as per regulation.

Chapter VII

Users Charges

SECTION 7.1 The amount, measuring form and the criteria for charging for the services rendered, shall be set forth by the Authorized, based on the determinations of the SMP Regulation, once observed the content of section 3.7 hereof.

Chapter VIII

Users Rights and Duties

SECTION 8.1 Users Rights and Duties are those set forth in the LGT and in the regulation, at no loss of the rights foreseen in Law no 8.078, of the 11th of November of 1990 in the cases regulated by it, nor of those included in the SMP rendering agreement.

Chapter IX

Authorized Rights and Duties

SECTION 9.1 The rights and duties of the Authorized are those set forth in the LGT and in the regulation.

SECTION 9.2 In services hiring and equipment and material acquisition in relation herewith, the Authorized obliges to consider offers from independent suppliers, including the national ones, and to base its decisions, in respect to the several offers presented, in the compliance of the objective price criteria, delivery conditions and technical specifications in the appropriate regulation.

Single Paragraph. Regarding the mentioned hiring process, the procedures of the Regulation on the Services Hiring Procedures and Material and Equipment Acquisition by the Telecommunication Services Providers, approved by the Resolution n.º 155 of Anatel, of the 5th of August of 1999.

LUIZ GUILHERME SCHYMURA DE OLIVEIRA
President of the Board

LUIZ TITO CERASOLI
Counselor
On behalf of the AUTHORIZED :

GILSON RONDINELLI FILHO
President

MARIA PAULA DE ALMEIDA MARTINS CANAIS
Executive Vice-President
Witnesses:

JARBAS JOSÉ VALENTE
4.346/D CREA-DF

BRUNO DE CARVALHO RAMOS
5.060.107.391/D CREA-SP

ATTACHMENT I
STATEMENT OF OPTION

According to what is provided in item 7 of the ADJUSTMENT RULE, **TELESP Celular S.A.**, General Taxpayer's register - CNPJ N.º **02.319.126/0001-59**, herein represented by its **President, GILSON RONDINELLI FILHO, Brazilian, married, engineer, ID Card RG n.º 4.347.710 - SSP/SP**, opts for the submission to item 5 and its sub-items of the Norms of Compensation Criteria by the Use of the Nets of the Providers of Personal Mobile Service - SMP, approved by the Resolution n.º 319, of the 27th of September of 2002, requesting the approval of the TU-M whose maximum value shall be the maximum value of the initial VU-M of its Service Area.

Brasília, the 10th of December of 2002.

GILSON RONDINELLI FILHO
President

LIST OF SUBSIDIARIES AS OF DECEMBER 31, 2002

1) Direct interest

- a. Telesp Celular S.A. - São Paulo - SP, Brazil
- b. Daini do Brasil S.A. - São Paulo - SP, Brazil
- c. Globaltelcom Telecomunicações S.A. - São Paulo - SP, Brazil
- d. GTPS S.A. Participações em Investimentos de Telecomunicações - Curitiba - PR, Brazil
- e. Global Telecom S.A. - Curitiba - PR, Brazil

2) Indirect interest

- a. Telesp Celular International Ltd - Cayman Islands - USA
- b. Telesp Celular Overseas - Cayman Islands - USA

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TELESP CELULAR PARTICIPAÇÕES S.A.

By: /s/ Francisco José Azevedo Padinha

Name: Francisco José Azevedo Padinha

Title: Chief Executive Officer

By: /s/ Fernando Abella Garcia

Name: Fernando Abella Garcia

Title: Chief Financial Officer

Date: June 24, 2003

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of TELESP CELULAR PARTICIPAÇÕES S.A. (the Company) on Form 20-F for the fiscal year ended December 31, 2002, as filed with the U.S. Securities and Exchange Commission on the date hereof (the Report), I, Francisco José Azevedo Padinha, Chief Executive Officer, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 24, 2003

By: /s/ Francisco José Azevedo Padinha
Name: Francisco José Azevedo Padinha
Title: Chief Executive Officer

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The accumulated tax loss carryforwards do not expire and can be offset against taxable income. The tax legislation also define that tax loss carryforwards can be used, in any year, up to the limit of 30% of income before taxes, determined in accordance with Brazilian accounting practices and considering adjustments defined by tax legislation.

Deferred income tax assets and recoverable taxes are comprised of the following:

	2001
Deferred taxes from corporate restructuring (Note 1)	193,231
Value Added Tax (ICMS)	25,537
Other	509
Total	219,277
Current	7,928
Non current	211,349

Value added tax (ICMS) represent the amount paid on the acquisition of equipment and inventories and can be offset against future ICMS payable generated from telecommunications services revenues. Recovery of ICMS taxes associated with equipment purchase is generally limited to 1/48th of the credit amount. The long-term portion of recoverable ICMS was R\$18,103 at December 31, 2001.

12. CASH AND CASH EQUIVALENTS

	2001
Cash and banks.	2,557
Temporary cash investments -CDB's	50,606
Total	53,163

Temporary cash investments refer principally to fixed income deposit certificates (CDBs) which are indexed to interbank deposit (CDI) rates.

13. TRADE ACCOUNTS RECEIVABLE, NET

2001

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Billed amounts to customers	25,044
Billed amounts to sales of handsets and accessories	23,683
Unbilled services to customers	12,542
Interconnection charges and other	10,674
Allowance for doubtful accounts	(9,637)

Total	62,306
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The changes in the allowance for doubtful accounts were as follows:

	2001	2002
Beginning balance	(6,968)	(9,637)
Provision charged to selling expense	(14,535)	(8,832)
Write-offs	11,866	8,167
Ending balance	(9,637)	(10,302)

14. INVENTORIES

	2001
Handsets and accessories	65,008
Other	493
Provision for excess and obsolete inventories	(8,624)
Total	56,877

15. OTHER ASSETS

	2001
	<hr/>
Deferred Fistel taxes	6,490
Prepaid expenses	2,819
Advances to suppliers	950
Other	235
	<hr/>
Total	10,494
	<hr/>

Current	10,260
Noncurrent	234

Prepaid expenses consist primarily of contracted services, which are being charged to expense over the terms of the service contracts.

16. PROPERTY, PLANT AND EQUIPMENT, NET

a. Composition

	2001
	<hr/>
License acquisition costs	915,926
Transmission equipment	408,009
Computer hardware and software	152,210
Automatic switching equipment	62,795
Supports and protectors	79,690
Buildings	10,976
Handsets	9,149
Land	2,986
Other assets	20,081
Construction-in-progress	158,208
	<hr/>
Total cost	1,820,030
Accumulated amortization of license acquisition costs	(228,948)
Accumulated depreciation	(128,389)
	<hr/>
Property, plant and equipment, net	1,462,693
	<hr/>

During the periods from February 6, 2001 to December 31, 2001 and January 1, 2002 to December 27, 2002, interest capitalized by GT on loans and financing for construction-in-progress amounting to R\$15,205 and R\$10,331, respectively.

b. Depreciation Rates

The annual depreciation rates applied to property, plant and equipment are as follows:

	% (per year)	
	2001	2002
License Acquisition	6.70	6.79
Transmission equipment	10.00	10.00
Computer hardware and software	20.00	20.00
Supports and protectors	3.50	3.50
Automatic switching equipment	10.00	10.00
Buildings	2.80	2.80
Private Handsets	33.00	33.00
Other assets (excluding land)	4.00 to	4.00 to

c. Rentals

GT rents premises and cellular tower locations through a number of operating lease agreements that expire at different dates. Total annual rental expense under these agreements was R\$34,333 in 2002 (R\$32,072 2001).

Rental commitments of operating leases with noncancellable terms are:

Year ending December 31,	2001
2003	31,021
2004	30,289
2005	29,817
2006	28,552
2007 and after	43,610
Total minimum payments	163,289

17. DEFERRED ASSETS, NET

	2001
Pre-operational expenses:	
Amortization of license	80,496
Financial expenses	184,430
General and administrative expenses	43,633

Total	308,559
Accumulated amortization	(68,826)

Deferred assets, net	239,733
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18. PAYROLL AND RELATED ACCRUALS

2001

Wages, salaries and social security charges	1,232
Accrued vacation and social security charges	3,641
Accrued bonuses	4,400
Other	139

Total	9,412
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19. TRADE ACCOUNTS PAYABLE

2001

Materials and services - local currency	234,384
Services - foreign currency	10,931
Interconnection - telecommunication companies	1,866

Total	247,181
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20. TAXES PAYABLE

2001

Value-added taxes (ICMS)	40,786
Withholding income tax	7,826
Fistel taxes	2,577

Other taxes on revenues	2,971
<hr/>	
Total	54,160

Current	16,481
Noncurrent	37,679

Of the long-term portion, R\$37,679 refers to the ICMS Programa Paraná Mais Emprego, an agreement made with the Paraná State Government for deferral of ICMS payments, on July 21, 2000, to defer ICMS payments. Preliminary authorization in November 2000. Pursuant to this agreement, ICMS is payable on the 49th month after the amount determined. The balances are subject to monetary correction based on the FCA *Fator de Conversão e Atualização da Secretaria da Fazenda do Paraná*, a monetary correction rate established by State of Parana.

21. LOANS AND FINANCING

a) Composition of debt

Composition of debt of GT are as follows:

	Annual Interest rate	2001
<hr/>		
Working capital:		
J. P. Morgan (1)	32.17	35,386
Banco do Brasil (2)	0.8	65,372
Floating Rate Notes - (3)	EURIBOR + 2.75%	1,671,540
BNDES (4)	UMBNDDES and TJLP + 3.6%	311,444
Interest payable on the above loans and settlement value of swap contracts		223,486
<hr/>		
Total		2,307,228

Current	121,465
Non current	2,094,763

(1) JP Morgan This loan was contracted in November 29, 2001, and was due in a single installment in February 2002. This loan was paid in full on the due date.

(2) Banco do Brasil This loan was contracted on April 2001, equivalent to ¥3,707,351 thousands, with maturity in a single installment on March 2002. This loan was paid in full on due date.

(3) Floating Rate Notes These notes, issued by GT in July 2001, were acquired by Portugal Telecom International Finance B.V. (a related finance company of the parent company of TCP See Note 1), equivalent to EUR 810 million, and are due in a single installment in 2004. The interest was due annually. Proceeds from this loan were used for prepayment on July 2001 of the following loans:

Motorola

Working capital

This loan was contracted in December 1998, with a total credit line of US\$110 million.

Eximbank Working capital financing of operational activities. This loan was contracted in September 1999, in the amount of US\$220 million.

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Motorola Equipment This loan was contracted on December 1998, with a total credit line of US\$ 220 million.

These debts were repaid at their approximate carrying amount on each prepayment date. No significant gains or losses resulted from these early extinguishments of debt.

On a swapped basis the cost of debt is proportionate to the interbank offered rate in Brazil (CDI). At December 31, 2001 the CDI rate was 19% per annum.

On August 9, 2002 and September 16, 2002, TCP paid down the Floating Rate Notes at their approximate carrying value on behalf of GT. This amount was recorded as an advance for future capital increases made by TCP.

(4) Banco Nacional de Desenvolvimento Econômico e Social (BNDES) This loan was contracted with BNDES and the banks Bradesco S.A. and Alfa S.A. in July 2001. Principal of this loan will be paid in 60 monthly installments starting in November 2002. This loan is guaranteed by the pledge of the Company's revenues, which can be retained up to a limit of 140% of the highest monthly installment, and also co-signed by Telesp Celular S.A.

This loan agreement requires compliance with certain covenants such as the maintenance of minimum indexes of capitalization, the current ratio, financial results and debt service coverage, as well as places restrictions on the creation of new loans and financing. As of December 27, 2002, GT was not in compliance with the current ratio, financial result and debt service coverage covenants contained in its loan agreement. GT has obtained waivers relating to these covenants until December 31, 2003.

As December 27, 2002 the outstanding debt consisted of R\$336,447 related to the loan contracted with BNDES., maturing as follows:

	12/27/02
2003	72,506
2004	71,103
2005	71,103
2206	71,103
2007	50,632
Total	336,447

c) Swap Contracts

During 2001, GT entered into currency swap contracts to reduce the impact of the devaluation of the Brazilian real on its Euro and Yen denominated obligations. Under the terms of these swap arrangements, the Company is required to pay the counterparts the amounts, if any, that represents the excess of the variation of the CDI (interbank) rate or a fixed interest rate over the variations of the applicable foreign currency exchange rate, all computed on the notional amounts. If the inverse occurs, GT is entitled to receive the difference from the counterparts. At each balance sheet date the swap contracts are being carried at their estimated net settlement amount. The gains and losses attributable to these instruments are being recognized in income on a current basis.

At December 31, 2001 GT had currency swap contracts in the notional equivalent of R\$1,128,707 denominated in foreign currencies (equivalent to EUR 509,834 and ¥3,707,351 in 2001) with the purpose to reduce the effect of a potential devaluation of the Brazilian currency. The parameters for the currency swap contracts in Euro and Yens are subject to foreign currency variation plus fixed interest rates from 0.8% to 8.39%. During 2001 the result of these instruments was an unrealized loss of R\$194,403 recorded as loan and financing. At December 27, 2002, GT had currency swaps contracts denominated in Euros in the amount of EUR 299, 693, unrealized gains related to these swaps of R\$620,411 was recorded in the statements of income as net financial expenses during 2002.

Part of the currency swap contracts in Euros, in the amount of R\$ 96,443, was subrogated from a swap currency contract originally signed with a commercial bank by Telesp Celular Participações S.A.

22. RESERVE FOR CONTINGENCIES AND OTHER

GT is part to certain legal proceedings arising in the normal course of business, including civil, administrative, tax and labor proceedings. GT considers the risk of loss of each contingency, such risk being classified as probable, possible or remote, considering the analysis of their legal advisors. The contingencies where a loss is considered probable to occur are recorded in the financial statements.

The composition of the provisions recorded as liabilities, is as follows:

	2001
Labor	1,244
Tax	6,000
Civil and other	410
Total	7,654

The labor contingencies were computed based on an estimate made by management of GT, supported by its legal advisors, of the probable losses with judicial processes from former employees.

The tax contingencies primarily relate to matters linked to the taxation of the portable terminals of cellular mobile telephony, in the State of Paraná, during the period from December 14, 2000 to July 02, 2001. In this period, the tax rate was reduced for 7%, according to item 14-A of the Table I of the Attachment II of RICMS/PR (Value-added tax regulation in the state of Paraná), which was later revoked with retroactive effect.

In the State of Santa Catarina, GT had a reduction in the base computation of VAT on sales, for the period from August 1999 to December 2001. The tax rule prescribes that any amount of benefit resulting from VAT credit on purchases, should not be used to reduce future obligations. The Company is contesting such tax ruling.

The provisions for civil contingencies were computed based on an estimate of the causes filed against the GT.

GT are subject to potential contingencies, related to civil claims, classified as possible risk of loss by the legal advisors, which was not accrued by the Company, amount to R\$ 1,320.

23. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Estimated fair values of the Holdings' financial assets and liabilities have been determined using available market information and valuation methodologies identified to be appropriate by the management of the Holdings. However, considerable judgment was required in interpreting the market data to determine the estimated fair values. Accordingly, the estimates presented below are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair value information as of December 31, 2001 presented below is based on pertinent information available to management as of those dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts at December 31, 2001 current estimates of fair values may differ significantly from the amounts shown.

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	Book Value	Fair value	Unrealized gain (losses)
Loans and financing	2,067,697	1,987,094	80,603
Derivatives instruments	239,531	292,005	(52,474)
Total	2,307,228	2,279,099	28,129

Loans and financing

The fair values of loans and financing were determined based on current market interest rates of similar instruments, with similar maturities and credit risk.

Cash, Cash Equivalents, Accounts Receivable, Other Current Assets, Accounts Payable and Accrued Expenses

The carrying value of cash, cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximate of their fair value.

Currency Swap Contracts

The derivative financial instruments held by the Holdings consists of foreign currency swap contracts, which are described in note 21 (c). The Company engages in these currency swap contracts for hedging purposes.

Currency Swap contracts were entered into in order to reduce the currency exchange risk resulting from the Company's Euro and Yen denominated loans. Although the amounts and maturities related to the contracts are not fully matched to the Holdings' foreign currency denominated liabilities, the amounts hedged represent management's estimate of the Holdings' foreign currency liabilities expected to mature at or near the maturity dates of the derivative contracts. Foreign currency swap contracts are recorded at the settlement amount at the balance sheet date.

The fair market value of these instruments has been determined based on the discounted projected cash flow as of the balance sheet date. The projected cash flow considers estimated future exchange rates, future interest rates and other factors present at balance sheet date.

24. SHAREHOLDERS' DEFICIT

a) Capital

The combined capital stock of the Holdings is comprised of preferred shares and common shares, all without par value. Capital as of December 31, 2001 amounted to R\$570,520, as follows:

	Daini	Globaltelec	GTPS	Total
Common capital	149,144	27,321	13,710	190,175

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Preferred capital	298,286	54,644	27,415	380,345
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Total	447,430	81,965	41,125	570,520
<hr/>				

Paid-in and authorized capital is represented by shares without par value, distributed as follows:

	Shares in issued and outstanding as of December 31, 2001		
	Daini	Globaltelc	GTPS
Common capital	14,914,315	2,732,190	13,710
Preferred capital	29,828,631	5,464,381	27,415
<hr/>			
Total	44,742,946	8,196,571	41,125
<hr/>			

Each common share has one voting right in the general meetings. Also, preferred shares are nonvoting and have priority in the reimbursement of capital in case of dissolution of the holdings.

According to the new Brazilian corporate legislation, preferred shareholders, as there is no provision in the corporate by-laws to the contrary, will have the right to an additional 10% of dividends paid to the common shareholders, when profitability are in place.

The amount of R\$276,081 was received from TCP on February and July, 2001 as advances for future capital increase. A major part of the amount was used for the acquisition of Takotel and the remaining minority interest in GT. On September 18, 2002, TCP made an advance for future capital increase to GT amounting to R\$2,630,270.

b) Special Reserve of Goodwill

The goodwill special reserve on incorporation represents the balancing item of the tax credit registered at noncurrent asset. When the tax credit benefit related to the goodwill occurs, the special reserve will be transferred to capital in the name of the original shareholders.

25. TRANSACTIONS WITH RELATED PARTIES

The principal transactions with unconsolidated related parties are as follows:

a) Use of network, long-distance and roaming cellular communication These transactions involve companies owned by the same group: Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A. and Telesp Celular S.A.. This group became a related party on December 27, 2002 as a result of the joint venture described in Note 1. The table below includes balances and transactions with these companies for all periods presented. These transactions were established based on contracts between Telebrás and the operating concessionaires before privatization under the terms established by ANATEL.

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- b) Advances for capital increase represents advances made by TCP to the Holdings and GT for future capital increases.
- c) Intercompany payable in order to optimize the financial resources of the Group companies, TCP and TC made payments to suppliers of cellular handsets which were jointly negotiated and charged to GT, as intercompany loans subject to charges and restatement compatible with market conditions. The commercial conditions of these services are based on the usual market practices applied to the Companies other contracts.
- d) Loans and financing Represents intercompany loans with the Portugal Telecom Group.
- A summary of balances and transactions with unconsolidated related parties is as follows:

	2001	2002
Assets:		
Account receivable by services	1,374	-
Liabilities:		
Account payable	2,158	-
Intercompany payable	2,693	-
Income:		
Services revenues	5,511	5,497
Cost of services	(6,116)	(6,238)
Financial expenses, net	(5,640)	156,871

26. SUBSEQUENT EVENTS

- a) Capitalized of advances for future capital increase

On December 30, 2002, R\$2,310,878 of the advance for future capital increases made by TCP contributed as capital in exchange for 5,934,625 additional shares of GT stock. As of the date of the capital increase, the Holdings no longer had a shareholders' deficit.

As a result of the increase in capital, the ownership percentages of GT at December, 31 2002 were as follows:

Company	Participation in capital stock	Participation in voting capital
Daini	17.51%	15.51%
Globaltelcom	3.64%	3.20%
GTPS	2.02%	4.46%
TCP	76.83%	76.83%
Total	100.00%	100.00%

- b) Merger of Daini do Brasil S/A, Globaltelcom Telecomunicações S/A and GTPS S/A Participações em Investimentos de Telecomunicações into GT

As described in Note 1, on December 27, 2002, TCP purchased the remaining 51% of the outstanding common stock of (17% of total capital) of the Holdings (Daini do Brasil S/A, Globaltelcom Telecomunicações S/A and GTPS S/A Participações em Investimentos de Telecomunicações). As of March 31, 2003, TCP, aiming to minimize administrative and financial costs, completed the merger of Daini do Brasil S/A, Globaltelcom Telecomunicações S/A and GTPS S/A Participações em Investimentos de Telecomunicações into GT. With this operation, TCP became the direct owner of GT.

c) Cancellation of derivative contracts

On April 2 and 16, 2003, GT cancelled swap contracts with notional amounts of 227,033,000, resulting in the recognition of a loss of R\$145,903.

27. SUMMARY OF DIFFERENCES BETWEEN ACCOUNTING PRACTICES ADOPTED IN BRAZIL (BR CL) AND US GAAP

The Company's accounting policies comply with accounting practices adopted in Brazil (BR CL), which differ significantly from US GAAP as described below:

a. Different Criteria for Capitalizing and Amortizing Capitalized Interest

In 2001 and 2002, GT elected to record capitalized interest for BR CL purposes, on its construction-in-progress.

Under US GAAP, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 34 Capitalization of Interest Costs, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under US GAAP, the amount of interest capitalized excludes the monetary gain associated with the borrowings and the foreign exchange gains and losses on foreign currency borrowings, and other financial expenses related to borrowings.

The effects of these different criteria for capitalizing and amortizing capitalized interest for 2001 and 2002 operations, are presented below:

Capitalized interest difference:	2001	2002
US GAAP capitalized interest- Interest which would have been capitalized and credited to income	5,360	6,456
Less - BR CL capitalized interest- Interest capitalized and credited to income (up to the limit of interest and foreign exchange variation incurred on loans obtained for financing capital investments)	(15,205)	(10,331)
US GAAP difference	(9,845)	(3,875)
Amortization of capitalized interest difference:		
Amortization under BR CL	506	1,940
Less- Amortization under US GAAP	(986)	(1,849)
US GAAP difference	(480)	91

b. Classification of Financial Expenses

Under BR CL financial expenses are classified as operating expenses. For US GAAP purposes financial expenses are usually disclosed in the statement of operations as other expenses not related to operations.

c. Permanent Assets

Losses on disposals of permanent assets were R\$1,612 and R\$3,842 in 2001 and 2002. Such losses were included in nonoperating expenses for BR CL. Under US GAAP such losses would have reduced operating income.

d. Valuation of Long-lived Assets

For U.S. GAAP, effective January 1, 1996 the holdings adopted SFAS No. 121 Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of. In accordance with this standard, the holdings periodically evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is separately identifiable and is less than their carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 superseded SFAS No. 121, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS No. 144 also amends Accounting Research Bulletin No. 51, Consolidated Financial Statements , to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 also broadens the presentation of discontinued operations to include more disposal transactions. The holdings adopted SFAS No. 144, effective January 1, 2002.

The holdings has performed a review of its long-lived assets and concluded that the recognition of an impairment charge was not required. The Holdings evaluation of its ability to recover the carrying value of its long-lived assets was based upon projections of future operations that assumed a higher level of revenues and gross margin percentages that the Holdings has historically achieved. There can be no assurance that the Holdings will be successful in achieving these improvements in its revenues and gross margin percentages. Should the Holdings be unable to achieve such improvements, future impairment provisions may be recorded related to its investments in property, plant and equipment and the licenses acquired to operate its cellular networks by ANATEL.

e. Currency Swap Contracts

Statement of Financial Accounting Standards (SFAS) No. 133 Accounting for Derivative Instruments and Hedging Activities established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value.

SFAS 133 requires that the changes in the derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. During June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 (SFAS 138) which amends SFAS 133 for certain derivative instruments and certain hedging activities. SFAS 133, as amended is effective for fiscal years beginning after June 15, 2000 and should not be retroactively applied to financial statements of prior periods.

The Holdings adopted SFAS 133, as amended on January 1, 2001. Since the Company did not have significant derivatives outstanding as of December 31, 2000, the implementation of SFAS 133 did not have a material impact on the Holdings results of operations and financial position.

As mentioned in Note 21 (c) the Company contracted swap contracts for long term agreements at various exchange rates, in a total amount of R\$1,128,707. These contracts had notional amounts of EUR509,834 and ¥3,707,351 at December 31, 2001. Under BR CL, foreign currency swap contracts are recorded at the notional amount multiplied by the terms of the contract as if it had been settled at the balance sheet date. The premium accrued at that date is recorded as an expense and payable.

For US GAAP purposes, these swap contracts do not qualify for hedge accounting, as the premium and other contract terms are subject to the effects of certain variable factors including foreign currency exchange and interest rates. US GAAP requires that financial instruments of this nature be recorded at fair value through earnings. Accordingly, an adjustment has been included in the reconciliation to US GAAP.

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During the periods from February 6 to December 31, 2001 and January 1 to December 27, 2002, realized losses on swap contracts amounted to R\$ 27,313 and realized gains amounted to R\$620,411, respectively. As of December 31, 2001, unrealized losses, which represent the fair value of the currency swap contracts amounted to R\$ 292,005.

The table below shows the fair value of the Company's derivatives as of December 31, 2001:

	Expiration date	Notional amount	Fair value / Unrealized losses
Foreign exchange swap CDI/EURO	July 2004	EUR 299,692	124,897
Foreign exchange swap CDI/EURO	November 2004	EUR 210,142	94,667
Foreign exchange swap CDI/YEN	March 2002	(Y) 3,707,351	72,441

f. License acquisition interest capitalization

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate B Band mobile telephone services and the date of the initial operations of Holdings was recorded as deferred assets according to BR CL. Under US GAAP the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interest accrued in 1998.

g. Amortization of license acquisition costs

The Holdings recorded amortization of license acquisition costs during the start-up period as deferred assets according to BR CL. Under US GAAP such amortization is reversed and the amortization period starts on the start-up date, January 1st, 1999.

h. Special Reserve of Goodwill

The related tax benefits transferred to the Holdings as a result of the corporate restructurings, as described in Note 3 above and recorded as an equity contribution under BR CL as a Special Reserve of Goodwill, are reversed for U.S. GAAP purposes, as the basis in such tax benefits of the transferring entities reflects a valuation allowance in accordance with U.S. GAAP.

i. Deferred income taxes

The Holdings, as mentioned in Note 11, currently have substantial net loss carryforwards amounted to R\$ 1,398,118 at December 31, 2001. The net tax loss carryforwards (tax benefit), amounted to R\$ 475,360 at December 31, 2001.

These tax loss carryforwards do not have a time limitation or expiration date and are subject to a limit of 30% of income before taxes, per each fiscal year, determined in accordance with Brazilian accounting practices and considering adjustments defined by Brazilian tax legislation.

In addition during 2001, the Holdings recorded a total deferred tax asset amounting to R\$193,231 referring to the future benefit arising from the amortization of an intangible asset originating from the corporate restructuring as previously described in Note 1 to the accompanying financial statements. The related tax benefits transferred to the holdings as a result of the corporate restructurings, recorded as a contribution of equity under BR CL, are reversed for U.S. GAAP purposes as the basis in such tax benefits of the transferring entities reflects a valuation allowance in accordance with U.S. GAAP.

j. Deferred assets

The Company has recorded pre-operational costs as deferred assets, to be amortized on a straight-line basis over 10, as allowed by BR CL. Under US GAAP such deferrals and respective amortization have been fully reversed.

k. FISTEL Fees

Under BR CL, the Fistel (Telecommunication Inspection Fund) fee assessed on each activation of a new cellular line is deferred for amortization over the customers' estimated subscription period. For US GAAP purposes, this tax is charged directly to the combined statement of operations

as incurred.

l. Classification of license acquisition cost

Under BR CL license acquisition costs are reported as a component of property, plant and equipment, net on the balance sheet. For U.S. GAAP purposes, the license fee would be reported as an intangible asset and not included in property, plant and equipment.

m. Acquisition of GT

During the period from October 29, 1999 to February 6 2001, the Holdings completed a series of step acquisitions of interests in GT. At February 6, 2001, the Holdings held 75.69% of the outstanding voting shares and 63.74% of the total share capital of GT.

Under BR CL, purchases of the majority of the voting shares of another company are recorded at the book value. The difference between the purchased company's net assets and the purchase price is recorded as goodwill and amortized over the concession term of the purchased company. Goodwill is recorded up to the amount of the purchase price. As permitted under BR CL, Holdings elected to defer amortization of goodwill until GT generates positive cash flow. Under BR CL, TCP will amortize goodwill on a straight-line basis over a ten-year period based on projections of future profitability.

Under U.S. GAAP, the cost of an acquired entity is allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the date of acquisition. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill.

On February 6, 2001 and July 27, 2001 the Holdings indirectly acquired an additional 36.27% of GT's total shares for R\$278,544. For U.S. GAAP purposes, the Company allocated this difference as follows:

Amounts representing 36.27% of the historical net assets of GT under US GAAP	23,733
Property, plant and equipment	(55,458) (a)
Intangible assets - customer list	49,458 (b)
Debt	9,422 (c)
Intangible related to concession	251,389 (d)
	<hr/>
Purchase Price	278,544
	<hr/>

(a) Difference being amortized over approximately 11 years, representing the average remaining useful lives of the relating assets.

(b) Difference being amortized over two years, representing the average customer life.

(c) The long-term debt was reduced by R\$7,209 related to the fair value of the underlying GT debt instruments. The majority of these related GT debt instruments were subsequently repaid during 2001. The adjustment to long-term debt was being amortized by the effective interest method over the remaining maturities of the underlying GT debt obligations. The related interest amortization during 2001 was approximately R\$1,700 and is included in net finance expenses for U.S. GAAP purposes. The remaining R\$7,722 was charged to income with the repayment of the related obligations by GT and is considered an extraordinary item on the early extinguishment of debt for U.S. GAAP purposes.

(d) The intangible related to the concession is being amortized on a straight-line basis over a 12 year period, representing the remaining term of the license.

The Holdings' accounting policies comply with BR CL. As such, the Holdings' investment in GT differs by the accumulated differences between BR CL and U.S. GAAP.

The differences at GT are primarily related to the following:

- Start-up and customer acquisition expenses incurred by GT which are being deferred over a period of 5 years for BR CL which are expensed as incurred for U.S. GAAP purposes;
- Differences in methods of capitalizing and amortizing interest expense related to the acquisition of property plant and equipment; and
- Differences between the carrying value of derivative instruments for BR CL and their fair values, for which such difference are recorded for U.S. GAAP purposes in the statement of income.

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These differences at GT impact the recorded amounts of the assets and liabilities by the Holdings for its previous acquisitions of interests in GT as well as recorded net income or loss (including the results of GT) for U.S. GAAP purposes.

Also, the goodwill recognized by the Holdings will be amortized over 10 years based on the estimated future profitability, to commence when profitable operations are achieved which is anticipated to occur in 2005, under BR CL. For U.S. GAAP purposes, this intangible related to concession is being amortized at the Holdings over a period representing the remaining term of GT's operating license from the date of each related acquisition.

n. Revenue Recognition

For U.S. GAAP, the Holdings recognizes service revenue as the services are provided. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Sales of handsets along with the related cost of the handset are amortized over three years. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. The following is a reconciliation of net revenue between BR CL and U.S. GAAP:

	2001	2002
Net revenue under BR CL	390,797	512,168
Value added and other sales taxes (i)	72,411	93,667
Deferred revenue - sales of handsets, net of amortization(ii)	(88,416)	(40,127)
	374,792	565,708

(i) Value-added and other sales taxes

Under BR CL, these taxes are recorded in revenue net of the related tax expense. Under U.S. GAAP, these taxes are recorded gross as revenue and related cost of services and goods. Accordingly, this difference in accounting policy has no impact in net income (loss) nor in shareholders equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of merchandise and services by R\$72,411 and R\$93,667 for 2001 and 2002, respectively.

(ii) Deferred revenue sales of handsets

Under BR CL, revenues and costs related to handset sales, including applicable value added and other sales taxes, are recognized when sold. Under U.S. GAAP, revenue on sales of handsets along with the related cost of the handset, including applicable value added and other sales taxes, are amortized over three years. Any excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. As substantially all handsets are sold at below cost, this difference in accounting policy had no impact on net income (loss) nor in shareholders equity. The amount of unamortized deferred handset revenue and the related unamortized deferred handset costs was R\$183,528 at December 31, 2001 and R\$223,652 at December 27, 2002.

Reconciliation of the Net Loss between BR CL and US GAAP:

	The period from February 6 to December 31, 2001	The period from January 1 to December 27, 2002
BR CL net loss for the year	(786,802)	(771,325)
Add (deduct):		
Different criteria for:		
Capitalized interest	(9,845)	(3,875)
Amortization of capitalized interest	(480)	91
Amortization of license acquisition costs	(5,648)	(6,159)
Amortization of deferred assets	29,024	31,663
FISTEL fees	(6,490)	(1,807)
Swap contracts	(52,474)	(115,999)

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Amortization of commissions fees	(2,782)	-
Purchase accounting:		
Amortization of fair value of property, plant and equipment	5,521	6,023
Amortization on purchase price allocations to customers list	(22,654)	(25,121)
Amortization of intangible related to concession	(29,233)	(31,716)
Finance charges and extraordinary loss on early extinguishment of Debt	(9,422)	-
Reversal of recoverable taxes	44	-
	<hr/>	<hr/>
US GAAP net loss for the year	(891,241)	(918,225)
	<hr/>	<hr/>

Reconciliation of the Shareholders' deficit between BR CL and US GAAP as of December 31, 2001:

BR CL shareholders' deficit		(509,010)
Add (deduct):		
Different criteria for-		
Capitalized interest		(1,185)
Amortization of capitalized interest		(1,258)
Interest capitalized on license acquisition costs		42,006
Amortization of license acquisition costs		27,277
Deferred assets		(308,559)
Deferred assets, accumulated amortization		68,826
FISTEL fees		(6,490)
Swap contracts		(52,474)
Special reserve of goodwill		(193,231)
Purchase accounting:		
Reverse of goodwill recorded under BR CL		(296,461)
Intangible related to concession recorded in U.S. GAAP		358,558
Amortization of intangible related to concession		(29,735)
Property, plant and equipment fair value adjustment		(55,372)
Amortization of fair value of property, plant and equipment		5,526
Customer list intangible recorded in U.S.GAAP		50,242
Amortization of customer list		(23,158)
Debt fair value adjustment		9,422
Amortization of debt		(9,422)
Reversal of recoverable taxes		(223)
		<hr/>
US GAAP shareholders' deficit		(924,721)
		<hr/>

Statement of changes in shareholders' deficit in accordance with US GAAP:

		Balance
		<hr/>
Shareholders' deficit under US GAAP as of beginning of the year		(50,880)
Advance for future capital increase		17,400
Net loss for the year		(891,241)
		<hr/>

28. ADDITIONAL DISCLOSURES REQUIRED BY US GAAP**a. Concentration of Credit Risks**

Credit risk with respect to trade accounts receivable is diminished due to the diversified nature of the Holdings' customers. The Holdings continually monitors the level of trade accounts receivable and limits the exposure to bad debts by cutting access to the telephone network if any invoice is 15 days past due. Exceptions comprise telephone services that must be maintained for reasons of safety or national security.

In conducting its business, the Holdings are fully dependent upon the cellular telecommunications concession, granted by the Federal Government.

The collective labor agreements currently in force expire in August 2003 with a salary renegotiation scheduled for September 2003.

b. Commitments (Unaudited)

Planned capital expenditures for 2003 are approximately R\$116,142. Most of the 2003 capital expenditures relate to infrastructure, information technology and transmission equipment.

The Holdings are subject to obligations concerning quality of services, network expansion and modernization. The Holdings believe that it is currently in compliance with its quality of service and expansion obligations.

d. Post-retirement benefits

The Holdings have no pension plan, post-retirement health care insurance or other benefits plan. Therefore, SFAS No. 87, *Employers' Accounting for Pensions* and SFAS No. 106, *Employers' Accounting for Post-retirement Benefits other than Pensions* has no effect on the Holdings' financial statements.

e. New accounting pronouncements**SFAS No. 141 Business Combinations**

During June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141), *Business Combinations*. SFAS 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16 (Opinion 16), *Business Combinations* and FASB Statement No. 38, *Accounting for Preacquisition Contingencies of Purchased Enterprises*. All business combinations in the scope of SFAS 141 are to be accounted for using one method the purchase method. In addition, SFAS 141 requires that intangible assets be recognized as assets apart from goodwill if they meet two criteria-the contractual-legal criterion or the separability criterion. To assist in identifying acquired intangible assets, SFAS 141 also provides a list of intangible assets that meet either of those criteria. In addition to the disclosure requirements prescribed in Opinion 16, SFAS 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. SFAS 141 also requires that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. SFAS 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The adoption of SFAS 141 on January 1, 2002 did not result in any impact to the Holdings' financial position, cash flows and results of operations.

SFAS No. 142 Goodwill and Other Intangible Assets

During June 2001, FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion 17, *Intangible Assets*. SFAS No. 142 also amends SFAS No. 121, *Accounting for the Impairment of Long Lived Assets and for Long-lived Assets to Be Disposed Of*, to exclude from its scope

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goodwill and intangible assets that are not amortized. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provision of SFAS No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued. An exception to SFAS No. 142 application date is for goodwill and intangible assets acquired after June 30, 2001, which will be immediately subject of the non-amortization and amortization provisions of this statement. The adoption of SFAS No. 142 on January 1, 2002 did not have an impact on the Holdings' financial position, cash flows and results of operations.

SFAS No. 143 Accounting for Asset Retirement Obligations

During June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS No. 143), Accounting for Asset Retirement Obligations. SFAS No. 143 basically requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost are capitalized as part of the carrying amount of the long-lived asset. Under SFAS No. 143 the liability for an asset retirement obligation is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized. In addition, disclosure requirements contained in SFAS No. 143 will provide more information about asset retirement obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with earlier application encouraged. Based on an initial assessment of the provisions and requirements of SFAS 143, management believes that the implementation of this statement will not result in any impact to the Holdings' financial position, cash flows and results of operations.

SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002 of SFAS 145"

In April 2002, the FASB issued Statements of Accounting Standards No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 (SFAS 145). SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt made to satisfy Sinking-Fund requirements. As a result, gains and losses from extinguishment of debt will no longer be classified as extraordinary items unless they meet the criteria of unusual or infrequent as described in Accounting Principles Boards Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS No. 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after 15 May 2002. The Holdings are currently evaluating the impact that the adoption of SFAS No. 145 will have on its results of operations and financial position. However, the Holdings do not believe that the adoption of SFAS No. 145 will have a material impact on the Holdings' financial position, cash flows and results of operations.

SFAS No. 146 -"Accounting for Costs Associated with Exit or Disposal Activities"

In June 2002, the FASB issued Statement of Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) (EITF 94-3). SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in EITF No. 94-3. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also concluded that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 is applicable for exit or disposal activities initiated after December 31, 2002, and as such, the Holdings cannot reasonably estimate the impact of the adoption of these new rules until and unless they affect relevant activities in future periods.

FIN No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN No. 45). This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods after December 15, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. Based on an initial assessment of the provisions and requirements of FIN No. 45, management believes that the implementation of this statement will not result in any impact to the Holdings' financial position, cash flows and results of operations.

EITF 00-21 Revenue Arrangements with Multiple Deliverables

At the September and October 2002 meetings of the Emerging Issues Task Force (EITF), the Task Force reached a tentative conclusion on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which outlines an approach to be used to determine when a revenue arrangement for multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. Specifically, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

The arrangement consideration allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting. The guidance in EITF 00-21 is effective prospectively for revenue arrangements entered into in fiscal years beginning after December 15, 2002. Alternatively, entities may elect to report the change in accounting as a cumulative-effect adjustment in accordance with Accounting Principles Board Opinion 20, Accounting Changes. We are currently evaluating the impact of EITF 00-21 in our financial statements, specifically including our treatment of revenue from handset sales under US GAAP. We currently cannot reasonably estimate the impact of adopting the new rule.