

Vivo Participacoes S.A.
Form 20-F
March 28, 2008

As filed with the Securities and Exchange Commission on March 28, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2007

OR

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

OR

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

For the transition period from _____ to _____

Commission File Number: 001-14493

Vivo Participações S.A.

(Exact name of Registrant as Specified in its Charter)

Vivo Holding Company

(Translation of Registrant's Name into English)

The Federative Republic of Brazil

(Jurisdiction of Incorporation or Organization)

Av. Doutor Chucri Zaidan 860, 04583-110

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

Name of each exchange on which registered

Preferred Shares, without par value
American Depositary Shares (as evidenced by American
Depositary Receipts), each representing 1 preferred share

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares of each class as of December 31, 2007:

Title of Class **Number of Shares Outstanding**

Common Stock 524,931,665

Preferred Stock 912,691,180

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

All references in this annual report to:

- 1xRTT are to 1x Radio Transmission Technology, the CDMA 2000 1x technology, which pursuant to the ITU (International Telecommunication Union) and in accordance with the IMT-2000 rules, is the 3G (third generation) technology;
- ADRs are to the American Depositary Receipts evidencing our ADSs;
- ADSs are to our American Depositary Shares, each representing 1 share of our non-voting preferred stock;
- AMPS are to Advanced Mobile Phone System, a radio interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the frequency domain;
- ANATEL are to *Agência Nacional de Telecomunicações* ANATEL, the Brazilian telecommunication regulatory agency;
- BOVESPA are to the *Bolsa de Valores de São Paulo*, the São Paulo stock exchange;
- Brazilian Central Bank, BACEN, Central Bank of Brazil or Central Bank are to the *Banco Central do Brasil* the Brazilian central bank;
- Brazilian Corporate Law are to Law No. 6,404 of December, 1976, as amended by Law No. 9,457 of May 1997 and by Law No. 10,303 of October 2001;
- Brazilian government are to the federal government of the Federative Republic of Brazil;
- CDMA are to Code Division Multiple Access, an aerial interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the code domain;
- CDMA 2000 1xEV-DO are to a 3G (third generation) access technology with data transmission speed of up to 2.4 megabytes per second;
- Celular CRT are to Celular CRT Participações S.A. and its consolidated subsidiary, formerly Vivo subsidiaries prior to our corporate restructuring;
- Commission are to the U.S. Securities and Exchange Commission;
- Corporate Restructuring are to the restructuring of our operating subsidiaries described in Item 4. Information on the Company Our History and Development Corporate Restructuring of Our Operating Subsidiaries ;
- CVM are to the *Comissão de Valores Mobiliários*, the Brazilian securities commission;
- D.O.U. are to the *Diário Oficial da União*, the Official Newspaper of the Government of Brazil;
- Federal District are to the federal district of Brasilia, the capital of Brazil;

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- General Telecommunications Law are to *Lei Geral de Telecomunicações*, as amended, which regulates the telecommunications industry in Brazil;
- Global Telecom and GT are to Global Telecom S.A., formerly a Vivo subsidiary prior to our corporate restructuring;

- GSM are to the Global System for Mobile Communications, a service rendered by concession from ANATEL for a specific frequency range;
- Net additions are to the total number of new customers acquired in the period minus the reduction in the number of customers;
- NYSE are to the New York Stock Exchange;
- OI are to TNL-PCS S.A., the mobile operator branch of Telemar;
- *real*, *reais* or R\$ are to Brazilian *reais*, the official currency of Brazil;
- SMC are to Serviço Móvel Celular (Mobile Cellular Service), a service rendered pursuant to a concession granted by ANATEL to provide mobile service in a specific frequency range;
- SMP are to *Serviço Móvel Pessoal* (Personal Cellular Service), a service rendered pursuant to an authorization granted by ANATEL to provide mobile service in a specific frequency range;
- SMS are to text messaging services for wireless devices, which allow customers to send and receive alphanumerical messages;
- TDMA are to Time Division Multiple Access, a radio interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the time domain;
- TCO are to Tele Centro Oeste Celular Participações, which includes TCO's B-Band subsidiary and NBT, formerly Vivo subsidiaries prior to our corporate restructuring;
- TCP are to Telesp Celular Participações S.A., our predecessor company;
- TLE are to Tele Leste Celular Participações S.A. and its consolidated subsidiaries, formerly Vivo subsidiaries prior to our corporate restructuring;
- TSD are to Tele Sudeste Celular Participações S.A. and its consolidated subsidiaries, formerly Vivo subsidiaries prior to our corporate restructuring;
- Telebrás are to Telecomunicações Brasileiras S.A. Telebrás;
- Telemar are to Telemar Norte Leste S.A. (controlled by Tele Norte Leste Participações S.A.);
- Telemig are to Telemig Celular Participações S.A.;
- Telenorte or Tele Norte are to Tele Norte Celular Participações S.A.;
- Telesp Celular and TC are to Telesp Celular S.A., formerly a Vivo subsidiary prior to our corporate restructuring;
- Telpart are to Telpart Participações S.A.;

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- The Merger are to the merger of the Vivo Companies as discussed in Item 4. Information on the Company Our History and Development Merger of the Vivo Companies ;
- US\$, dollars or U.S. dollars are to United States dollars;
- Vivo, the Company, we, our and us are to Vivo Participações S.A. (formerly Telesp Celular Participaçõ S.A.) and its consolidated subsidiary (unless the context otherwise requires);
- Vivo brand are to the brand used in Brazil in the operations of the Vivo Companies, which together constitute the assets of the Brasilcel joint venture between *Portugal Telecom* and *Telefónica*;

- Vivo Companies are to Vivo, TCO, TLE, TSD, and Celular CRT, collectively;
- Vivo S.A. are to Vivo S.A., a wholly owned subsidiary of Vivo, that since the Restructuring has conducted all of our operators including SMP operators in the following areas:

Areas 1 and 2, the state of São Paulo (operations previously provided by Telesp Celular S.A.);

Area 3, the states of Rio de Janeiro and Espírito Santo (operations previously provided by Telerj Celular S.A., or Telerj, and Telest Celular S.A., or Telest);

Area 5, the states of Paraná and Santa Catarina (operations previously provided by Global Telecom);

Area 6, the state of Rio Grande do Sul (operations previously provided by Celular CRT);

Areas 7 and 8, the central western and northern regions, including the states of Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondônia, Acre, Amapá, Amazonas, Maranhão, Para and Roraima and in the Distrito Federal (operations previously provided by Telegoias Celular S.A., or Telegoias, Telemat Celular S.A., or Telemat, Telems Celular S.A., or Telems, Teleron Celular S.A., or Teleron, Teleacre Celular S.A., or Teleacre, Norte Brasil Telecom S.A., or NBT and TCO); and

Area 9, the states Bahia and Sergipe (operations previously provided by Telebahia Celular S.A., or Telebahia, and Telergipe Celular S.A., or Telergipe); and

- WAP are to Wireless Application Protocol, an open and standardized protocol started in 1997, which allows access to Internet servers through specific equipment, a WAP Gateway at the carrier, and WAP browsers in customers wireless devices.
- wireless devices are to the wireless appliances that we sell, including cellular handsets, wireless handheld devices and wireless broadband cards.

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

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of December 31, 2007 and 2006 and for the two years in the period ended December 31, 2007 and our combined financial statements as of December 31, 2005, and for the three years in the period ended December 31, 2005, have been prepared in accordance with the accounting practices adopted in Brazil, as prescribed by Brazilian Corporate Law, or the Brazilian GAAP, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Notes 37 and 38 to our financial statements appearing elsewhere in this annual report describes the principal differences between the Brazilian GAAP and U.S. GAAP as they relate to us, and provides a reconciliation to U.S. GAAP of net loss and shareholders equity. These consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. (EY or Ernst Young) for the year ended December 31, 2007 and by Deloitte Touche Tohmatsu Auditores Independentes (Deloitte) for the years ended December 31, 2006 and 2005.

As described in Note 1 to our financial statements, in February 2006, an extraordinary shareholders meeting approved the merger of Tele Sudeste Celular Participações S.A. (TSD), Tele Leste Celular Participações S.A. (TLE) and Celular CRT Participações S.A. (CRT) into the Company through exchange of shares and the acquisition of the

minority interest in Tele Centro-Oeste Celular Participações S.A. (TCO) by exchanging shares of the Company for the shares held by minority shareholders of TCO, after which TCO became a wholly-owned subsidiary of the Company (the Merger). See Item 4. Information on the Company Our History and Development Merger of the Vivo Companies.

Since the Company was under common control with TSD, TLE and CRT for all periods presented after December 2002 and prior to the above restructuring, financial information combining the historical operations of these entities has been presented for the years ended December 31, 2005, 2004 and 2003. In the combined financial

information, all inter-company transactions have been eliminated. The acquisitions of minority interests in TSD, TLE, CRT and TCO were accounted for in our consolidated financial statements on the date that the respective share exchanges occurred, in February 2006. However, the Financial Statements have been consolidated as from January 1st, 2006 as described in the protocol of Merger. The combined financial statements for the year ended December 31, 2005 have been presented supplementally for the purposes of this annual report in our consolidated financial statements as of December 31, 2007 and for the three years then ended and are not required for statutory reporting purposes in Brazil.

FORWARD LOOKING STATEMENTS

Certain sections in this annual report, principally in Item 3.D. Key Information Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, contain 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;
- quantitative and qualitative disclosures about market risks;
- other statements of management's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts; and
- other factors identified or discussed under Item 3.D. Key Information Risk Factors.

Forward looking statements may also be identified by words such as believe, expect, anticipate, project, intend, should, seek, estimate, future or similar expressions. Forward-looking information involves risks and uncertainties 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, interest rate 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**

These consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. (EY or Ernst Young) for the year ended December 31, 2007 and by Deloitte Touche Tohmatsu Auditores Independentes (Deloitte) for the years ended December 31, 2006 and 2005.

As described in Note 1 to our financial statements, in February 2006, an extraordinary shareholders meeting approved the merger of TSD, TLE and Celular CRT into the Company through exchange of shares and the acquisition of the minority interest in TCO by exchanging shares of the Company for the shares held by minority shareholders of TCO, after which TCO became a wholly-owned subsidiary of the Company (the Merger). See Item 4. Information on the Company Merger of the Vivo Companies.

Since the Company was under common control with TSD, TLE and CRT for all periods presented after December 2002 and prior to the above restructuring, financial information combining the historical operations of these entities has been presented for the years ended December 31, 2005, 2004 and 2003. In the combined financial information, all inter-company transactions have been eliminated. The acquisitions of minority interests in TSD, TLE, CRT and TCO were accounted for in our consolidated financial statements on the date that the respective share exchanges occurred, in February 2006. However, the Financial Statements have been consolidated as from January 1, 2006 as described in the protocol of Merger. The combined financial statements for the year ended December 31, 2005 have been presented supplementally for the purposes of this annual report in our consolidated financial statements as of December 31, 2007 and for the three years then ended and are not required for statutory reporting purposes in Brazil.

Our consolidated and combined financial statements are prepared in accordance with the Brazilian GAAP, which differs in certain material respects from U.S. GAAP. See notes 37 and 38 to our financial statements for a summary of (i) the differences between the Brazilian GAAP and U.S. GAAP as they relate to us, (ii) a reconciliation to U.S. GAAP of shareholders equity as of December 31, 2007 and 2006, and (iii) a reconciliation to U.S. GAAP of our net income or loss for the three years in the period ended December 31, 2007.

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,

| Consolidated 2007(1) | Consolidated 2006(1) | Combined 2005(2) | Combined 2004(2) | Combined 2003(2) |
|---------------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
|---------------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|

(in millions of *reais*, except per share data)**Income Statement Data:***Brazilian GAAP*

| | | | | | |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net operating revenue | 12,492.5 | 10,936.7 | 11,253.8 | 10,929.4 | 9,393.5 |
| Cost of services and goods sold | (6,623.3) | (5,564.2) | (5,337.3) | (5,338.1) | (4,836.1) |
| Gross profit | 5,869.2 | 5,372.5 | 5,916.5 | 5,591.3 | 4,557.4 |
| Operating expenses: | | | | | |
| Selling expenses | (3,532.8) | (3,751.1) | (3,614.9) | (2,740.2) | (1,968.7) |

Year ended December 31,

| | Consolidated 2007(1) | Consolidated 2006(1) | Combined 2005(2) | Combined 2004(2) | Combined 2003(2) |
|--------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| (in millions of reais, except per share data) | | | | | |
| General and administrative expenses | (1,190.0) | (1,099.7) | (1,031.4) | (959.2) | (924.4) |
| Other net operating expenses | (499.6) | (319.5) | (491.6) | (222.0) | (138.7) |
| Operating income before equity in losses of unconsolidated subsidiary and net financial expenses | 646.8 | 202.2 | 778.6 | 1,669.9 | 1,525.6 |
| Net financial expenses | (468.3) | (748.0) | (913.1) | (1,088.5) | (1,161.1) |
| Operating income (loss) | 178.5 | (545.8) | (134.5) | 581.4 | 364.5 |
| Net non-operating income (expenses) | (20.8) | (289.0) | (96.5) | (60.9) | (36.1) |
| Income (loss) before income taxes and minority interests | 157.7 | (834.8) | (231.0) | 520.5 | 328.4 |
| Income taxes | (257.1) | 859.1 | (363.0) | (438.5) | (407.8) |
| Minority interests | | (8.0) | (173.5) | (480.9) | (347.6) |
| Net income (loss) | (99.4) | 16.3 | (767.5) | (398.9) | (427.0) |
| Net income (loss) per share (R\$) | (0.0691) | 0.0113 | (0.6919) | (0.1765) | (0.2065) |
| Dividends declared per thousand preferred shares (R\$) | | 0.018 | 0.037 | 0.058 | 0.056 |
| Dividends declared per thousand common Shares (R\$) | | | 0.047 | 0.083 | 0.079 |
| U.S. GAAP | | | | | |
| Net operating revenue | 15,922.1 | 14,152.3 | 14,407.8 | 14,856.5 | 12,159.0 |
| Operating (loss) income | 623.3 | (183.2) | 929.7 | 1,368.5 | 1,345.5 |
| Net financial expenses | (437.5) | (666.3) | (914.7) | (992.9) | (138.4) |
| Net non-operating income (expenses) | (0.3) | (11.6) | (14.8) | (12.0) | (35.2) |
| Income (loss) before income taxes and minority interests | 185.5 | (861.1) | 0.2 | 363.6 | 1,171.9 |
| Income taxes | (295.1) | 409.0 | (319.0) | (386.6) | (618.7) |
| Minority interest | | (8.4) | (175.4) | (466.0) | (415.3) |
| Net income (loss) | (109.6) | (460.5) | (494.2) | (489.0) | 137.9 |
| Basic and diluted net income (loss) per share common (R\$) | (0.21) | (0.99) | (1.19) | (1.43) | 0.15 |
| Basic and diluted net income (loss) per share preferred (R\$) | | 0.02 | 0.05 | 0.08 | 0.15 |
| Weighted average common shares outstanding (3) | 524,931,665 | 481,267,468 | 443,996,716 | 371,686,879 | 335,446,441 |
| Weighted average preferred shares outstanding (3) | 912,691,180 | 841,340,834 | 637,776,690 | 532,574,385 | 487,069,335 |

Year ended December 31,

| | Consolidated 2007(1) | Consolidated 2006(1) | Combined 2005(2) |
|--|---------------------------------|---------------------------------|-----------------------------|
|--|---------------------------------|---------------------------------|-----------------------------|

| Cash Flow Data: | (in millions of reais) | | |
|--------------------------------------|-------------------------------|-----------|-----------|
| Cash flows from operating activities | 3,098.8 | 3,100.8 | 2,302.2 |
| Cash flows from investing activities | (1,914.3) | (1,922.4) | (2,361.2) |
| Cash flows from financing activities | (395.5) | (1,458.4) | (373.1) |

As of December 31,

| | Consolidated 2007(1) | Consolidated 2006(1) | Combined 2005(2) | Combined 2004(2) | Combined 2003(2) |
|--|-------------------------|-------------------------|---------------------|---------------------|---------------------|
|--|-------------------------|-------------------------|---------------------|---------------------|---------------------|

(in millions of reais, except for per share data)

Balance Sheet Data:*Brazilian GAAP*

| | | | | | |
|------------------------------------------------------------|-----------|-----------|-----------|---------------|---------------|
| Property, plant and equipment, net | 6,301.4 | 6,445.5 | 6,683.2 | 6,477.5 | 6,323.1 |
| Total assets | 18,091.2 | 17,542.1 | 19,259.3 | 19,803.0 | 18,977.0 |
| Loans and financing | 4,381.4 | 4,500.4 | 5,652.8 | 5,595.5 | 7,124.0 |
| Shareholders equity | 8,297.6 | 8,371.7 | 7,047.5 | 5,830.9 | 5,967.1 |
| Capital Stock | 6,347.8 | 6,347.8 | 8,232.4 | 5,828.9 | 5,615.8 |
| Number of shares as adjusted to reflect changes in capital | 1,437,623 | 1,437,623 | 1,109,225 | 2,259,465,452 | 2,066,942,500 |

U.S. GAAP

| | | | | | |
|------------------------------------------------------------|-----------|-----------|-----------|----------|----------|
| Property, plant and equipment, net | 6,078.9 | 6,333.3 | 6,536.4 | 6,399.5 | 6,990.1 |
| Total assets | 22,508.4 | 18,392.5 | 20,367.1 | 20,092.6 | 19,148.7 |
| Total liabilities | 13,484.0 | 9,210.4 | 11,294.7 | 10,799.5 | 11,383.2 |
| Shareholders equity | 9,024.4 | 9,126.2 | 7,165.6 | 5,685.9 | 5,904.8 |
| Capital stock | 6,325.6 | 6,325.6 | 8,232.4 | 5,828.9 | 5,615.8 |
| Number of shares as adjusted to reflect changes in capital | 1,437,623 | 1,437,623 | 1,109,225 | 903,786 | 826,777 |

- (1) The financial information presented for 2006 and 2007 represents information from Vivo's consolidated financial statements in which Vivo has consolidated financial information of TSD, TLE and CRT as from January 1, 2006.
- (2) The financial information presented for the 2005, 2004 and 2003 fiscal years represents the combined financial data for Vivo, TSD, TLE and CRT, since these companies were under common control with Vivo for these periods.
- (3) As a result of the corporate restructuring in January 2000, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit on the amortization of the intangibles 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 required to be included for the purpose of calculating diluted earnings per share for the years ended December 31, 2003, 2004, 2005, 2006 and 2007. The potentially diluted shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for all periods presented as their effect would have been anti-dilutive. As described in Note 37 (j) to the Company's financial statements for the year ended December 31, 2007, the Company applies Emerging Issues Task Force EITF Issues No. 03.6, Participating Securities and the Two-Class Method under FASB Statement No. 128. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Additionally, loss per share and share amounts for all periods retroactively reflect the effect of the reverse stock split described in Note 22 to the Company's financial statements.

Exchange Rates

Before March 14, 2005, there were two principal foreign exchange markets in Brazil:

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

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. The floating market rate generally applied to transactions to which the commercial market rate did not apply. Prior to February 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. Since February 1, 1999, the Central Bank placed the commercial rate exchange market and the floating rate exchange market under identical operational limits, and financial institutions operating in the commercial market were authorized to unify their positions in the two different markets, which led to a convergence in the pricing and liquidity of both markets and a reduction in the difference between their respective rates.

With the enactment of Resolution No. 3,265 dated March 4, 2005 by the National Monetary Council both markets were consolidated into one single foreign exchange market, effective as of March 14, 2005. All foreign exchange transactions are now carried out in this single consolidated market, through institutions authorized to operate in such market.

Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the *real*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political instability or other factors. In light of these factors, we cannot predict that the *real* will not depreciate or appreciate in value in relation to the U.S. dollar substantially in the future. In addition, exchange rate fluctuations may also affect our financial condition. For more information on these risks, see [Risk Factors](#) [Risks Relating to Brazil](#).

The following tables set forth the commercial selling rate, expressed in *reais* per U.S. dollar (R\$/US\$) for the periods indicated, as reported by the Central Bank.

| | Exchange Rate of R\$ per US\$ | | | |
|--------------------------------|-------------------------------|-------|------------|----------|
| | Low | High | Average(1) | Year-End |
| Year ended December 31, | | | | |
| 2003 | 2.822 | 3.662 | 3.071 | 2.889 |
| 2004 | 2.654 | 3.205 | 2.917 | 2.654 |
| 2005 | 2.163 | 2.762 | 2.434 | 2.341 |
| 2006 | 2.089 | 2.301 | 2.168 | 2.138 |
| 2007 | 1.733 | 2.371 | 1.948 | 1.771 |

Source: Central Bank of Brazil, PTAX.

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

| | Exchange Rate of R\$ per US\$ | |
|-------------------------------|-------------------------------|-------|
| | Low | High |
| Month Ended | | |
| October 31, 2007 | 1.744 | 1.828 |
| November 30, 2007 | 1.733 | 1.850 |
| December 31, 2007 | 1.762 | 1.823 |
| January 31, 2008 | 1.741 | 1.830 |
| February 29, 2008 | 1.672 | 1.768 |
| March 2008 (through March 25) | 1.670 | 1.742 |

Source: Central Bank of Brazil, PTAX.

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 materialize 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 affect 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;
- exchange control policies;
- internal economic growth;
- inflation;
- price instability;
- energy policy;
- interest rates;
- liquidity of domestic capital and lending markets;
- tax policies (including reforms currently under discussion in the Brazilian Congress); and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty as to future government policies may contribute to an increase in the volatility of the Brazilian securities markets and securities issued abroad by Brazilian companies. The Brazilian economy grew 5.4% in 2007, 2.9% in 2006 and 2.3% in 2005. Due to the limited economic growth in recent years, it is not certain whether the current economic policy will prevail. We cannot predict Brazil's monetary, tax, social security and other policies, nor if such policies will cause an adverse impact on the economy and to our business and results of operations or the market price of our preferred shares and ADSs.

Tax reforms may affect our prices.

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

Political instability may have an adverse impact on the Brazilian economy.

Political crises in Brazil in the past have affected the trust of investors and the public in general, as well as the development of the economy. Political crises may have an adverse impact on the Brazilian economy, our business, financial condition and results of operations and the market price of our preferred shares and ADSs.

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 2007, 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 foundation, reflected inflation of 7.9%, compared to 3.8% in 2006 and 1.22% in 2005.

Future measures taken by the Brazilian government may have an adverse impact on the Brazilian economy, our business, financial condition and results of operation, or on the market price of our preferred shares and ADSs. 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. In addition, high inflation generally leads to higher domestic interest rates and, as a result, the cost of servicing our *real*-denominated debt may increase. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could adversely affect our ability to refinance our indebtedness in those markets.

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 been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated by 22.3% against the U.S. dollar in 2003. In 2004 and 2005, the *real* appreciated against the U.S. dollar by 8.8% and 11.8%, respectively, and in 2006 and 2007 the *real* appreciated by 8.7% and 10.5% against the U.S. dollar, respectively.

Devaluation of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. The sharp depreciation of the *real* in relation to the U.S. dollar may generate inflation and governmental measures to fight possible inflationary outbreaks, including the increase in interest rates. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments, as well as dampen export-driven growth. Devaluations of the *real* would reduce the U.S. dollar value of distributions and dividends on our preferred shares and ADSs and may also reduce the market value of such securities. Any such macroeconomic effects could adversely affect our net operating revenues and our overall financial performance.

Devaluation of the *real* relative to the U.S. dollar may increase the cost of our indebtedness in foreign currency. It would also reduce the U.S. dollar value of our revenues and distribution of dividends. As of December 31, 2007, Vivo had R\$ 4.4 billion in consolidated total debt, of which approximately 41.9% was denominated in foreign currencies, such as the U.S. dollar, Japanese yen and the UMBNDES (an index of several currencies predominantly influenced by the U.S. dollar). Significant costs relating to our network infrastructure and wireless device costs are payable or linked

to payment by us in U.S. dollars. At the same time, while our foreign currency debt obligations were covered by derivative contracts as of December 31, 2007, and we may derive income from these and other derivative transactions, all of our operating revenues are generated in *reais*. To the extent that the value of the *real* decreases relative to the U.S. dollar, Japanese yen and UMBNDES, our debt becomes more expensive to service and it becomes more costly for us to acquire the technology and the goods that are necessary to operate our business. Although we currently hedge our foreign currency debt, we may decide to change our hedging policy in the future. In

addition, when the value of the *real* increases relative to the U.S. dollar, Japanese yen and UMBNDES, the decrease in the cost of servicing our debt is offset by our losses on the derivatives associated with it. See Item 3.A. Key Information Selected Financial Data Exchange Rates for more information on exchange rates.

Fluctuations in interest rates may have an adverse effect on our business and on the market price of our preferred shares and ADSs.

Between October 2002 and February 2003, the Central Bank increased the basic interest rate by 8.5 percentage points, to 26.5%. In June 2003, the Central Bank started again reducing the basic interest rate. As of December 31, 2007, the basic interest rate is 11.25%. As of December 31, 2007, Vivo's total indebtedness was R\$4,381.4 million. Approximately 58.1% of such indebtedness is denominated in *reais* and mostly pegged to the CDI (*Certificado Depositário Interbancário*) rate, a Brazilian interbank rate. All other debt was denominated in foreign currencies and fully covered by derivative contracts so that the final cost of the debt and the associated derivative is the CDI rate. As a consequence, an increase in the CDI interest rates and inflation indexes would increase the costs of our debt, which could adversely affect the market's perception of the value of our shares.

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

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute a more restrictive exchange control policy, including, without limitation, the extent of Brazilian foreign currency reserves, the availability of sufficient foreign exchange, the size of Brazil's debt service burden relative to the economy as a whole and political constraints to which Brazil may be subject. A more restrictive policy could affect the ability of Brazilian debtors (including us) to make payments outside of Brazil to meet foreign currency-denominated obligations.

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

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

Risks Relating to the Brazilian Telecommunications Industry and Us

Extensive government regulation of the telecommunications industry may limit, in some cases, 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.

In 2002, ANATEL changed the Personal Mobile Service (*Serviço Móvel Pessoal*), or SMP, regime (first enacted in December 2000), encouraging companies operating under the Mobile Cellular Service (*Serviço Móvel Celular*), or SMC, regime to migrate to the SMP regime.

Under the SMP regime, we no longer receive payment from our customers for outbound long-distance traffic and instead receive payment for the use of our network in accordance with a network usage payment plan, which includes outbound long distance calls. However, the interconnection fees that we receive from long-distance operators may not compensate us for the revenues that we would have received from our customers for outbound long-distance traffic. Until June 30, 2004, SMP service providers were able to opt to establish a price cap or freely negotiate their interconnection charges. Now, free negotiation is the rule, subject to ANATEL regulations relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties. In 2005, ANATEL began permitting free negotiations for mobile interconnection, or VU-M, fees and by July 2005, local-fixed concessionaires and mobile operators had reached a provisional agreement with respect to VU-M fees for local calls, or VC-1 (the agreement guaranteed a 4.5% increase in mobile operators' fees). ANATEL approved that provisional agreement and in March 2006, approved another provisional agreement for VU-M fees for long-distance calls, or VC-2, VC-3, and international, among the same operators that had made the VC-1 agreement in July 2005. In July 2007, ANATEL approved a provisional agreement among the fixed line operators Telefônica, Telemar, Brasil Telecom, CTBC Telecom and Sercomtel and the mobile operators for interconnection fees for VC1, VC2 and VC3 calls that provides for an annual adjustment of 1.97143% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of 2.25356% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). In January 2008, ANATEL approved a provisional agreement among the fixed line long distance operator Embratel and the mobile operators for interconnection fees for VC2 and VC3 calls, considering the period since January 2004, that provides for an annual adjustment of 4.5% as of March 2006 and an annual adjustment of 1.97143% or 2.25356% as of July 2007. Under Resolutions 438/2006, 480/2007 and 483/2007, the Brazilian Regulatory Authority developed a new model from 2010 onward to determine reference costs for the use of mobile networks (RVU-M) by SMP providers who have significant market power. These values will be used in arbitration cases involving VU-M's value by ANATEL.

Under Resolution 438, the free negotiation of the cost of use of mobile networks (VU-M) was maintained. However, in the arbitration by ANATEL, while the cost model will not be implemented until 2010, ANATEL will decide the new value of VU-M by reference to the existing ratio (as of January 1, 2006) between the value of VU-M and the value of VC-1. In addition, under the ANATEL rules, the retail rates charged to customers for local fixed to mobile calls cannot be less than the sum of the interconnection fees charged on the local fixed and mobile terminations.

Under Resolution 438, ANATEL also eliminated the partial Bill & Keep rule for network usage between SMP networks. The applicable rule is now full billing, where the SMP operator pays the entire call termination fee of the other mobile network. The rule of the partial Bill & Keep had been maintained by the SMP and SME (trunking) networks. Before full billing, an SMP operator used to pay for the use of another SMP operator's network in the same registration area only if the traffic carried from the first operator to the second exceeded 55% of the total traffic exchanged between them. In that case, only those calls that surpassed the 55% level were subject to payment for network usage.

We cannot predict whether the current regulatory regime will remain in place or whether any future regulatory change will have an adverse effect on our results of operations.

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

The Brazilian government currently uses the General Price Index, or the IGP-DI (the *Índice Geral de Preços Disponibilidade Interna*), an inflation index developed by the *Fundação Getúlio Vargas*, a private Brazilian economic organization, in connection with the prices charged in the wireless telecommunications industry. Starting in 2010, the Brazilian government will begin regulating the telecommunications industry based on an economic model (FAC, or Fully Allocated Costs) that analyzes companies' total costs based on a theoretical company's costs and other factors. In connection with the introduction of this model, the Brazilian government will use a different inflation adjustment mechanism, the IST index (*Índice de Serviços de Telecomunicações*), starting in 2010. Under Resolution 438/2006, after the economic model is implemented in 2010, ANATEL will determine the reference cost of using mobile networks (RVU-M) for SMP providers who have significant market power, which will be used in the arbitration case by ANATEL to determine the value of VU-M. The inflation adjustment of the RVU-M value will use the IST index. In the auctions by SMP of new radio frequency bands, Anatel has been using the IST index for determining the value of the installments to be paid for the licenses. If this new inflation adjustment mechanism, or any other mechanism chosen by the Brazilian government in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

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

ANATEL has proposed new regulations on interconnection rules, some of which could have an adverse effect on our results. The following regulations on interconnection rules have been promulgated: the new General Regulation of Interconnection (*Regulamento Geral de Interconexão* Resolution number 410/2005, or RGI); the Regulation of Separation and Allocation of Costs (Resolution number 396/2005); the Regulation of Industrial Exploration of Dedicated Lines (*Exploração Industrial de Linha Dedicada* Resolution number 402/2005, or EILD); the Regulation of Remuneration of Use of SMP Providers Networks (Resolution number 438/2006); the Regulation of Fixed and Wireless Number Portability (Resolution number 460/2007, effective March 2009); the new Regulation of SMP (Resolution number 477/2007, effective February 13, 2008); the Regulation of Terms of Separation and Allocation of Costs (Resolution numbers 480/2007 and 483/2007) and Invitation Document number 002/2007/SPV-ANATEL related to the auction organized in December 2007 of new licenses for the 1900-2100 MHz radio frequency bands (3G licenses), denominated bands F , G , I and J , which states that, in the maximum allowed period of eighteen months from the publication of the Terms of Authorization, the authorizations resulting from this auction will be combined with the existing SMP authorizations of the bid winners when pertaining to the same region of the general authorization plan of SMP. VIVO acquired spectrum licenses in band J in regions where the company possesses SMP licenses. The regulations that may adversely affect our results are (1) the new negotiation rules for VU-M prices by which ANATEL would have a role in determining the reference cost for use of mobile networks (RVU-M) by SMP providers who have significant market power, which will be used in the arbitration case by ANATEL of the value of VU-M, rather than the current, free-market negotiation of prices, (2) the VU-M price unification among SMP providers of the same economic group having significant market power, in the same region of the general authorization plan (*Plano Geral de Autorizações*, or PGA) of SMP and (3) the amendments in the regulation of SMP. These regulations could have an adverse effect on our revenues and our results of operations because (1) ANATEL may allow more favorable prices for economic groups without significant market power and (2) the prices we charge in some regions in which we operate are higher than those in some other regions, and consolidation of those prices, competitive pressures and other factors could reduce our average prices and thereby reduce our revenues. In the newly-amended regulation of SMP, ANATEL targets areas of vital importance for mobile business, such as the necessity for retail stores in the cities within an operator's coverage areas, increases in the validity periods of prepaid cards, and a limitation on the period of time after which customers may leave service plans.

In Resolution 460/2007 ANATEL published regulations that will implement and develop fixed and wireless number portability in Brazil by March 2009. For SMP, number portability will only be applied for wireless codes of access of the same registration area. For fixed operators, number portability will only be applied for fixed codes of

access of the same local area. There can be no assurance that this new regulation will not have adverse effects on the results of our operations.

In September 2007, ANATEL organized auctions for new SMP licenses in the remaining radio frequency bands D and E and in the 1.8 GHz band (band M), and fifteen SMP licenses in the 1.9 GHz band (band L), previously allocated to fixed operators. VIVO acquired thirteen spectrum licenses in band L.

Resolution 454, published by ANATEL in 2006, relates to the new regulation of conditions for the use of radiofrequency bands of 800 MHz, 900 MHz, 1,800 MHz, 1,900 MHz, which was previously allocated for fixed operators to provide services using WLL technology, and 2,100 MHz, which are allocated for SMP.

In December 2007, ANATEL organized auctions of thirty-six new licenses for the 1900-2100 MHz radio frequency bands (3G licenses), denominated bands F, G, I and J, and VIVO acquired seven spectrum licenses in bands J. The Invitation Document number 002/2007/SPV-ANATEL for this auction states that, in the maximum allowed period of eighteen months from the publication of the Terms of Authorization, the authorizations resulting from this auction must be combined with the existing SMP authorizations of the bid winners when pertaining to the same region of the general authorization plan of SMP. Moreover, the Invitation Document modifies the rule for the renewal of radio frequency licenses and includes in the calculation of the operating profits the profits of remuneration for the use of the SMP network together with the profits of the service plans.

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

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

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

These factors have already contributed to a negative effect on our market share and our results of operations and could have a material adverse effect on our business and results of operations in the future. As a result of competitive pressures, for example, our market share decreased from 38.2% as of December 31, 2006 to 36.7% as of December 31, 2007, and our market share of net additions to our customer base increased from a negative percentage of 8.5% for the twelve months ended December 31, 2006 to 28.8% for the twelve months ended December 31, 2007. In addition, our net additions of customers increased 689% from the twelve months ended December 31, 2006 to the twelve months ended December 31, 2007.

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

In September 2004, Brasil Telecom, the fixed-line incumbent in nine states in Brazil and the Federal District (ANATEL's Region II), launched GSM operations in those states. Brasil Telecom's authorization area overlaps ours in Brasilia and in the states of Acre, Goias, Mato Grosso, Mato Grosso do Sul, Rondonia, Tocantins, Paraná, Santa Catarina and Rio Grande do Sul. The entrance of Brasil Telecom into these markets will increase the competition that Vivo face in some states. Brasil Telecom has announced that its marketing strategy will be the convergence between its fixed and mobile services, and it is the only company in those states that offers both fixed and cellular

services. The entrance of Brasil Telecom into the cellular markets in these states increase competition for Vivo and have a material adverse effect on our results of operations.

Our results of operations have been negatively affected by a decrease in our customer growth and could also be affected if our rate of customer turnover increases.

Our rate of acquisition of new customers can be negatively affected by market penetration. For example, our net additions of customers decreased 123.5% from the twelve months ended December 31, 2005 to the twelve months ended December 31, 2006 and increased 689.1% to the twelve months ended December 31, 2007. The decrease in 2006 was due to a decrease in the addition of new prepaid customers to a loss of 517,373 new prepaid customers in the twelve months ended December 31, 2006, compared to the addition of 2,703,995 new prepaid customers in the comparable period of the prior year. The increase in 2007 was due to an increase in the addition of new prepaid customers to 3,692,360. This variation in the rate of new additions of customers has negatively affected our results of operations and could continue to do so in the future. In addition, if our rate of customer turnover were to increase significantly, our results of operations and or competitive position could be adversely affected. Several factors in addition to competitive pressures could influence our rate of acquisition of new customers and our rate of customer turnover, including limited network coverage, lack of sufficient reliability of our services and economic conditions in Brazil.

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

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

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

Certain debt agreements contain financial covenants, and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.

Certain existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios and tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements.

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

As of December 31, 2007, PT Móveis SGPS, S.A. and Telefónica S.A., our principal shareholders, owned, directly and indirectly, approximately 89.3% of our common shares and 62.8% of our total capital. PT Móveis SGPS, S.A. is 100% controlled by Portugal Telecom, SGPS, S.A. See Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders. Due to their share ownership, our principal shareholders have the power to control us and our subsidiary, including the power to elect our directors and officers and determine the outcome of any action requiring shareholder approval, including corporate reorganizations and the timing and payment of our dividends.

The cellular 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 base stations may cause health problems. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. According to the World Health Organization (WHO), there is no evidence in the latest medical research that shows any relationship between radio frequency emissions of base

stations and health concerns. However, expansion of our network may be affected by perceived risks if we experience problems in finding new sites, which in turn may delay expansion and may affect the quality of our services. On July 2, 2002, ANATEL published Resolution No. 303 that limits emission and exposure for fields with frequencies between 9 kHz and 300 GHz. In addition, the Brazilian government is developing specific legislation for the deployment of radio frequency transmission stations that will supersede the existing state and municipal laws. The new laws may create additional transmission regulations which, in turn, could have an adverse effect on our business.

We face risks associated with litigation.

We and our subsidiary are party to a number of lawsuits and other proceedings. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Legal Matters.

We may be required to record impairment charges relating to goodwill and long-lived assets in the future.

For Brazilian GAAP purposes, an impairment is recognized on goodwill if the expected net cash flows generated from the acquired net assets is not sufficient to cover their book value. As of December 31, 2007, the amount of goodwill of the Company is R\$732.3 million.

For U.S. GAAP purposes, we are required to test our goodwill for impairment at least annually. The difference between the book value of a company and its market value may indicate that an impairment exists. This impairment test is described in Note 37 to our audited consolidated financial statements. Vivo, in particular, has substantial goodwill, including goodwill related to the acquisition of TCO in 2003 with a carrying value of R\$579.2 million as of December 31, 2007. It is possible that we may be required to record impairment charges relating to our goodwill in future periods, and this would have an adverse effect on our results of operations.

In addition, we are required to record impairment charges on long-lived assets, including property, plant and equipment and finite-lived intangible assets (including concessions) if the carrying value of these assets exceeds the undiscounted cash flows expected from their use of the assets for purposes of U.S. GAAP. This impairment test is also described in Note 37(m) to our audited consolidated financial statements included in this annual report. When we performed our last impairment test, our evaluation of our ability to recover the carrying value of our long-lived assets was based on projections of future operations that assumed a higher level of revenues and gross margin percentages than we have historically achieved. We may not be successful in achieving these improvements in our revenues and gross margin percentages due to the competitive environment, changes in technology or other factors. If we are unable to achieve these improvements, we may be required to record impairment charges related to our long-lived assets in future periods, and this could have an adverse effect on our operations.

Risks Relating to Our Securities

Holders of our preferred shares or ADSs may not receive any dividends.

According to Brazilian Corporate Law and our by-laws, we must generally pay dividends to all shareholders of at least 25% of our annual net income, as determined and adjusted under the Brazilian Corporate Law. These adjustments to net income for purposes of calculating the basis for dividends include allocations to various reserves that effectively reduce the amount available for the payment of dividends. We were unable to pay minimum dividends for the fiscal years ended December 31, 2003, 2004, 2005 and 2007 because we had net losses. For the fiscal year ended December 2006, we were able to pay dividends because we had net income, but the amounts paid were insufficient to meet the minimum legal requirement. In addition, according to Brazilian Corporate Law, we need not

pay dividends to our shareholders in any particular fiscal year if our board of directors determines that such distributions would be inadvisable in light of our financial condition. See Our preferred shares and our ADSs generally do not have voting rights.

Since we are a holding company, our income consists of distributions from our subsidiary in the form of dividends or other advances and payments. We do not generate our own operating revenues, and we are dependent on

dividends and other advances and payments for our cash flow, including making any dividend payments and making payments on our indebtedness.

Exchange controls and restrictions on remittances abroad may adversely affect holders of our ADSs.

Brazilian law provides that whenever there is a significant imbalance in Brazil's balance of payments or a significant possibility that such imbalance will exist, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investment in Brazil (as it did for approximately six months in 1989 and early 1990) and on the conversion of Brazilian currency into foreign currencies. These restrictions could hinder or prevent the Brazilian custodian of the preferred shares underlying the ADSs or holders who have exchanged the ADSs for the underlying preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our preferred shares will hold the *reais* that it cannot convert for the account of holders of the ADSs who have not been paid. Neither the custodian nor the depository will be required to invest the *reais* or be liable for any interest.

Holders of our ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are organized under the laws of Brazil, and most of our directors and executive officers and our independent public accountants reside or are based in Brazil. Substantially all of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of the ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests due to actions by us, our directors or executive officers than would shareholders of a U.S. corporation.

Actual or anticipated sales of a substantial number of our ADSs could decrease the market prices of our ADSs.

Sales of a substantial number of our preferred shares could negatively affect the market prices of our preferred shares and ADSs. If, in the future, existing or future holders of preferred shares make substantial sales of shares, the market price of our preferred shares and, by extension, the ADSs may decrease significantly. As a result, holders of the ADSs may not be able to sell the ADSs at or above the price they paid for them.

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. These features may substantially limit the ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The São Paulo Stock Exchange had a market capitalization of US\$1,398.7 billion as of December 31, 2007, and an average monthly trading volume of approximately US\$52.2 billion for the first twelve months of 2007.

In comparison, the NYSE had a domestic market capitalization of US\$15.7 trillion (excluding funds and non-U.S. companies) as of December 31, 2007. A liquid and active market may never develop for our common shares, preferred shares or ADSs, and as a result, the ability of holders to sell at the desired price or time may be significantly hindered.

Holders of our ADSs may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company and our shareholders may have fewer and less well-defined rights.

Holders of ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our by-laws and Brazilian Corporate Law. Our corporate affairs are governed by our by-laws and the Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, or elsewhere outside Brazil. Under Brazilian Corporate Law, the rights of a holder of our common shares or preferred shares to protect its interests with respect to actions by us, our directors or executive officers may be fewer and less well-defined than under the laws of other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our common shares, preferred shares or ADSs at a potential disadvantage. In addition, the disclosure required of public companies in Brazil may be less complete or informative than that required of public companies in the United States or in certain other countries.

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. In accordance with Brazilian Corporate Law and our by-laws, holders of preferred shares will have full voting rights in the event that we do not pay minimum dividends to those shareholders for three consecutive fiscal years, and those shareholders will retain those voting rights until we pay minimum dividends again.

Because we did not pay minimum dividends for the years ended December 31, 2001, 2002, 2003, 2004, 2005, 2006 and 2007, the holders of preferred shares have been able to exercise voting rights since the general shareholders meeting held in March 2004. However, once we begin to pay minimum dividends, these voting rights will cease. See

Holders of our preferred shares or ADSs may not receive any dividends and Item 10.B Additional Information Memorandum and Articles of Association.

Holders of our ADSs may find it difficult to exercise even their limited voting rights at our shareholders meetings.

Holders of our ADSs may exercise the limited voting rights with respect to our preferred shares represented by the ADSs only in accordance with the deposit agreement related to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders' meetings in certain newspapers in Brazil. To the extent that holders of our preferred shares are entitled to vote at a shareholders' meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs will receive notice of a shareholders' meeting by mail from the depositary following our notice to the depositary requesting the depositary do so, and so may not receive voting materials in time to instruct the depositary to vote the preferred shares underlying their ADSs. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. If voting instructions for all or part of the ADSs are not timely received by the depositary, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of the ADSs or for the manner of carrying out those voting

instructions. Accordingly, holders of the ADSs may not be able to exercise voting rights, and will have no recourse if the preferred shares underlying their ADSs are not voted as requested.

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 preemptive rights related to our preferred shares underlying any ADSs you own unless a registration statement under the U.S. Securities Act of 1933, as amended (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 the 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 and issued by BACEN, 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.

Holders of our preferred shares will be subject to, and holders of our ADSs could be subject to, Brazilian income tax on capital gains from sales of preferred shares or ADSs.

Brazilian Law No. 10,833, dated December 29, 2003, provides that gains on the disposition of assets located in Brazil by non-residents of Brazil, whether to other non-residents or to Brazilian residents, will be subject to Brazilian taxation. The common shares and preferred shares are expected to be treated as assets located in Brazil for purposes of the law, and gains on the disposition of common shares and preferred shares, even by non-residents of Brazil, are expected to be subject to Brazilian taxation. In addition, the ADSs may be treated as assets located in Brazil for purposes of the law, and therefore gains on the disposition of ADSs by non-residents of Brazil may also be subject to Brazilian taxation. Although the holders of ADSs outside Brazil may have grounds to assert that Law No. 10,833 does not apply to sales or other dispositions of ADSs, it is not possible to predict whether that understanding will ultimately prevail in the courts of Brazil, given the general and unclear scope of Law No. 10,833 and the absence of judicial court rulings in respect thereto. See Item 10.E. Additional Information Taxation Brazilian Tax Considerations.

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 Vivo Participações S.A., known as Vivo (and prior to the Merger, under the name *Telesp Celular Participações S.A.*). We have the legal status of a *sociedade por ações*, or a stock corporation, operating under Brazilian Corporate Law. Our principal executive offices are located at Avenida Doutor Chucri Zaidan, 860, 04583-110, São Paulo, SP, Brazil. Our telephone number is +55 11 7420-1172, our facsimile number is +55 11 7420-2247, and our website is *www.vivo.com.br*. The information on our website is not part of this Form 20-F. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

According to market share data published by ANATEL, we are a leading provider of cellular telecommunications services in Brazil through our subsidiary Vivo S.A., whose operations were previously provided by our former subsidiaries *TC*; *GT*; *TCO*; and the subsidiaries of *Celular CRT*; *TLE*; and *TSD*.

The following chart shows our corporate structure as of December 31, 2007:

Telebrás and the Privatization

Vivo was originally incorporated as *Telesp Celular Participações* as a result of a restructuring of Telebrás in 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 and collectively as the

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

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, twelve new holding companies. Virtually all of the predecessor companies' assets and liabilities were transferred to the new holding companies, which we refer to as the new holding companies. TCP was one of the new holding companies. TCP was awarded all of the share capital held by Telebrás in TC, one of the cellular operating companies that had provided cellular telecommunications service in the state of São Paulo since 1993. The Brazilian government's common shares of Telesp's capital stock were purchased by the Portugal Telecom group.

Global Telecom (currently Vivo S.A.)

Global Telecom (currently Vivo S.A.) is a B Band cellular concessionaire in the states of Paraná and Santa Catarina. GT began commercial operations in December 1998. In February 2001, we acquired an 81.61% indirect economic interest in GT for R\$902 million. On December 27, 2002, we acquired the remaining shares of GT for R\$290.3 million.

Brasilcel

Vivo is controlled by Brasilcel N.V., or Brasilcel, with headquarters in the Netherlands, a joint venture between Portugal Telecom and Telefónica. Through the Vivo Companies, this joint venture controls 27.7% of the total market in Brazil, according to ANATEL, with 33.5 million customers as of December 31, 2007, according to market share data published by ANATEL. Its operations cover an area of approximately 139 million inhabitants, or 73.6% of the Brazilian population, and approximately 84.0% of its GDP. Portugal Telecom and Telefónica 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 the following companies (whose operations have been conducted by Vivo S.A. since our restructuring):

- *TCP*

TCP controlled an A Band operator in the state of São Paulo, GT, a B Band operator in the states of Paraná and Santa Catarina and TCO S.A. and its subsidiaries in the states of Acre, Amazonas, Amapá, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rondônia, Roraima and Tocantins and in the Federal District, Brasília.

- *TLE*

TLE, which controlled A Band operations in the states of Bahia and Sergipe, was one of the operating subsidiaries of Telebrás that was spun off as an individual company in July 1998. It received all the capital stock held by Telebrás in the subsidiaries that provided cellular telecommunication services in the states of Bahia and Sergipe, namely, Telebahia Celular and Telergipe Celular.

TLE was purchased by a consortium formed by Iberdrola Investimentos Sociedade Unipessoal Ltda., an

investment company controlled by Iberdrola S.A. and Telefónica Internacional S.A., a subsidiary of Telefónica. On May 17, 1999, Iberoleste Participações S.A. purchased 3.07% of Telebahia's capital stock and 6.54% of Telergipe's capital stock in a tender offer. In February 2000, Telefónica and Iberdrola transferred their shares to Iberoleste, maintaining their same percentage interest in the consortium. On April 5, 2001, Telefónica purchased all the capital stock directly and indirectly held by the Iberdrola Group in TLE.

- *TSD*

TSD, which controlled A Band operators in the states of Rio de Janeiro and Espírito Santo, was one of the operating subsidiaries of Telebrás that was spun off as an individual company in July 1998. TSD received all the capital stock held by Telebrás in the subsidiaries that provided cellular telecommunication services in the States of Rio de Janeiro and Espírito Santo, namely, Telerj Celular and Telest Celular, respectively.

TSD was purchased by a consortium of Telefónica Internacional S.A., Iberdrola Investimentos Sociedade Unipessoal Ltda., NTT Mobile Communications Network, Inc. and Itochu Corporation. In May 2000, Telefónica acquired 67.51% of TSD's capital stock through an exchange offer. On April 5, 2001, Telefónica purchased from the Iberdrola group, with the authorization of ANATEL, 7% of the capital stock of Sudestecel Participações S.A., a holding company that controlled TSD.

- *Celular CRT*

Celular CRT controlled an A Band operator in the state of Rio Grande do Sul. Cellular telecommunications services were first offered in the state of Rio Grande do Sul in December 1992 by a business unit of Celular CRT Companhia Riograndense de Telecomunicações. The fixed and cellular operations of Celular CRT were split on June 25, 1998, and the cellular operations were spun off as Celular CRT. On May 4, 1999, Celular CRT obtained its registration as a publicly held company with the CVM for the trading of its shares on the over-the-counter market organized by Sociedade Operadora do Mercado de Ativos SOMA, starting on May 17, 1999. On September 8, 1999, Celular CRT registered with the Extremo Sul Stock Exchange and BOVESPA, pursuant to the applicable laws. The main shareholder of Celular CRT was the state of Rio Grande do Sul.

In 1996, the state of Rio Grande do Sul sold part of its stake in Celular CRT to Telefónica. In 1998, the remaining stake of the state of Rio Grande do Sul was sold to Telefónica. In 1999, Portugal Telecom subscribed a share capital increase of Celular CRT.

Acquisition of TCO

On April 25, 2003, TCP acquired 64.03% of the outstanding voting capital stock of TCO from Fixcel S.A. for approximately R\$1,505.6 million, corresponding to R\$19.48719845 per each lot of 1,000 shares acquired. 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. On May 25, 2003, in compliance with Brazilian legislation, we launched a tender offer for the common shares of TCO not owned by us. The acceptance period ended on November 18, 2003. As a result of the shares tendered, we acquired 74.2% of the outstanding available common shares at the price of R\$16.73 per 1,000 common shares. The total purchase price for the new shares amounted to R\$538.8 million. At December 31, 2003 we held 90.73% of TCO's ordinary shares, representing a 29.31% interest in TCO, excluding treasury stocks. We also announced the intention to launch an exchange offer for the remaining shares of TCO through which we would have become TCO's sole shareholder. This would have been followed by a merger of TCO into TCP. After the launch of the exchange offer, the CVM raised questions on its compliance with Brazilian law. Although TCP and TCO believed, and believe, that the exchange offer complied with applicable law, TCP and TCO decided to terminate the exchange offer in January, 2004. See sections TCO's Corporate Restructuring and Merger of the Vivo Companies below for more information on developments to TCO since we acquired it.

Introduction of the Vivo Brand

In April 2003, Brasilcel launched the brand name Vivo, under which TCP, TCO, TLE, TSD and Celular CRT operate. The creation of the Vivo brand constituted a consolidation of the commercial models throughout the entire country into a common commercial strategy and replaced the different brands under which the different companies offered their services in their respective states. The commercial strategy of Vivo is to increase its customer base as

well as revenues by retaining customers and maintaining their distribution channels. The launching of the Vivo brand was accompanied by loyalty programs and other measures designed to contribute to the success of the commercial strategy. Guided by a common management team, Vivo designs marketing, promotional and other initiatives common to all companies and then tailors those activities to the particular markets of those companies.

TCO s Corporate Restructuring

On June 30, 2004, the management of TCP and TCO approved the corporate restructuring of TCO and its subsidiaries Telegoiás, Telems, Telemat, Teleacre and Teleron. The reasons for restructuring were: (i) to improve TCO and its subsidiaries cash flow, which resulted in the transfer of a R\$511 million tax benefit from TCP to TCO, generated by the amortization of goodwill in the amount of R\$1,503 million, in connection with the acquisition of TCO and its subsidiaries by TCP in 2003 and (ii) to simplify the corporate structure of TCO s subsidiaries, improve TCO s capitalization and benefit the minority shareholders of TCO s subsidiaries.

VTO Voluntary Public Tender Offer

On October 8, 2004, Telesp Celular Participações concluded its public tender offer (VTO) for up to 84,252,534,000 preferred shares of TCO by TCP. The number of preferred shares tendered in the VTO exceeded the maximum number to be acquired by TCP. Due to a pro-rata allocation, TCP purchased 0.5547 preferred shares for each preferred share tendered by a TCP holder. After the VTO, on January 7, 2005, the number of TCO shares held by TCP represents 32.76% of the total preferred shares and 50.65% of the total capital stock of TCO. Also under the VTO, Avista Participações Ltda., a subsidiary of Brasilcel, purchased:

- common shares of TLE representing 10.0% of TLE s total common shares and preferred shares of TLE representing 29.51% of TLE s total preferred shares;
- common shares of TSD representing 3.27% of TSD s total common shares and preferred shares of TSD representing 4.89% of TSD s total preferred shares; and
- common shares of Celular CRT representing 4.48% of Celular CRT s total common shares and preferred shares of Celular CRT representing 23.44% of Celular CRT s total preferred shares.

Rights Offering

On November 8, 2004, TCP announced a capital increase of up to R\$2,053,895,871.47, upon private subscription, with an issuance of 410,779,174,294 new shares, of which 143,513,066,618 are common shares and 267,266,107,676 are preferred shares, identical in every aspect to those shares currently existing, at the issuance price of five *reais* (R\$5.00) per lot of one thousand shares, for both types of shares.

The capital increase was carried out in three subscription stages, with due regard to preemptive rights, and ended with an auction of the remaining shares held on January 4, 2005, which was confirmed by the Board of Directors at a meeting held on January 7, 2005. The capital stock was increased to R\$6,427,557,341.20, represented by 1,582,563,526,803 shares, of which 552,896,931,154 are common shares and 1,029,666,595,649 are preferred shares. Following the rights offering, Brasilcel held 94.9% of our common shares, 50.0% of our preferred shares, and 65.7% of our total capital stock.

Brasilcel s Share Holding Increases of TLE, TSD, and Celular CRT

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In July 2005, Brasilcel and its affiliates acquired additional voting capital stock of TLE, TSD and Celular CRT in respective Share Holding increases. As a result of those transactions, Brasilcel held:

- 68.72% of TLE's common shares, 40.95% of TLE's preferred shares and 50.67% of TLE's total capital stock;
- 92.01% of TSD's common shares, 90.27% of TSD's preferred shares and 91.03% of TSD's total capital stock;
and

- 90.57% of Celular CRT's common shares, 51.47% of Celular CRT's preferred shares and 68.77% of Celular CRT's total capital stock (excluding treasury shares).

Merger of the Vivo Companies

In February 2006, shareholders of the Vivo Companies approved their consolidation with one another through a Brazilian law procedure (the Merger) whereby TCO became a wholly owned subsidiary of TCP pursuant to a merger of shares (*incorporação de ações*) of TCO and a merger of companies (*incorporação de empresas*) of TLE, TSD and Celular CRT with and into TCP, with TCP as the surviving company. Holders of common shares, preferred shares or (where applicable) ADSs of TCO, TLE, TSD and Celular CRT received common shares, preferred shares or ADSs, respectively, of TCP upon approval of the Merger by the requisite percentage of the voting shareholders of TCP, and of TCO, TLE, TSD and Celular CRT, as applicable. Upon the completion of the Merger, TCP was renamed Vivo Participações S.A. and has become the holding company of TCO and GT and of the remaining subsidiaries of TLE, TSD and Celular CRT.

The boards of directors (*Conselhos de Administração*) of each of the constituent companies to the Merger completed their respective approval processes for the Merger by December 4, 2005, and the respective shareholders approved the transaction as of February 22, 2006. The reasons for the Merger were to align the interests of the shareholders of TCP, TCO, and TLE, TSD and Celular CRT, which were previously under common control; to improve the liquidity of the resultant securities; to simplify the shareholding and organizational structure of the Vivo companies and expand its shareholder base; and to take advantage of important synergies among the companies, which were already operating under the common Vivo brand.

Pursuant to the Merger, Brasilcel and its subsidiaries hold 89.0% of TCP's common shares. Under the Protocol of Merger of Shares and Merger of Companies and Instrument of Justification, the agreements which govern the Merger, TCP underwent a capital increase in the amount of R\$2,631,136,636.01 as a result of the Merger, from R\$6,670,152,498.26 to R\$9,301,289,134.27. The agreements also provided that Celular CRT's preferred shares held in treasury are transferred to TCP in connection with the Merger. At the Vivo Shareholders' Meeting held on February 22, 2006, TCP reduced its capital in the amount of R\$3,147,782,181.54, from R\$6,670,152,498.26 to R\$3,522,370,316.72, as approved by management and the shareholders and in accordance with Brazilian Corporate Law, which permits reductions in capital up to the amount of accumulated losses, allowing a more accurate valuation of the company and the possibility for eventual future distributions of dividends. TCP subsequently changed its corporate name to Vivo. The total capital of Vivo following the merger was R\$6,153,506,952.73 due to an increase in the amount of R\$2,631,136,636.01 as a result of the Merger. For more information on the Merger, see the Protocol of Merger of Shares and Merger of Companies and Instrument of Justification among TCP, TSD, TLE and Celular CRT dated December 4, 2005, which is included as an exhibit to this report.

CVM regulations permit the acquiror of a publicly held company to capitalize the tax benefits arising from the amortization of goodwill generated in the acquisition of that company, so long as preemptive rights are extended to the other shareholders of the publicly held company in connection with the capital increase. At the time of the Merger, any rights previously held by Vivo, in connection with its existing investment in TCO, or by certain controlling shareholders, in the case of TSD, TLE and Celular CRT, to capitalize credits of such companies will remain in effect. As a result, at the time of the Merger, Vivo retained its prior rights to capitalize its credits in TCO and such controlling shareholders acquired the right to use their credits in future capital increases of Vivo.

Capital Increase

On June 08, 2006, the Board of Directors of Vivo Participações approved a capital increase and issued a total of 15,705,528 new common shares at the issue price of R\$12.37 in connection with Brasilcel's capitalization of certain

tax benefits relating to the goodwill it recorded when it acquired us in December 2002 and with preemptive rights exercised by our shareholders. CVM regulations permit buyers of joint stock companies to capitalize tax benefits derived from goodwill, provided preemptive rights related to such capital increase are extended to the other shareholders of the joint stock company. The goodwill Brasilcel capitalized included approximately R\$193.9 million in tax benefits for the fiscal year ending on December 31, 2005 and approximately R\$0.4 million for previous fiscal years, totaling approximately R\$194.3 million.

The issue price was 100% of the weighted average of the closing prices registered by the São Paulo Stock Exchange in the 15 trading sessions held between April 07, 2006 and May 02, 2006. The preemptive rights were authorized to be exercised in the period between May 08, 2006 and June 06, 2006.

As a result of this capital increase Brasilcel's holdings in us consisted of 89.3% of Vivo common shares, 47.5% of Vivo preferred shares and 62.8% of Vivo's total capital.

The tax benefits for the years ended 2006 and 2007 will be capitalized during the year ending 2008 in accordance with the preemptive right for the capital increase provided under Brazilian Corporate Law.

Corporate Restructuring of Our Operating Subsidiaries

On October 31, 2006, our shareholders approved the merger of Telergipe, Telebahia, Telerj, Telest, CRT, TC, TCO, Telegoiás, Telemat, Telems, Teleron, Teleacre and NBT (each an Operating Subsidiary and collectively, the Operating Subsidiaries) into Vivo S.A. (formerly known as GT) (the Corporate Restructuring). TCO - IP S.A. remained a separate entity, as it is not an SMP operator.

The remaining rights of the former minority shareholders of TCO, Telegoiás, Telemat, Telems, Teleacre and Teleron survived the Corporate Restructuring of the Operating Subsidiaries as of November 1, 2006 and continue to exist under Vivo S.A.

Due to this Corporate Restructuring, the SMP and SCM services that were offered by the Operating Subsidiaries in their respective areas and regions, along with their clients and users, were transferred to Vivo S.A.

The Corporate Restructuring had no impact on Vivo's consolidated financial statements, capital stock or shareholders' equity.

The benefits of this restructuring included, among others, increased organizational efficiency, a more effective management and streamlined administrative and commercial functions.

Acquisition of Telpart, Telemig and Tele Norte.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments. Telpart is the parent company of Telemig and Tele Norte. In addition, pursuant to the agreement, Vivo will acquire from Telpart certain subscription rights with respect to goodwill reserves for R\$87 million. The completion of the transaction is subject to customary closing conditions.

Upon closing of the transaction, in accordance with Brazilian law, Vivo will launch mandatory tender offers for the acquisition of common shares held by non-controlling shareholders at 80% of the price paid for the controlling stake. The mandatory tender offers will be extended to Telemig Participações; Telemig Celular; Tele Norte Participações, a holding company of Amazônia Celular S.A. (Amazônia Celular), which is the SMP provider in Area 8 of Region 1 of the Plano Geral de Autorizações of the SMP that covers the northern Brazilian states of Amazonas, Roraima, Amapá, Pará and Maranhão; and Amazônia Celular. In addition, Vivo intends to launch voluntary tender offers for up to one-third of all classes of preferred shares held by the non-controlling shareholders in the holding and operating companies at a 25% premium to the weighted average price of the last 30 trading days up to August 1, 2007.

On August 21, 2007, Vivo's General Shareholders Meeting approved and ratified the stock purchase agreement mentioned above. On November 9, 2007, ANATEL approved Vivo's acquisition of Telemig pursuant to Action (Ato) No. 68,401, and on March 5, 2008, it approved the acquisition of Tele Norte for subsequent sale to Telemar pursuant to Action (Ato.) No. 1.261/2008. Assuming full acceptance of all offers, Vivo will have acquired a beneficial interest of 58.2% in Telemig Celular and 54.6% in Amazônia Celular, for an aggregate consideration of approximately R\$2.9 billion (including the value of the subscription rights). As Telemig Celular and Amazônia

Celular operate in the regions of Minas Gerais and Amazonia, respectively, the transaction will therefore allow Vivo to increase its coverage and customer base.

On December 20, 2007, in accordance with the terms of ANATEL's Instruction CVM 358 of 01/03/02, Vivo publicly announced that it signed a stock purchase agreement with Telemar, a Brazilian telecommunications company unrelated to either Telpart or Vivo, for the sale of all of the Tele Norte shares it was acquiring from Telpart under the stock purchase agreement dated August 2, 2007, in order to facilitate its acquisition of the shares of Telemig. Vivo based its decision to execute the stock purchase agreement of December 20, 2007 with Telemar on the fact that while ANATEL approved the acquisition of the shares of Telemig Participações by means of Act No. 68,401 of November 6, 2007, the approval of the acquisition of Tele Norte shares had been pending for a longer time period and Vivo believed that ANATEL was more likely to have approved its acquisition of Telemig shares from Telpart if Vivo sold the Tele Norte shares to a third party. Subsequent to signing this stock purchase agreement, and pursuant to Act No. 1,261 dated March 5, 2008 published in the DOU on March 7, 2008, ANATEL approved the transfer of shares of Tele Norte to Vivo and the subsequent transfer of these shares to Telemar.

The sale to Telemar was agreed to be in the amount of R\$120,009,893.00, subject to the indexation set forth in the stock purchase agreement dated December 20, 2007, which is equivalent to the price Vivo paid for these same shares under the terms of the stock purchase agreement of August 2, 2007. The sale will be consummated upon, among other conditions, ANATEL's approval of the Tele Norte acquisition by Vivo.

Capital Expenditures

The primary focus of our capital expenditure program has been, and continues to be, the improvement of the capacity of the services we currently offer and the provision of new services as well as the development of information systems.

The following tables set forth our total capital expenditures for the companies and periods indicated:

| Vivo | Year ended December 31, | | |
|----------------------------|-------------------------|---------|---------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Switching equipment | 417.3 | 375.9 | 523.0 |
| Transmission equipment | 726.9 | 844.4 | 862.8 |
| Information technology | 267.2 | 414.8 | 407.6 |
| Others(3) | 494.3 | 468.8 | 413.1 |
| Total capital expenditures | 1,905.7 | 2,103.9 | 2,206.5 |

| State of São Paulo | Areas 1 and 2 | Year ended December 31, | | |
|------------------------|---------------|-------------------------|---------|---------|
| | | 2007(1) | 2006(1) | 2005(2) |
| | | (in millions of reais) | | |
| Switching equipment | | 133.4 | 121.3 | 216.2 |
| Transmission equipment | | 267.1 | 304.7 | 309.7 |

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| | | | |
|----------------------------|-------|-------|---------|
| Information Technology | 238.2 | 351.5 | 360.4 |
| Others(3) | 143.8 | 167.4 | 120.9 |
| Total capital expenditures | 782.5 | 944.9 | 1,007.2 |

Year ended December 31,

| States of Rio de Janeiro and Espírito Santo Area 3 | 2007(1) | 2006(1) | 2005(2) |
|----------------------------------------------------|-------------------------------|---------|---------|
| | (in millions of reais) | | |
| Switching equipment | 86.4 | 65.0 | 90.2 |
| Transmission equipment | 115.3 | 164.1 | 112.8 |
| Information technology | 5.6 | 12.9 | 11.6 |
| Others(3) | 106.5 | 90.3 | 82.5 |
| Total capital expenditures | 313.8 | 332.3 | 297.1 |

| Year ended December 31, | | | | |
|---------------------------------------------------|----------------|----------------|----------------|--|
| States of Paraná and Santa Catarina Area 5 | 2007(1) | 2006(1) | 2005(2) | |
| (in millions of reais) | | | | |
| Switching equipment | 56.2 | 30.5 | 25.4 | |
| Transmission equipment | 89.8 | 70.8 | 123.2 | |
| Information Technology | 2.2 | 10.6 | 6.4 | |
| Others(3) | 65.6 | 45.3 | 30.9 | |
| Total capital expenditures | 213.8 | 157.2 | 185.9 | |

| Year ended December 31, | | | | |
|------------------------------------------|----------------|----------------|----------------|--|
| State of Rio Grande do Sul Area 6 | 2007(1) | 2006(1) | 2005(2) | |
| (in millions of reais) | | | | |
| Switching equipment | 69.1 | 89.8 | 59.7 | |
| Transmission equipment | 73.8 | 43.5 | 118.4 | |
| Information technology | 5.9 | 8.0 | 4.2 | |
| Others(3) | 62.3 | 64.3 | 56.2 | |
| Total capital expenditures | 211.1 | 205.6 | 238.5 | |

| Year ended December 31, | | | | |
|-----------------------------------------------------------|----------------|----------------|----------------|--|
| Central Western and Northern regions Areas 7 and 8 | 2007(1) | 2006(1) | 2005(2) | |
| (in millions of reais) | | | | |
| Switching equipment | 46.4 | 44.0 | 101.6 | |
| Transmission equipment | 119.3 | 149.8 | 145.8 | |
| Information Technology | 8.1 | 27.0 | 19.4 | |
| Others(3) | 78.7 | 66.5 | 86.7 | |
| Total capital expenditures | 252.5 | 287.3 | 353.5 | |

| Year ended December 31, | | | | |
|-------------------------------------------|----------------|----------------|----------------|--|
| States of Bahia and Sergipe Area 9 | 2007(1) | 2006(1) | 2005(2) | |
| (in millions of reais) | | | | |
| Switching equipment | 25.8 | 25.3 | 29.9 | |
| Transmission equipment | 61.6 | 111.5 | 52.9 | |

| | | | |
|----------------------------|-------|-------|-------|
| Information technology | 7.2 | 4.8 | 5.6 |
| Others(3) | 37.4 | 35.0 | 35.9 |
| Total capital expenditures | 132.0 | 176.6 | 124.3 |

-
- (1) The financial information presented for 2006 and 2007 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.
- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.
- (3) Consisting primarily of free handset rentals, network construction, furniture and fixtures, office equipment and store layouts.

Our capital expenditure estimate for 2008 is approximately R\$6.1 billion, which includes investments in network expansion, introduction of products and services that aim at maximizing the use of cellular telephony, as well as seeking ways to constantly improve the quality of services provided to our customers.

We intend to fund these capital expenditures mostly with cash generated from operations. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

B. Business Overview

According to data regarding market share published by ANATEL, we are among the leading providers of cellular telecommunications services in Brazil, with the help of our subsidiary Vivo S.A., the leading cellular operator in Brazil. Vivo S.A. is a cellular operator in the states of São Paulo, Paraná, Santa Catarina, Acre, Amazonas, Amapá, Distrito Federal, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rondônia, Roraima, Tocantins, Bahia, Sergipe, Rio de Janeiro, Espírito Santo and Rio Grande do Sul.

In Areas 1 and 2, Vivo S.A. uses a frequency range known as A Band that covers 100% of the municipalities in its authorized areas in the state of São Paulo. At December 31, 2007, Vivo S.A. had 12.1 million cellular lines in service in these areas, which represented a 13.6% increase from December 31, 2006, and a market share of approximately 41.5% in São Paulo.

In Area 3, Vivo S.A. uses the Band A frequency range that covers 100% of the municipalities and 100% of the population in the states of Rio de Janeiro and Espírito Santo. At December 31, 2007, Vivo S.A. had 5.9 million cellular lines in service in this area, which represented a 20.9% net increase from December 31, 2006, and a market share of approximately 39.9% in those states.

In Area 5, Vivo S.A. uses a frequency range known as B Band that covers 60.0% of the municipalities in the states of Paraná and Santa Catarina and 92.5% of the population of Paraná and Santa Catarina. At December 31, 2007, Vivo S.A. had 2.8 million cellular lines in service in this area, which represented a 9.8% net increase from December 31, 2006, and a market share of approximately 25.8% in those states.

In Area 6, Vivo S.A. uses the Band A frequency range that covers 72.7% of the municipalities and 96.3% of the population in the state of Rio Grande do Sul. At December 31, 2007, Vivo S.A. had 3.6 million cellular lines in service in this area, which represented a 9.8% net increase from December 31, 2005, and a market share of approximately 43.1% in that state.

In Areas 7 and 8, Vivo S.A. is the leading cellular operator, by number of customers, in its authorization area and uses a frequency range known as A Band that covers 53.3% of the municipalities in the states of Acre, Distrito Federal, Goiás, Mato Grosso, Mato Grosso do Sul, Rondônia and Tocantins, which covers 90.2% of the population in these states, and also uses a frequency range known as B Band that covers 33.8% of the municipalities in the states of Amazonas, Amapá, Maranhão, Pará and Roraima, which covers 71.2% of the population of these states. At December 31, 2007, Vivo S.A. had 6.7 million cellular lines in service in these areas, which represented a 13.5% net increase from December 31, 2006, and a market share of approximately 34.0% in those states.

In Area 9, Vivo S.A. uses the Band A frequency range that covers 50.2% of the municipalities and 82.5% of the population in the States of Bahia and Sergipe. At December 31, 2007, Vivo S.A. had 2.2 million cellular lines in service in this area, which represented a 34.3% net increase from December 31, 2006, and a market share of approximately 27.4% in those states.

On September 18, 2007, with ANATEL's approval, Vivo acquired the Band L lots, except for lot 16 (area of Londrina PR in region 5) and lot 20 (area of Northern Brazil in region 8). Band L comprises lots in frequency ranges 1895 to 1900 Mhz and 1975 to 1980 Mhz, with 5 + 5 Mhz band width. As a result, Vivo managed to complete its last coverage gap and will soon be operating in the entire Brazilian territory.

On December 20, 2007, with ANATEL's approval, Vivo acquired the Band J lots with 10 + 10 Mhz band width, with the exception of the lots in the state of Minas Gerais.

Our Operations

The following tables set forth information about Vivo S.A.'s cellular telecommunications base, coverage and related matters at the dates and for the years indicated.

State of São Paulo Areas 1 and 2

| | Year ended December 31, | | |
|-----------------------------------------------------------|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Cellular lines in service at year-end (in thousands) | 12,142 | 10,684 | 10,476 |
| Contract customers | 2,125 | 1,803 | 1,779 |
| Prepaid customers | 10,017 | 8,881 | 8,696 |
| Growth in cellular lines in service during year | 13.6% | 2.0% | 13.5% |
| Churn(1) | 25.4% | 28.6% | 18.7% |
| Estimated population of concession areas (in millions)(2) | 41.2 | 40.6 | 39.7 |
| Estimated covered population (in millions)(3) | 41.2 | 40.6 | 39.7 |
| Percentage of population covered(4) | 100% | 100% | 100% |
| Penetration at year-end(5) | 71.0% | 59.6% | 53.0% |
| Percentage of municipalities covered | 100% | 100% | 100% |
| Market share(6) | 41.5% | 44.2% | 49.2% |

States of Rio de Janeiro and Espírito Santo Area 3

| | Year ended December 31, | | |
|-----------------------------------------------------------|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Cellular lines in service at year-end (in thousands) | 5,947 | 4,920 | 4,740 |
| Contract customers | 1,391 | 1,343 | 1,476 |
| Prepaid customers | 4,556 | 3,577 | 3,264 |
| Customer growth during the year | 20.9% | 3.8% | 8.3% |
| Churn(1) | 25.5% | 32.6% | 29.5% |
| Estimated population of Region at year-end (millions)(2) | 19.4 | 19.1 | 18.8 |
| Estimated covered population at year-end (millions)(3) | 19.4 | 19.1 | 18.8 |
| Percentage of population of Region covered at year-end(4) | 100% | 100% | 100% |
| Penetration at year-end(5) | 76.8% | 64.3% | 58.8% |
| Percentage of municipalities covered | 100% | 100% | 100% |
| Market share(6) | 39.9% | 39.9% | 42.6% |

States of Paraná and Santa Catarina Area 5

| | Year ended December 31, | | |
|------------------------------------------------------|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Cellular lines in service at year-end (in thousands) | 2,823 | 2,570 | 2,910 |
| Contract customers | 494 | 406 | 366 |
| Prepaid customers | 2,329 | 2,164 | 2,543 |
| Growth in cellular lines in service during year | 9.9% | (11.7)% | 12.8% |
| Churn(1) | 34.5% | 44.1% | 20.0% |

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| | | | |
|-----------------------------------------------------------|-------|-------|-------|
| Estimated population of concession areas (in millions)(2) | 16.7 | 16.5 | 16.1 |
| Estimated covered population (in millions)(3) | 15.4 | 15.2 | 14.9 |
| Percentage of population covered(4) | 92% | 93% | 92.3% |
| Penetration at year-end(5) | 65.7% | 56.6% | 51.4% |
| Percentage of municipalities covered | 60.0% | 60.0% | 59.0% |
| Market share(6) | 25.8% | 27.6% | 34.5% |

State of Rio Grande do Sul Area 6

| | Year ended December 31, | | |
|------------------------------------------------------|--------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Cellular lines in service at year-end (in thousands) | 3,647 | 3,321 | 3,387 |
| Contract customers | 939 | 790 | 829 |

| | Year ended December 31, | | |
|-----------------------------------------------------------|-------------------------|--------|-------|
| | 2007 | 2006 | 2005 |
| Prepaid customers | 2,709 | 2,530 | 2,558 |
| Growth in cellular lines in service during year | 9.8% | (2.0)% | 5.3% |
| Churn(1) | 24.1% | 27.5% | 21.7% |
| Estimated population of concession areas (in millions)(2) | 10.7 | 10.6 | 10.5 |
| Estimated covered population (in millions)(3) | 10.4 | 10.2 | 10.0 |
| Percentage of population covered(4) | 96.4% | 96% | 96.0% |
| Penetration at year-end(5) | 78.7% | 71.3% | 65.6% |
| Percentage of municipalities covered | 72.7% | 70.0% | 69.9% |
| Market share(6) | 43.1% | 43.8% | 48.3% |

Central Western and Northern regions Areas 7 and 8

| | Year ended December 31, | | |
|-----------------------------------------------------------|-------------------------|---------|-------|
| | 2007 | 2006 | 2005 |
| Cellular lines in service at year-end (in thousands) | 6,713 | 5,912 | 6,815 |
| Contract customers | 899 | 836 | 970 |
| Prepaid customers | 5,814 | 5,075 | 5,845 |
| Growth in cellular lines in service during year | 13.6% | (13.3)% | 17.1% |
| Churn(1) | 33.2% | 47.3% | 19.2% |
| Estimated population of concession areas (in millions)(2) | 35.3 | 34.6 | 33.8 |
| Estimated covered population (in millions)(3) | 28.7 | 28.0 | 27.1 |
| Percentage of population covered(4) | 81.5% | 81.0% | 80.4% |
| Penetration at year-end(5) | 56.0% | 47.3% | 44.0% |
| Percentage of municipalities covered | 46.4% | 46.0% | 44.7% |
| Market share(6) | 34.0% | 36.1% | 45.5% |

States of Bahia and Sergipe Area 9

| | Year ended December 31, | | |
|---------------------------------------------------------|-------------------------|-------|-------|
| | 2007 | 2006 | 2005 |
| Cellular lines in service at year-end (in thousands) | 2,212 | 1,647 | 1,477 |
| Contract customers | 399 | 331 | 323 |
| Prepaid customers | 1,813 | 1,316 | 1,154 |
| Customer growth during the year | 34.3% | 11.5% | 11.9% |
| Churn(1) | 29.7% | 32.1% | 33.6% |
| Estimated population of region at year-end (million)(2) | 16.2 | 16.0 | 15.8 |
| Estimated covered population at year-end (million)(3) | 13.4% | 12.4% | 11.1% |
| Percentage of population covered at year-end(4) | 82.5% | 78.0% | 70.3% |
| Penetration at year-end(5) | 49.8% | 38.6% | 29.2% |

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| | | | |
|--------------------------------------|-------|-------|-------|
| Percentage of municipalities covered | 50.2% | 45.0% | 33.1% |
| Estimated market share(6) | 27.4% | 26.6% | 31.8% |

-
- (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).
 - (3) Number of people within our Region that can access our cellular telecommunications signal.
 - (4) Percentage of the population in our Region that can access our cellular telecommunications signal.
 - (5) Number of cellular lines in service in our Region, including those of our competitors, divided by the population of our Region.
 - (6) Estimate based on all lines in service in our Region at year-end.

Our Services

We provide cellular telecommunications services using GSM/EDGE, CDMA and TDMA. Our network provides both CDMA digital service and AMPS, an analog service that we have substantially phased out. We provide cellular telecommunications services in the frequency of 850 MHz using digital technology CDMA/TDMA and analog technology AMPS, which has been substantially phased out. All our services are provided in the frequency of 850 MHz.

We provide voice and ancillary value-added services, including voicemail and voicemail notification, call forwarding, three-way calling, caller identification, short messaging, limitation on the number of used minutes, cellular chat room, and data service such as wireless application protocol service through which clients can access WAP sites and portals. We offer direct access to the Internet through either PCMCIA cards (Personal Computer Memory Card International Association, an organization consisting of some 500 companies that has developed standardized small, credit card-sized devices, called PC Cards) designed to connect compatible PDAs (Personal Digital Assistant, a handheld device that combines computing, telephone/fax, Internet and networking features) and laptops or cellular phones by a cable connection that offers corporate subscribers secure access to their intranet and office resources. We also offer some new services like Multimedia Message Service and MExE (Mobile Execution Environment), which enables the wireless device to download applications and execute them on the mobile along with a user interface that contains icons on the wireless device to identify the main services (such as Voice Mail, Downloads and text messaging (SMS)) for easier access to our services.

In 2004, we launched:

Vivo Direto service this service allows users to make individual and group calls;

Vivo Encontra (LBS) a group of location based services, including Vivo Localiza, using GPSOne as a location technology, a service that allows users to locate each other;

Vivo Aqui Perto a city-guide application;

Vivo Agenda (Synchronized Agenda) this service allows users to back up their contact lists and to recover any information lost in case of robbery or loss;

Vivo em Ação an alternative-reality game that encourages the client to use different ancillary services;

Vivo Avisar makes the client aware of calls missed when their phone is unavailable;

Olho Vivo (video monitoring, launched in March 2004) was the first monitoring application in Brazil. Subscribers can see real-time images of a webcam connected to a PC through their personal mobiles at a rate of 4 frames per second;

TV no Celular (video streaming launched in October 2004) was the first application of streaming video in Brazil. Subscribers can see real-time audio and television images through their personal mobiles.

In 2005, we launched:

Vivo Play 3G a multimedia service that leverages the 3rd generation CDMA EV-DO network to provide users with downloading and streaming of video content as cartoons, news, soccer, adult content, weather forecasts and sitcoms exclusively created for mobile phones. The service also offers users the option to download full track music to

mobile phones;

Vivo Zap 3G a wireless broadband Internet access for computers and handhelds using PCMCIA cards or cell phones that achieves a high data transfer rate of up to 2.4 Mbps using the 3rd generation CDMA EV-DO network and gives users an experience similar to that achieved with wired broadband connections but with the advantage of mobility;

Smart Mail a Wireless PIM solution that enables real-time access for corporate e-mail service or personal e-mail accounts through a PDA providing on-line e-mail notifications and calendar or contact synchronization;

World Phone using the same wireless device and number, the World Phone allows Vivo subscribers to automatically roam over CDMA/GSM networks in more than 170 countries;

Instant Messenger the most popular Internet instant messenger application (MSN) available for Vivo wireless device through WAP; and

MMS Interoperability interoperability agreements established with six main mobile operators in Brazil that allows Vivo subscribers to send and receive multimedia messages from other operators subscribers.

In 2006 we launched:

Vivo Localiza Familia a location based service that allows children to be located and monitored by their parents via cellular phones or the internet;

Vivo Localiza Amigos a location based service that enables customers to locate their friends, as well as to be located by their friends, via the relevant address and a map of the region;

Vivo Co-Piloto a location based service that assists the user in moving from one point to another in several Brazilian cities, and that is offered in the form of a Brew application, which is an application development platform created by Qualcomm for mobile phones;

Vivo Bolão an interactive game that tests the user s knowledge of soccer;

Instant Messenger the most popular Internet instant messenger application (MSN), which is now made available for Vivo wireless devices through SMS;

Vivo ao Vivo new interface for Vivo GSM terminals;

Vivo e Você na Copa exclusive CBF (Brazilian Soccer Confederation) content (including games, tones, wallpapers, videos and a voice portal) during the World Cup;

Vivo Chip - a service menu on GSM SIM Cards;

Vivo Flash a fixed-wireless connection to the internet; and

Vivo Torpedo E-Mail Corporate a service that transforms the cellular phone number into an email address, and enables users to receive every email sent to them as SMS .

Further, Vivo has improved its current product offerings, as follows:

TV no Celular (video streaming) now includes RTP (Radio e Televisão de Portugal) programming;

Vivo Play 3G now includes music content from Warner Music and Universal Music; and

Vivo Portal de Voz an exclusive reverse auction service with SBT (Sistema Brasileiro de Televisão).

In addition, in 2007 we launched:

Vivo Pós + Speedy first major marketing initiative with Telefonica Brazil offering billed customers and Speedy (ADSL broadband service) customers a one year complimentary offer (free fixed-to-mobile and mobile-to-fixed calls during weekends) upon the purchase of a loyalty contract;

Positivo Partnership – exclusive agreement with the largest computer manufacturer in Brazil, Positivo Informatica, regarding several marketing initiatives to be conducted together with VIVO’s Internet Services, including various commercial bundles, special data plans, customized notebooks and trademarking initiatives;

Vivo em Ação 4 – the fourth edition of the first alternative multi-platform reality game released by us in 2004 where players can use SMS, voice portal, WAP and other platforms to complete a mission and earn prizes;

Leilão Vivo – the first white label multi-interface reverse auction released in Brazil by a mobile operator;

Vivo Play Dual Delivery – an improvement to Vivo’s music download service allowing the user to download a track on a mobile phone and a computer with a single purchase;

Search and mobile marketing agreements signed with Yahoo;

A new WAP Portal (presently available only for Vivo employees but soon to be available for all clients);

A new smartphone portal (presently available only for BlackBerry devices but soon to be available for all smartphones);

EU VIVO CINEMA – a Wapsite with information and downloadable contents about movies and the cinema;

Music Phones – first-ever launch in Brazil of music phones with embedded content;

BlackBerry – launch of BlackBerry®, a popular email solution for individuals and businesses;

Vivo Avisar – roll-out of the service Who Called, which can now be acquired by any Vivo customer; and

A translation center available for tourists during the Pan American Games in Rio de Janeiro in 2007.

We offer roaming services through agreements with local cellular service providers throughout Brazil and other countries that allow our subscribers to make and receive calls while out of our concession areas. We also provide reciprocal roaming services for subscribers of such other cellular service providers while they are in our concession areas.

Our Region

Vivo provides mobile telecommunications services on the A and B Band frequencies in 19 Brazilian states in addition to Distrito Federal, which represents the federal district, representing a total of approximately 7.3 million square kilometers, or 85.6% of the Brazilian territory. This area includes more than 135.2 million people, representing 73.6% of Brazil’s total population of 183.8 million people, and 212 municipalities with a population in excess of 100,000. On September 25, 2007, Vivo acquired a license to operate within 5 states located in the Northeast region (Ceará, Pernambuco, Piauí, Paraíba and Rio Grande do Norte). Combined with the acquisition of Telemig (as mentioned in Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte), this expansion by Vivo into the Northeast region provides it with national coverage.

The following table sets forth population, gross domestic product (GDP), and per capita income statistics for each state in Vivo’s service regions at the dates and for the years indicated:

At December 31, 2007

Last Available IBGE Data

| Area | Frequency | Population | Percent of | GDP (in | Percent of | Per capita |
|--------------------------|------------|-------------------|-------------------------|-----------------------|-----------------|----------------------|
| | Range | (in thousands)(1) | Brazil s population (1) | millions of reais)(2) | Brazil s GDP(2) | income (in reais)(2) |
| | (Band) | | | | | |
| São Paulo state | A, L and J | 39,838 | 21.7% | 727,052 | 33.9% | 17,997 |
| Paraná state | A, L and J | 10,279 | 5.6% | 126,621 | 5.9% | 12,339 |
| Santa Catarina state | A, L and J | 5,868 | 3.2% | 85,295 | 4.0% | 14,539 |
| Goiás state | A, L and J | 5,644 | 3.1% | 50,536 | 2.4% | 8,992 |
| Tocantins state | A, L and J | 1,248 | 0.7% | 9,083 | 0.4% | 6,957 |
| Mato Grosso state | A, L and J | 2,854 | 1.6% | 37,466 | 1.7% | 13,365 |
| Mato Grosso do Sul state | A, L and J | 2,265 | 1.2% | 21,641 | 1.0% | 9,557 |
| Rondônia state | A, L and J | 1,454 | 0.8% | 12,902 | 0.6% | 8,408 |
| Acre state | A, L and J | 653 | 0.4% | 4,481 | 0.2% | 6,692 |
| Amapá state | B and J | 585 | 0.3% | 4,366 | 0.2% | 7,344 |
| Amazonas state | B and J | 3,167 | 1.7% | 33,359 | 1.6% | 10,320 |
| Maranhão state | B and J | 6,117 | 3.3% | 25,325 | 1.2% | 4,150 |
| Pará state | B and J | 7,070 | 3.8% | 39,150 | 1.8% | 5,617 |
| Roraima state | B and J | 394 | 0.2% | 3,178 | 0.1% | 8,123 |
| Federal District | A, L and J | 2,455 | 1.3% | 80,516 | 3.7% | 34,510 |
| Bahia state | A, L and J | 14,079 | 7.7% | 90,942 | 4.2% | 6,583 |
| Sergipe state | A, L and J | 1,938 | 1.1% | 13,422 | 0.6% | 6,821 |
| Rio de Janeiro state | A, L and J | 15,406 | 8.4% | 246,936 | 11.5% | 16,052 |
| Espírito Santo state | A, L and J | 3,351 | 1.8% | 47,190 | 2.2% | 13,846 |
| Rio Grande do Sul state | A, L and J | 10,582 | 5.8% | 144,344 | 6.7% | 13,310 |
| Vivo | | 135,256 | 73.6% | 1,803,815 | 84.0% | 13,281 |

(1) According to the last D.O.U. publication data (April 1, 2007).

(2) According to the most recent IBGE data (2005). Nominal Brazilian GDP was R\$2,147,239 million as of December 2005 calculated by IBGE.

Marketing and Sales

We closely follow the developments in the markets where we operate and constantly launch new promotions and advertising campaigns. A strong customer acquisition policy has been implemented across all of the company's operators through aggressive mass sales promotions and segmented actions. Efforts to acquire new customers for prepaid and billed services have mostly been made through joint promotions designed to increase intranet traffic and stimulate the use of data services.

With the premise of keeping a sustainable customer base, the acquisition promotions have also been open to current customers who wished to change their cell phones. We are actively involved in a high-value customer loyalty program by offering aggressive discounts on cell phones through direct marketing actions.

On December 31, 2007, Vivo possessed 296 sales outlets (91 in São Paulo, 49 in the states of Rio de Janeiro and Espírito Santo, 32 in the state of Rio Grande do Sul, 35 in the states of Paraná and Santa Catarina, 25 in the states of Bahia and Sergipe, and 64 in the states that make up the midwestern and northern regions of Brazil). It also has an efficient network of 7,962 authorized retail and resales dealerships. Consequently, Vivo has maintained its market leadership position, with a total of 8,258 points of sale.

Prepaid telephone card recharging was available at 365,798 locations, including our own stores, dealers, lottery shops, physical and online card distributors, and at smaller shops, drugstores, newspaper stands, book stores, bakeries, gas stations, bars and restaurants. Online recharging is also provided by several banks' websites.

Customer Service

In 2007, Vivo implemented a new model of customer support, targeting to increase customer satisfaction at lower cost. The work on this model started in 2006 and was mainly based on the improvement of Vivo's call center and on Vivo's service level agreements.

In the first half of 2007, Vivo concluded the merger of its major customer systems, such as billing and front office systems. Currently, Vivo utilizes the same front office system in all operations, thereby reducing training, control and maintenance costs. The most important project completed in 2007 was the development of a new call center methodology targeting customer satisfaction. Vivo's call center customer services representatives now have differentiated training, career plans and the ability to solve problems in the front line, thus ensuring high levels of customer satisfaction. The result is a 70% reduction in the processes treated at the second level.

Also in 2007, Vivo received 84 millions visits at its website (www.vivo.com.br) with 65 million transactions online.

These actions reflected positively at ANATEL. Vivo ended fiscal year 2007 with a 36% reduction in customer complaints at the national agency, scoring the second place in the ranking among the biggest telecommunications players - Vivo's best position thus far.

Higher quality, with lower cost

We implemented a strategy to increase the quality of our services while lowering costs. While achieving the best signal quality, surpassing all of our competitors (according to ANATEL's scoring system), we also improved the level of service of our customer care, generating greater customer satisfaction with our call centers and stores. We additionally take steps to reduce billing errors, leading to fewer claims against us. This strategy has been successful in increasing our satisfaction rating and in lowering costs.

Our Network

Before November 1998, our network used only AMPS analog technology. After privatization, we began to use CDMA and TDMA digital technologies. In 2006, we began to implement a GSM Network. Digitalization offers certain advantages, such as greater network capacity and additional revenue through the sale of value-added services. We continue to increase network capacity and coverage to improve our quality of service and to meet customer demand.

By December 31, 2007, Vivo S.A.'s telecommunications network in the state of São Paulo, which provides both CDMA digital and GSM digital services, covered 100% of the municipalities. Vivo S.A.'s network is connected primarily through a fiber-optic and radio transmission system of our own and leased mainly from Telecomunicações de São Paulo S.A., or Telesp. The network consists of cellular switches, base stations and other network elements such as voicemail, prepaid service, Short Message Service, Home Location Registers, Signaling Transfer Point, PDSN and gateways. NEC do Brasil S.A., Nortel Networks - Northern Telecom do Brasil, Motorola do Brasil Ltda., Lucent Technologies do Brasil, Ind. e Com. Ltda., Huawei do Brasil Telecomunicações Ltda. and Ericsson Telecomunicações S.A. are Vivo S.A.'s main suppliers in the state of São Paulo.

Vivo S.A. began its activities in the states of Parana and Santa Catarina (Vivo PR/SC) in December 1998 and, until 2005, offered services only through CDMA digital technology. As of December 31, 2007, the telecommunications network in PR/SC that provides both CDMA digital and GSM digital services covered 60.0% of the municipalities, or 92.0% of the population, in its region. The PR/SC network is primarily connected by a fiber-optic and radio transmission system of its own and as leased mainly from fixed operating companies (Brasil Telecom and Embratel) and Copel - Companhia Paranaense de Energia S.A.. The network consists of cellular switches, base stations and other

network elements, such as voicemail, prepaid service, Home Location Registers, Signaling Transfer Points and gateways. Motorola do Brasil Ltda., Huawei do Brasil Telecomunicações Ltda., Alcatel Telecomunicações S/A. and Ericsson Telecomunicações S.A. are Vivo S.A.'s main suppliers in PR/SC.

As of December 31, 2007, Vivo S.A. in the midwestern and northern regions (CO/N) provided CDMA Digital, GSM digital, TDMA digital and AMPS analog services, which have been substantially phased out, covering 46.4% of the municipalities, or 81.5% of the population in its region. Our network is connected primarily through a fiber-optic

and radio transmission system of our own and leased from incumbent wire line companies. The network consists of cellular switches, base-stations and other network elements such as voicemail, prepaid service, Short Message Service, Home Location Registers, Signaling Transfer Point and gateways. Nortel Networks Northern Telecom do Brasil, Motorola do Brasil Ltda. (presently Motorola Industrial Ltda. and Motorola Services Ltda.), Huawei do Brasil Telecomunicações Ltda. and Ericsson Telecomunicações are Vivo S.A.'s principal suppliers in CO/N.

As of December 31, 2007, the telecommunications network of Vivo S.A. in Bahia and Sergipe (BA/SE) covered 50.2% of the municipalities, or 82.5% of the population, of its region. Its network provides both CDMA digital, GSM digital and AMPS analog services, which have been substantially phased out. The network is connected primarily through a fiber-optic and radio transmission system of our own and leased mainly from Tele Norte Leste Participações S.A., or Telemar. It also includes cellular switches, base stations, and other communication devices such as voicemail, prepaid service, Short Message Service and Home Location Registers. NEC do Brasil S.A., Ericsson Telecomunicações S.A., Nortel Networks Northern Telecom do Brasil, Motorola Industrial Ltda., Motorola Services Ltda., Huawei do Brasil Telecomunicações Ltda. and Lucent Technologies do Brasil, Ind. e Com. Ltda. are Vivo S.A.'s main suppliers in BA/SE.

As of December 31, 2007, the telecommunications network of Vivo S.A. in the states of Rio de Janeiro and Espírito Santo covered 100% of the municipalities in its area. Its network provides both CDMA digital and GSM digital services. This network is connected primarily through a fiber-optic and radio transmission system of our own and leased mainly from the incumbent wire line companies. The network consists of cellular switches, base stations and other communication devices such as voicemail, prepaid service, Short Message Service, Home Location Registers, Signaling Transfer Point, PDSN and gateways. NEC do Brasil S.A., Nortel Networks Northern Telecom do Brasil, Ericsson Telecomunicações S.A., Huawei do Brasil Telecomunicações Ltda. and Lucent Technologies do Brasil, Ind. e Com. Ltda. are Vivo S.A.'s principal suppliers in these states.

As of December 31, 2007, Vivo S.A.'s network in the state of Rio Grande do Sul (RS) provides CDMA, GSM digital and TDMA digital and AMPS analog services, which have been substantially phased out, covering 72.7% of the municipalities, or 96.4% of the population, of this region. The RS network is connected primarily through a fiber-optic and radio transmission system of our own and leased mainly from Brasil Telecom. The network consists of cellular switches, base stations and other communication devices such as voicemail, prepaid service, Short Message Service, Home Location Registers and gateways. Nortel Networks Northern Telecom do Brasil, Motorola Industrial Ltda., Motorola Services Ltda., Huawei do Brasil Telecomunicações Ltda., and Ericsson Telecomunicações S.A. are Vivo S.A.'s principal suppliers in RS.

Our advanced network management technology ensures global management and supervision of all our network processes and network performance. The network management centers are located in São Paulo and Brasília. The network management center of São Paulo monitors the critical network operational parameters of São Paulo, Paraná, Santa Catarina and Rio Grande do Sul. The network management center in Brasília monitors the critical network operational parameters in CO/N, Rio de Janeiro, Espírito Santo, Bahia and Sergipe. These centers are able to identify abnormalities in both our network and in third parties' networks, using failure and signaling monitoring systems. In addition, quality and service standards are constantly monitored. The network management centers are integrated with maintenance and operations teams that maintain and operate cellular network elements, as well as cellular infrastructure and transmission, in addition to the radio network elements and computing bases, service platforms and communications backbones.

Our network is prepared to provide continuity of service for our customers in the event of network interruptions. We have developed contingency plans for potential catastrophes in our switching centers, power supply interruptions and security breaches.

Pursuant to the terms of our authorization to perform our services, we are obligated to meet certain requirements for service quality. See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies.

Sources of Revenue

We generate revenue from:

- usage charges, which include measured service charges for calls, monthly subscription charges and other similar charges;
- interconnection charges (or network usage charges), which are amounts we charge other cellular and fixed-line service providers for the use of our network;
- the sale of wireless devices and accessories; and
- other charges, including charges for call forwarding, call waiting, text messaging (SMS), call blocking and Data Services, such as WAP, downloads and MMS services, 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.

The table below sets forth total net operating revenues in our operating subsidiary for the last three years.

Vivo

| | Year ended December 31, | | |
|---------------------------------------------------------------|--------------------------------|-----------------|-----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Usage and additional charges and monthly subscription charges | 7,863.7 | 7,190.9 | 7,349.5 |
| Sales of wireless devices and accessories | 3,105.7 | 2,742.6 | 3,051.7 |
| Interconnection | 5,109.3 | 4,338.1 | 4,304.4 |
| Other | 1,565.6 | 1,183.1 | 1,054.8 |
| Total gross operating revenue | 17,644.3 | 15,454.7 | 15,760.4 |
| Value-added and other indirect taxes | (3,385.9) | (3,094.1) | (3,157.7) |
| Sales and services discount and return of goods sold | (1,765.9) | (1,423.9) | (1,348.9) |
| Net operating revenues (3) | 12,492.5 | 10,936.7 | 11,253.8 |

State of São Paulo Areas 1 and 2

| | Year ended December 31, | | |
|--|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |

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| | | | |
|---------------------------------------------------------------|----------------|----------------|----------------|
| Usage and additional charges and monthly subscription charges | 2,881.5 | 2,543.2 | 2,523.0 |
| Sales of wireless devices and accessories | 1,174.9 | 1,029.3 | 1,243.7 |
| Interconnection | 1,945.1 | 1,813.5 | 1,841.1 |
| Other | 613.2 | 427.3 | 371.5 |
| Total gross operating revenue | 6,614.7 | 5,813.3 | 5,979.3 |
| Value-added and other indirect taxes | (1,161.8) | (1,012.2) | (1,054.1) |
| Sales and services discount and return of goods sold | (683.4) | (560.2) | (544.2) |
| Net operating revenues | 4,769.5 | 4,240.9 | 4,381.0 |

States of Rio de Janeiro and Espírito Santo Area 3

| | Year ended December 31, | | |
|---------------------------------------------------------------|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Usage and additional charges and monthly subscription charges | 1,633.2 | 1,611.7 | 1,531.5 |
| Sales of wireless devices and accessories | 654.3 | 545.7 | 626.4 |
| Interconnection charges | 1,016.9 | 805.4 | 734.3 |
| Other | 278.5 | 196.4 | 148.0 |
| Total gross operating revenue | 3,582.9 | 3,159.2 | 3,040.2 |
| Value-added and other indirect taxes | (747.5) | (693.1) | (667.8) |
| Discounts granted and return of goods | (362.0) | (275.6) | (294.5) |
| Net operating revenues | 2,473.4 | 2,190.5 | 2,077.9 |

States of Paraná and Santa Catarina Area 5

| | Year ended December 31, | | |
|---------------------------------------------------------------|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Usage and additional charges and monthly subscription charges | 485.0 | 431.8 | 456.7 |
| Sales of wireless devices and accessories | 209.6 | 210.6 | 220.8 |
| Interconnection | 371.9 | 310.9 | 321.5 |
| Other | 134.2 | 118.3 | 105.0 |
| Total gross operating revenue | 1,200.7 | 1,071.6 | 1,104.0 |
| Value-added and other indirect taxes | (217.1) | (198.5) | (207.2) |
| Sales and services discount and return of goods sold | (106.0) | (91.9) | (76.2) |
| Net operating revenues | 877.6 | 781.2 | 820.6 |

State of Rio Grande do Sul Area 6

| | Year ended December 31, | | |
|--|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |

| | (in millions of reais) | | |
|---------------------------------------------------------------|-------------------------------|----------------|----------------|
| Usage and additional charges and monthly subscription charges | 847.6 | 819.1 | 882.0 |
| Sales of wireless devices and accessories | 238.5 | 209.1 | 246.2 |
| Interconnection charges | 481.0 | 395.3 | 406.3 |
| Other | 176.4 | 142.0 | 143.8 |
| Total gross operating revenue | 1,743.5 | 1,565.5 | 1,678.3 |
| Value-added and other indirect taxes | (351.6) | (364.9) | (387.3) |
| Discounts granted and return of goods | (121.3) | (95.9) | (108.6) |
| Net operating revenues | 1,270.6 | 1,104.7 | 1,182.4 |

Central Western and Northern regions Areas 7 and 8

| | Year ended December 31, | | |
|-------------------------------------------------------|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Usage and additional charges and monthly subscription | 1,554.1 | 1,452.2 | 1,618.6 |

| | Year ended December 31, | | |
|------------------------------------------------------|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| charges | | | |
| Sales of wireless devices and accessories | 606.0 | 570.8 | 521.0 |
| Interconnection | 984.3 | 791.9 | 797.6 |
| Other | 271.6 | 232.7 | 234.4 |
| Total gross operating revenue | 3,416.0 | 3,047.6 | 3,171.6 |
| Value-added and other indirect taxes | (701.9) | (652.7) | (681.9) |
| Sales and services discount and return of goods sold | (347.0) | (303.7) | (218.3) |
| Net operating revenues | 2,367.1 | 2,091.2 | 2,271.4 |

States of Bahia and Sergipe Area 9

| | Year ended December 31, | | |
|---------------------------------------------------------------|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Usage and additional charges and monthly subscription charges | 462.3 | 391.8 | 379.0 |
| Sales of wireless devices and accessories | 222.4 | 177.1 | 193.6 |
| Interconnection charges | 310.1 | 221.1 | 203.6 |
| Other | 91.7 | 66.4 | 52.1 |
| Total gross operating revenue | 1,086.5 | 856.4 | 828.3 |
| Value-added and other indirect taxes | (206.0) | (172.7) | (159.4) |
| Discounts granted and return of goods | (146.2) | (96.6) | (107.1) |
| Net operating revenues | 734.3 | 587.1 | 561.8 |

-
- (1) The financial information presented for 2007 and 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.
- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.
- (3) Includes the following amounts that have been eliminated upon consolidation and combination of financial statements:

Vivo Intercompany net operating revenues

| | Year ended December 31, | | |
|------------------------|--------------------------------|----------------|----------------|
| | 2007(1) | 2006(1) | 2005(2) |
| | (in millions of reais) | | |
| Net operating revenues | | (58.9) | (41.3) |

-
- (1) The financial information presented for 2007 and 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE and CRT as from January 1, 2006.
- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

Contract Customers

Since October 1994, cellular telecommunications service in Brazil has been offered on a calling party pays basis, under which customers pay only for calls that they originate. 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 areas designated for payment purposes, called registration areas, as follows:

- Areas 1 & 2 9 areas in the state of São Paulo.
- Areas 7 & 8 18 areas, comprised of 9 areas in Brasilia and the states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins and 9 areas in the states of Amapá, Amazonas, Maranhão, Pará and Roraima
- Area 5 9 areas, comprised of 6 areas in the state of Paraná and 3 areas in the state of Santa Catarina.
- Area 9 6 areas, comprised of 5 areas in the state of Bahia and 1 area in the state of Sergipe.
- Area 3 5 areas, comprised of 1 area in the metropolitan area of Rio de Janeiro, two areas in upstate Rio de Janeiro and two areas in the state of Espírito Santo.
- Area 6 4 areas in the state of Rio Grande do Sul.

Interconnection Charges

We earn revenue 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 Business Overview Operating Agreements Interconnection Agreements. Tariff increases are subject to ANATEL's review and approval.

Bill and Keep

ANATEL adopted partial Bill & Keep rules for interconnection charges in July 2003. The rules provided that an SMP operator paid for the use of another SMP operator's network in the same registration area only if the traffic carried from the first operator to the second exceeded 55% of the total traffic exchanged between them. In that case, only those calls that surpassed the 55% level were subject to payment for network usage. Under Resolution 438 published in 2006, ANATEL eliminated the rule of the partial Bill and Keep. The current rule is full billing, in which the SMP operator pays the entire call termination fee of the other mobile network. The rule of the partial Bill & Keep was maintained between SMP and SME (trunking) networks.

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 area, 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.

Wireless Device Sales

We sell only CDMA dual-mode (800MHz CDMA-1xRTT/AMPS and 800MHz CDMA/AMPS), GSM and tri-mode (800/1900 CDMA and 800MHz AMPS), and dual technology (CDMA and GSM) cellular wireless devices and data devices in CDMA EVDO technology (PCMCIA, USB and deskmodem) through our own stores and dealers. We have overlaid our TDMA network with a CDMA network and we have stopped selling TDMA handsets. Although we still have some customers using analog service (approximately 0.1% of our total customer base as of December

31, 2007), we have implemented a series of actions, such as providing discounts on digital wireless devices, discounts on monthly fees for digital services, digital wireless device rentals and free wireless devices, to encourage analog and TDMA customers to transfer to CDMA service. Our current suppliers for wireless devices are Motorola, LG, Samsung, Nokia, Pantech, SonyEricsson, BenQ-Siemens, Aiko and Kyocera.

Operating Agreements

We have agreements with major fixed-line and mobile operators in Brazil in order to lease physical space, real estate, air conditioning, energy, security and cleaning services. We also lease transmission capacity necessary to complete the construction of our network infrastructure.

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 Regulation of the Brazilian Telecommunications Industry Interconnection.

We believe that our subsidiary has adequate interconnection agreements with necessary fixed-line operators in order to provide services. We also believe that our subsidiary has all the necessary interconnection agreements with long-distance carriers.

Roaming Agreements

We are a member of the Brazilian Roaming Association (the Association), a group composed of all companies providing cellular services in Brazil. The Association was created to standardize roaming services in Brazil and elsewhere. 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 to its own customers, and to carry out a monthly reconciliation of roaming customer usage charges.

We have provided international GSM services through third-party partners using GSM wireless devices in most parts of Europe, Africa, the Americas, Asia and Oceania. We offer CDMA automatic international roaming in the United States, Argentina, Uruguay, Chile, Canada, China, Mexico, Venezuela, Puerto Rico, New Zealand, Dominican Republic and South Korea.

Taxes on Telecommunications Services and Wireless Device Sales

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

- **ICMS** (*Imposto sobre Circulação de Mercadorias e Serviços*) is a state tax imposed at varying rates from 7% to 35% on certain revenues from the sale of goods and services, including telecommunications services.
- **COFINS** (*Contribuição para Financiamento da Seguridade Social*) is a federal social contribution tax imposed on the gross operating revenue less discounts and returns. In December 2003, Law No. 10,883 was enacted, making such contribution noncumulative and increasing the rate from 3.0% to 7.6%, except in connection with telecommunication services where the rate continues to be 3.0%.
- **PIS** (*Programa de Integração Social*) is a federal social contribution levied over the total revenues received by a company and its subsidiaries, with the deductions foreseen by the governing law. On December 2002,

Law No. 10637 came into force, making this contribution noncumulative and raising the rate from 0.65% to 1.65%, except for telecommunication services where the rate continues to be 0.65%.

- **FUST** (*Fundo de Universalização dos Serviços de Telecomunicações*) corresponds to 1% of the net revenue generated by the telecommunication services (except over interconnection services), and serves to provide funds designed to cover the parcel of the cost attributable exclusively to the fulfillment of universal service targets of the telecommunication services that cannot be recovered through the efficient performance of services, per the provisions of sub-item II, of Art. 81, Law No. 9472 dated July 16, 1997 (Lei Geral dos Serviços de Telecomunicações - Telecommunication Services General Law).

- **FUNTTTEL** (*Fundo para Desenvolvimento Tecnológico das Telecomunicações*) is a federal social contribution which corresponds to 0.5% of the net revenues generated by the telecommunication services (except those for interconnection services) and serves to stimulate technological development, the qualification of human resources, and job generation and to promote the access of small and medium companies to capital resources, so as to broaden the competitiveness of the Brazilian telecommunications industry.
- **FISTEL** (*Fundo de Fiscalização das Telecomunicações*) is a federal tax applicable to telecommunications transmission equipment which serves to provide funds to cover the expenses incurred by the Federal Government in performing inspections of telecommunication services and in developing the means and improving the techniques necessary for carrying out these inspections. This change is divided in two parts: *Taxa de Fiscalização de Funcionamento* and *Taxa de Fiscalização de Instalação*. *Taxa de Fiscalização de Funcionamento* is based on the total number of clients at the end of the previous fiscal year. *Taxa de Fiscalização de Instalação* is based on (i) the net monthly additions (new clients minus disconnected ones) and (ii) the installation of new equipment (base radio stations) or system changes, as for example, increases in capacity.

Billing

Vivo uses Atlys, a billing solution that combines software and hardware resources, from the supplier company Convergys as the billing system for centralized billed invoicing in the city of São Paulo. The billing system operates via a batch processing concept using Vivo customers' voice and data traffic. This system functions by segregating voice and data traffic on a daily basis, according to which of seven total billing preferences a customer elects. Each cycle has a specific due date for each of the consumer and corporate segments.

For prepaid services, Vivo uses the Next Generation Intelligence Network (NGIN) platform, a prepaid platform, from the supplier company PTI, which also works in a centralized way in the city of São Paulo. In order for the NGIN platform to process correctly, the same system for billed invoicing is used. This system separates the module for customer information, called Care, which is a services platform, from the Voice and Data traffic processing module used, called Core, which is a tariff platform.

During 2006, the RJ/ES and CO/N centralization billing (billed and prepaid) were completed. The BA/SE centralization process was completed in April 1, 2007.

Cobilling

ANATEL has defined the obligations surrounding cobilling service for long distance carriers in the Brazilian market, which has made possible collecting all types of calls and services in the billed in one telephone account. Similarly, it defined the basic rules for mobile companies' prepaid services, making national and international long-distance calls possible within this segment. Mobile companies charge long-distance operators for the services given for both segments (prepaid and billed). The settlement collection, where the physical and financial data are provided, occurs monthly. Mobile companies only pass to the long-distance carriers the fees collected from the customer's billed segment and debited from the customer's prepaid segment. ANATEL authorizes the customer to select whichever cobilling service provider it prefers for its individual calls, whereas neither the mobile company nor the long distance carrier has discretion in this area.

Value Added Services (VAS)

Entertainment, information and online interactivity services are available to all Vivo customers through agreements with content suppliers. These agreements are based on a revenue-sharing model through the processes of billed and prepaid categories, with all divergences between these categories being demonstrated to the content suppliers.

Collection

We have a uniform policy dealing with accounts of defaulting billed customers in default according to its segment. If the payment is more than 15 days late, service is partially suspended, and if payment is more than 40 days late, service is fully suspended until payment is made. We offer an installment payment plan for those with past due balances. However, if accounts are not paid after 90 days, the contract is cancelled and reported to credit protection agencies. After 105 days of default, accounts are directed to independent agencies for collection and the Consumer Protection Service.

All the amounts receivable over 90 days late are considered provisions for doubtful accounts or written-off. The write-offs are in accordance with Brazilian Legislation, which permits a bad debt write-off for late payments of R\$0 to R\$5,000 if they are over 180 days late or R\$5,001 to R\$30,000 if they are over 365 days late. Write-offs of late payments of over R\$30,001 that are open for more than 365 days require the commencement of a lawsuit.

Fraud Detection and Prevention

In 2007, Vivo consolidated its efforts to reduce cloning and subscription fraud, the two principal types of fraud. Cloning is a fraud that 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. This occurs when one line (MIN) is programmed into another device (HEXA) and used simultaneously with a customer account, but the charges are posted to the account of the true owner. We also implemented significant procedures to detect, prevent and reduce subscription fraud. 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.

Our processes for detecting both cloning fraud and subscription fraud have improved significantly. By December 2007, the number of cloning fraud cases decreased by 96.51% from December 2006, so that December 2007 represented a historically low record for this type of fraud. Between 2006 and 2007, overall fraud decreased by 52.48%.

Competition

We face intense competition in all the areas in which we operate, principally from other cellular service providers and also from fixed-line operators. Many of these competitors are part of a large, national or multinational group and therefore have access to financing, new technologies and other benefits that are derived from being a part of such a group. Fixed-line operators generally charge much lower tariffs than cellular service providers.

Our principal cellular competitor in the state of São Paulo is Claro. The main fixed-line operator in this area is *Telecomunicações de São Paulo S.A. Telesp*, known as *Telefônica*.

Our principal cellular competitor in the states of Paraná and Santa Catarina is *Tele Celular Sul Participações S.A.*, or *TIM Sul*. The main fixed-line operator in this area is Brasil Telecom S.A.

Our principal cellular competitors are: Claro, in the region encompassing the states of Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Rondônia and Acre and the Federal District, and *TIM*, in the region encompassing the states of Amazonas, Roraima, Pará, Amapá and Maranhão. The main fixed-line operators in this area are: Brasil Telecom S.A., in the region encompassing the states of Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Rondônia and Acre and the Federal District, and *Telemar Norte Leste S.A. Telemar*, in the region encompassing the states of Amazonas, Roraima, Pará, Amapá and Maranhão. Other competitors are Oi (Telemar mobile operator) and TIM.

In the Bahia and Sergipe service areas, our principal cellular competitor is Oi (TNL PCS S.A.). Other cellular competitors are TIM (Maxitel S.A.), which also operates in the state of Minas Gerais, and Claro (Stemar Telecomunicações Ltda.). The principal fixed-line competitor in this area is Telemar Norte Leste S.A.

In the Rio de Janeiro and Espírito Santo service areas, our principal cellular competitor is Claro, which operates in the states of Rio de Janeiro and Espírito Santo. Claro is controlled by a consortium led by the Telecom Américas Ltd. (controlled by América Móvil S.A. de C.V.). Claro began providing cellular telecommunications services in this Region at the end of 1998. The rights and obligations under Claro's license are substantially identical to our rights and obligations. Although Claro provides only digital service, its customers use TDMA dual mode cellular handsets that can operate on an analog network and GSM handsets. The principal fixed-line operator in this area is Telemar Norte Leste S.A. Oi is the third competitor and is integrated with Telemar (a fixed-line operator).

In Rio Grande do Sul, our principal cellular competitor is Claro, which operates in several regions in Brazil, including Celular CRT's region. Other cellular competitors are Brasil Telecom S.A. and TIM. The main fixed-line competitor in this area is Brasil Telecom.

We also compete with certain other wireless telecommunications services in specific segments, such as mobile radio (including digital trunking technology, offered by Nextel), paging and beeper services, which are used by some operators in our areas as a substitute for cellular telecommunications services. These competing wireless telecommunications services are generally less expensive than mobile telecommunications services.

Satellite-operated services, which provide nationwide coverage, are also available in Brazil. Although these services have the advantage of covering much larger areas than those covered by the cellular telecommunications services, they are considerably more expensive than the cellular telecommunications services we offer and do not provide competitive coverage inside buildings.

There can be no assurances that the entry of new competitors will not have significant adverse effects on our business, financial condition, or the results of our operations or prospects. Any adverse effects on our market share, which results from pressures originating from competition, will depend on several factors that cannot be assessed with precision and which are therefore beyond our control. Among such factors are the identity of the competitors, their strategy and ability to conduct business, market conditions prevailing at the time, rules applicable to the new market participants and to us, as well as the effectiveness of our efforts to prepare for and face competition. There may also be competitors with higher technical capacity and more resources than we have.

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 and administratively independent of the Brazilian government. However, 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 a public hearing. ANATEL's actions can be challenged in the Brazilian courts. On November 25, 1998, ANATEL enacted Resolution 73 Regulation of Telecommunication Services, which explains in detail the new comprehensive regulatory 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 services 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. In addition, 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 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 an authorization, the government does not guarantee to the authorized company the economic-financial equilibrium, as is the case under 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 area 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 1800 MHz radio frequency bands which were denominated as the C Band (which was later transformed into extension bands), the D Band, E Band and M Band. These new licenses were auctioned by ANATEL and awarded during the first quarter of 2001, at the end of 2002, in September of 2004, in March of 2006 and in September of 2007. In September 2007, ANATEL organized auctions for fifteen new licenses in the 1900 MHz radio frequency bands which were denominated Band L. VIVO acquired thirteen spectrum licenses in Band L. In December 2007, ANATEL organized auctions for thirty-six new licenses in the 1900-2100 MHz radio frequency bands (3G licenses) which were denominated Bands F, G, I and J. VIVO acquired seven spectrum licenses in Band

Under these new licenses:

- services are to be provided using the 1800 MHz frequency bands (D Band, E Band and M Band), 1900 MHz frequency bands (L Band) and 1900-2100 MHz frequency bands (F Band, G Band, I Band and J Band);
- each operator may optionally provide domestic and international long-distance services in its licensed area;
- existing cellular service providers as well as new entrants into the Brazilian telecommunications market can bid for D Band, E Band, M Band, L Band, F Band, G Band, I Band and J Band licenses.
- a cellular 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.

On February 3, 2003, TCO replaced its SMC Concession Contracts for Personal Mobile Service Agreements (*Termos de Autorização do Serviço Móvel Pessoal*, or SMP) in Regions I (sub-range of B frequencies) and II (subrange of A frequencies) of the General Granting Plan (*Plano Geral de Outorgas*, or PGO). On December 10, 2002, Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Celular CRT, Global Telecom and Telesp Celular

replaced its SMC Concession Contracts for Personal Mobile Service Agreements, or SMP, in Regions I (sub-range of A frequencies), II (sub-range of A and B frequencies) and III (sub-range of A frequencies) of the General Granting Plan. On July 27, 2006, ANATEL published Act 59867 authorizing the incorporation of TCO, Teleacre, Telegoiás, Teleron, Telems, Telemat, NBT, Telerj, Telest, Telebahia, Telergipe, Celular CRT and TC by GT, as well as the transfer of the respective SMP service authorization titles and of the SMP radio-frequency rights-of-use titles. Act 59867 also provides for the automatic termination of the authorizations for Multimedia Communication Services (*Serviços de Comunicação Multimídia*, or SCM) of TCO, Teleacre, Telegoiás, Teleron, Telems, Telemat, NBT, Telerj, Telest, Telebahia, Telergipe, Celular CRT and TC, upon each of their respective incorporations.

In order to transfer our services to SMP, we were required to comply with several technical and operational conditions, including, among other things, 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 could opt to establish a price cap or freely negotiate their interconnection charges. The conditions of the network usage fee negotiation are regulated by ANATEL. Thereafter, the terms and conditions of the interconnection have been freely negotiated between wireless and fixed-line operators, effective as of 2005, subject to compliance with regulations established by ANATEL. ANATEL submitted to public consultation new regulations on interconnection rules. ANATEL promulgated the following regulations on interconnection rules: the new General Regulation of Interconnection (*Regulamento Geral de Interconexão* Resolution number 410/2005, or RGI); the Regulation of Separation and Allocation of Costs (Resolution number 396/2005); the Regulation of Industrial Exploration of Dedicated Lines (*Exploração Industrial de Linha Dedicada* Resolution number 402/2005, or EILD); the Regulation of Remuneration of Use of SMP Providers Networks (Resolution number 438/2006); the Regulation of Fixed and Wireless Number Portability (Resolution number 460/2007, effective March 2009); the new Regulation of SMP (Resolution number 477/2007, effective February 13, 2008); the Regulation of Terms of Separation and Allocation of Costs (Resolutions numbers 480/2007 and 483/2007), and related Invitation Document number 002/2007/SPV-ANATEL regarding the auction organized in December 2007 of new licenses for the 1900-2100 MHz radio frequency bands (3G licenses), denominated bands F, G, I and J, which states that, in the maximum allowed period of eighteen months from the publication of the Terms of Authorization, the authorizations resulting from this auction will be combined with the existing SMP authorizations of the bid winners when pertaining to the same region of the general authorization plan of SMP. VIVO acquired spectrum licenses in Band J in regions where it possess SMP licenses.

In 2007, ANATEL published Resolution 477/2007, effective on February 13, 2008, relating to alterations in the regulation of SMP. In the new regulation, ANATEL notes areas of vital importance for mobile business, such as the necessity for retail stores in the cities within an operator's coverage areas, increases in the validity periods of prepaid cards and limits on the period of time after which customers may leave service plans. These new regulations may have an adverse effect on our revenues and results of operations.

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.

The new SMP licenses include the right to provide cellular services for an unlimited period of time but restrict the right to use the spectrum according to the schedules listed in the old licenses (VIVO Rio Grande do Sul until 2022 (renewed in 2006; renewable only once over a fifteen-year period); VIVO Rio de Janeiro until 2020 (renewed in 2005; renewable only once over a fifteen-year period); VIVO Espírito Santo until 2008; VIVO - Bahia and VIVO - Sergipe until 2008; VIVO São Paulo until 2008 or 2009 (for the cities of Ribeirão Preto and Guatapar); VIVO -

Paraná and Santa Catarina until 2013; VIVO Distrito Federal until 2021 (for Brazil's Federal District; renewed in 2006; renewable only once over a fifteen-year period); VIVO - Acre, VIVO - Rondônia, VIVO Mato Grosso and VIVO Mato Grosso do Sul until 2009; VIVO Goiás and Tocantins until 2008; and VIVO Amazonas, Roraima, Amapá, Pará and Maranhão until 2013). Spectrum rights may be renewed only once over a fifteen-year period.

In September 2007, ANATEL organized auctions of new SMP licenses in the remaining radio frequency bands D and E, in the 1.8 GHz frequency band M, and fifteen licenses in the 1.9 GHz frequency band L, previously allocated to fixed operators. VIVO acquired thirteen spectrum licenses in band L. The following Terms of Authorization for Band L have been signed: VIVO Rio Grande do Sul until 2022 (renewed in 2006; renewable only once over a fifteen-year period); VIVO Rio Grande do Sul until 2022 (for the cities of the metropolitan area of Pelotas); VIVO Rio de Janeiro until 2020 (renewed in 2005; renewable only once over a fifteen-year period); VIVO Espírito Santo until 2008; VIVO - Bahia and VIVO - Sergipe until 2008; VIVO São Paulo until 2008 (including the cities of Ribeirão Preto and Guatapar and excluding the cities where CTBC Telecom operates in the state of So Paulo); VIVO So Paulo until 2022 (including the cities where CTBC Telecom operates in the state of So Paulo); VIVO - Paran and Santa Catarina until 2013 (excluding the cities of Londrina and Tamarana); VIVO Distrito Federal until 2021 (for Brazil's Federal District; renewed in 2006; renewable only once over a fifteen-year period); VIVO - Acre, VIVO - Rondnia, VIVO Mato Grosso and VIVO Mato Grosso do Sul (excluding the city of Paranaba in the state of Mato Grosso do Sul) until 2009; VIVO Gois (excluding the cities where CTBC Telecom operates in the state of Gois) and Tocantins until 2008; VIVO Gois until 2022 (the cities where CTBC Telecom operates in the state of Gois); VIVO Mato Grosso do Sul until 2022 (the city of Paranaba in the state of Mato Grosso do Sul) and VIVO Alagoas, Cear, Parba, Pernambuco, Piau and Rio Grande do Norte until 2022. Spectrum rights may be renewed only once over a fifteen-year period.

The authorizations we need for 2008 are currently being renewed by ANATEL.

Obligations of Telecommunications Companies

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.

The mobile service authorizations of Vivo involve obligations to meet some quality of service standards such 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 non-discriminatory basis. If the parties cannot agree upon the terms and conditions of interconnection, ANATEL may determine terms and conditions by arbitration.

Starting in 2005, in order to have a more homogeneous system and to accelerate the negotiations of interconnection contracts, ANATEL required a standard interconnection network from STFC and SMP Operators through an offer made publicly and equitably.

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

With respect to our Basic Plan and certain roaming charges incurred in connection with alternative service plans, our authorizations continue to provide for a price cap mechanism to set and adjust rates on an annual basis. The cap is the value with the rate of inflation deducted from the productivity estimated by ANATEL. 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.

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 was subject to a price cap stipulated by ANATEL. This price cap was valid until June 30, 2004 and, thereafter, the terms and conditions of the interconnection are freely negotiated among the operators, effective as of 2005, subject to ANATEL regulations. In 2005, ANATEL began permitting free negotiations for mobile interconnection, or VU-M, fees and by July 2005, local-fixed concessionaires and mobile operators had reached a provisional agreement with respect to VU-M fees for local calls, or VC-1 (the agreement guaranteed a 4.5% increase in fees). ANATEL approved that provisional agreement, and in March 2006, approved another provisional agreement for VU-M fees for long-distance calls, VC-2, VC-3 and international, among the same operators that made the VC-1 agreement. In July 2007, ANATEL approved a provisional agreement among the fixed line operators Telefônica, Telemar, Brasil Telecom, CTBC Telecom and Sercomtel and the mobile operators for interconnection fees for VC1, VC2 and VC3 calls that provides for an annual adjustment of 1.97143% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of 2.25356% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). In January 2008, ANATEL approved a provisional agreement among the fixed line long distance operator Embratel and the mobile operators for interconnection fees for VC2 and VC3 calls, taking into consideration the period since January 2004, that provides for an annual adjustment of 4.5% as of March 2006 and an annual adjustment of 1.97143% or 2.25356% as of July 2007. In 2007, ANATEL developed a new model which will be in use starting with 2010 to determine values of reference of remuneration for use of mobile networks RVU-M of SMP providers having significant market power, which will be used in the case of arbitration by ANATEL of the value of VU-M. See SMP Regulation for more information on the status of this agreement.

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, 2007, our voting shares were indirectly controlled by two major shareholders: Portugal Telecom and Telefónica, through Brasilcel N.V., with 89.3% of our voting stock, 47.5% of our preferred shares and 62.8% of our total capital stock. Portugal Telecom and Telefónica share their participation in Brasilcel in equal percentages after the Merger, controlling 88.8% of our voting stock, 47.5% of our preferred shares and 62.6% of our total capital stock.

Following the Merger, our subsidiaries are: TC, GT, TCO, Telebahia, Telergipe, Telerj, Telest and Celular CRT (all of these subsidiaries have now been merged into Vivo S.A. See Our History and Development Corporate Restructuring of Our Operating Subsidiaries). Substantially all our assets consist of shares in our subsidiary. We rely

very substantially on dividends from our subsidiary to meet our needs for cash, including cash to pay dividends to our shareholders. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

For a more detailed description of our ownership structure and the joint venture between Portugal Telecom and Telefónica, see Our History and Development and Exhibit 8.1.

Acquisition of Telpart, Telemig and Tele Norte.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments.

On December 20, 2007, Vivo signed a stock purchase agreement with Telemar for the sale of all the shares of Tele Norte that it was acquiring from Telpart under the terms of the stock purchase agreement dated August 2, 2007. This additional stock purchase agreement was signed to facilitate Vivo's acquisition of the shares of Telemig from Telpart. See Item 4.A. Information on the company Our History and Development Acquisition of Telpart, Telemig and Tele Norte .

D. Property, Plant and Equipment

Our principal physical property consists of transmission equipment, switching equipment, base stations, and other communication devices, such as voicemail, prepaid service, Short Message Service, Home Location Registers, Signaling Transfer Point, Packet Data Switching Network and gateways. All switches, cell sites, administrative buildings, administrative facilities, warehouses and stores are insured against damages for operation risks.

As of December 31, 2007, we had 54 cellular switches in São Paulo and other equipment installed in 13 owned spaces, 2 leased spaces and 15 shared spaces. In São Paulo, we lease most of the sites in which our cellular telecommunications network equipment is installed. The average term of these leases is five years (subject to renewal for additional five-year terms). Our 4,473 base stations and other network equipment are installed in cell sites, administrative buildings and administrative facilities. In addition, in Sao Paulo we own administrative buildings (approximately 5,126 square meters) and 1 retail store and we lease 4 administrative facilities (approximately 72,006 square meters) 7 administrative areas (approximately 5,004 square meters), 5 kiosks and 83 retail stores.

As of December 31, 2007, Vivo S.A., in the states of Parana and Santa Catarina (PR/SC), had 17 cellular switches and other equipment installed in six owned spaces. In PR/SC, Vivo S.A. leases most of the sites in which its cellular telecommunications network equipment is installed. The average term of these leases is five years (subject to renewal for additional five-year terms). Its 1,805 base stations and other network equipment were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, Vivo S.A. in PR/SC has one administrative building (approximately 4,582 square meters) and leases two administrative facilities (approximately 6,740 square meters), warehouse space (approximately 11,000 square meters), and 35 retail stores.

As of December 31, 2007, Vivo S.A. in the midwest region (CO) had 22 cellular switches and other equipment installed in 6 owned spaces, 2 leased spaces and 2 shared spaces. In CO, Vivo S.A. leases most of the sites in which its cellular telecommunications network equipment is installed. The average term of these leases is five years. Its 2,342 base stations and other network equipments were installed in cell sites, administrative buildings, administrative facilities and warehouses. Also in this region, Vivo S.A. owns 6 administrative buildings (approximately 30,911 square meters), 2 warehouse spaces (approximately 5,269 square meters), 2 administrative area (approximately 2,090 square meters) and leases 3 administrative facilities (approximately 2,617 square meters and 47 retail stores.

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As of December 31, 2007, Vivo S.A. in the northern region had 20 cellular switches and other equipment installed in 10 owned spaces and one leased space. Vivo S.A. leases in this region most of the sites in which its cellular telecommunications network equipment is installed. The average term of these leases is five years. Its 795 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, leases 6 administrative facilities (approximately 5,847 square meters), 2 warehouse spaces (approximately 2,151 square meters) and 24 retail stores.

As of December 31, 2007, Vivo S.A. in the states of Bahia and Sergipe had 8 cellular switches and other equipment installed in 2 owned spaces and 3 shared spaces. Its operating companies lease most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is five years. Their 942 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, they have their own administrative building with warehouse space (approximately 19,455 square meters both) and lease one administrative facility (approximately 872 square meters) and 23 retail stores throughout this region.

As of December 31, 2007, Vivo S.A. in the states of Rio de Janeiro and Espirito Santo had 20 cellular switches and other equipment installed in 4 owned spaces, 1 shared spaces and 1 leased space. Its operating companies lease most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is 5 years. Our 2,548 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, they have their own administrative buildings (approximately 3,122 square meters) and one retail store, and also lease an administrative facility (approximately 28,175 square meters), 2 administrative areas (approximately 24 square meters), 9 kiosks and 45 retail stores throughout this Region.

As of December 31, 2007, Vivo S.A. in the state of Rio Grande do Sul had 19 cellular switches and other equipment installed in 2 owned spaces, 2 leased spaces and 10 shared spaces. Its operating companies lease most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is five years. Our 2,690 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, they have their own administrative building (approximately 1,484 square meters) and also lease an administrative facility (approximately 4,549 square meters), 4 kiosks and 27 retail stores throughout this Region.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

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 3.A. Key Information Selected Financial Data. As discussed in Presentation of Financial Information , in February 2006, we merged with TSD, TLE and CRT. Under Brazilian GAAP, the Merger was recorded as from January 1, 2006. Since we were under common control with these entities since 2002, the financial information presented in Item 5 Operating and Financial Review and Prospects combines our operations with those of TSD, TLE and CRT for periods prior January 1, 2006.

Critical Accounting Policies

In preparing our consolidated financial statements, we have relied on estimates and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Critical accounting policies are those that are important to the portrayal of our financial condition and results and utilize management's most difficult, subjective or complex judgments, estimates and assumptions. 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 GAAP are described in Note 3 to our consolidated and combined financial statements. A description of the differences in accounting policies between Brazilian GAAP and U.S. GAAP is included in Notes 37 and 38 to our consolidated and combined financial statements. The application of these critical accounting policies often requires judgments made by our management regarding the effects of matters that are inherently uncertain on the carrying value of our assets and liabilities and the results of our operations. Our results of operation and financial condition may differ from those set forth in our consolidated and combined financial statements, if our actual

experience differs from management's assumptions and estimates. The following is a discussion of our critical accounting policies, including some of the variables, assumptions and sensitivities underlying the estimates relating to:

- goodwill impairment;
- revenue recognition;
- depreciation of property, plant and equipment;
- impairment and property, plant and equipment;
- provisions for contingencies;
- deferred income taxes; and
- financial instruments.

Goodwill impairment

Under Brazilian GAAP, the amount of goodwill and other intangible asset impairment, if any, is measured based on projected undiscounted future operating cash flows. Under U.S. GAAP, pursuant to SFAS No. 142 *Goodwill and Other Intangible Assets* goodwill is no longer amortized and is subject to a yearly impairment test. In performing the yearly impairment test, we identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. We then determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, we would be required to perform the second step of the impairment test that involves the determination of the implicit fair value of the reporting unit by performing a hypothetical purchase accounting calculation. If the implicit value of the goodwill exceeds the book value, an impairment is recognized. In October 2006, we completed restructurings resulting in a change in the Company's management structure and operating segments. As a result, the Company had one reportable segment, which represented a reporting unit as of December 31, 2007 and 2006.

A determination of the fair value and the undiscounted future operating cash flows of our cellular business requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic tendencies, industry trends, and interest rates, changes in our business strategies and changes in the type of services we offer to the market. The use of different assumptions and estimates could significantly change our financial statements. If assumptions and estimates about the expected future net cash flows change in the future, we may have to recognize impairment charges on goodwill, which would decrease our results of operations and shareholders' equity.

Revenue recognition

Under Brazilian GAAP and U.S. GAAP, we recognize revenues as the services are provided. Sales of wireless devices to dealers are recognized when the respective wireless device is activated by the end user. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Under U.S. GAAP, revenue from sales of wireless devices along with the related cost of the wireless devices are deferred and amortized over their estimated useful life. The excess of the cost over the amount of deferred revenue is recognized on the date of sale. Under U.S. GAAP, pursuant to EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*, the subsidiary accounts separately for free minutes given in connection with the sale of handsets. Therefore, from January 1, 2004, we began to segregate free minutes given in connection with sales of wireless devices and recharges on prepaid phone plans. These minutes are recognized as used based on their respective estimated fair values.

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by different factors such as the complex information technology required, high volume of transactions, fraud and piracy, accounting regulations, management's determination of collectibility, uncertainties regarding our right to receive certain revenues (mainly revenues for usage of our network) and the estimation of fair value for certain transactions. Significant changes in these factors could cause us to fail to recognize revenues or to recognize revenues that we may not be able to realize in the future, despite our internal controls and procedures.

Depreciation and amortization

Depreciation on property, plant and equipment is calculated on a straight-line method over the estimated useful lives of the underlying assets, which consider historical information available to us, as well as known industry trends. Determination of estimated useful lives of property, plant and equipment involves significant judgment and includes considerations of, among other issues, our expected usage of the asset and technical improvements that might require us to replace certain assets before the end of their estimated useful lives. A change in the estimate may cause us to accelerate depreciation or may require an impairment of the asset.

Impairment of long-lived assets

Under Brazilian GAAP, an impairment is recognized on long-lived assets such as property, plant and equipment and concession intangibles if the expected net cash flows generated by the respective asset are not sufficient to cover its book value. Under U.S. GAAP, in accordance with SFAS No. 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

A determination of the fair value of an asset requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic tendencies, industry trends, interest rates and changes in the marketplace. A change in the assumptions and estimates that we use could change our estimate of the expected future net cash flows and lead to the recognition of an impairment charge on our property, plant and equipment or concession intangibles, which would decrease our results of operations and shareholders' equity.

Provisions for contingencies

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 is 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 our approach in dealing with these matters, such as a change in settlement strategy. Future possible changes in the recorded reserve amounts would impact our results of operations in the period that such changes are recorded.

Deferred income taxes

We compute and pay income taxes based on results of operations under Brazilian GAAP. Under U.S. GAAP, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that the deferred tax assets will not be realized, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. When performing such reviews, we are required to make significant estimates and assumptions about future taxable income. In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors such as economic tendencies, industry trends, interest rates, changes in our business strategies and changes in the type of services we offer to the market. The

use of different assumptions and estimates could significantly change our financial statements. A change in assumptions and estimates with respect to our expected future taxable income could result in the recognition of a valuation allowance on deferred income tax assets, which would decrease our results of operations and shareholders equity. If we operate at a loss or are unable to generate sufficient future taxable income, if there is a material change in the actual effective tax rates, if the time period within which the underlying temporary differences become taxable or deductible, or there is any change in our future projections, we could be required to establish a valuation

allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase of our effective tax rate and a material adverse impact on our operating results.

Financial instruments

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.

A. Operating Results

In February 2006, pursuant to the Merger, TCO became our wholly owned subsidiary and each of TLE, TSD and CRT merged with and into us. Under the Merger, the Vivo Companies consolidated with one another through a Brazilian law procedure, whereby TCO became a wholly owned subsidiary of Vivo pursuant to a merger of shares (*incorporação de ações*) of TCO and a merger of companies (*incorporação de empresas*) of TLE, TSD and Celular CRT with and into Vivo, with Vivo as the surviving company. Holders of common shares, preferred shares or (where applicable) ADSs of TCO, TLE, TSD and Celular CRT received common shares, preferred shares or ADSs, respectively, of Vivo upon approval of the Merger by the requisite percentage of the voting shareholders of Vivo, and of TCO, TLE, TSD and Celular CRT, as applicable. Upon the completion of the Merger, TCP was renamed Vivo Participações S.A. and has become the holding company of TCO and of the subsidiaries TLE, TSD and Celular CRT.

Pursuant to the Merger, Brasilcel and its subsidiaries hold all of our common shares. Under the Protocol of Merger of Shares and Merger of Companies and Instrument of Justification agreements which govern the Merger, we underwent a capital increase in the amount of R\$2,631,136,636 as a result of the Merger, from R\$6,670,152,498 to R\$9,301,289,134. The agreements also provided that Celular CRT's preferred shares held in treasury be transferred to TCP in connection with the Merger.

At a Vivo Shareholders Meeting held on February 22, 2006, Vivo reduced its capital in the amount of R\$3,147,782,181, from R\$6,670,152,498 to R\$3,522,370,316, as approved by management and the shareholders and in accordance with Brazilian Corporate Law, which permits reductions in capital up to the amount of accumulated losses, allowing a more accurate valuation of the company and the possibility for eventual future distributions of dividends. The total capital of Vivo is R\$6,153,506,952, owing to an increase in the amount of R\$2,631,136,636 as a result of the Merger. For more information on the Merger, see the Protocol of Merger of Shares and Merger of Companies and Instrument of Justification among TCP and TCO, TSD, TLE and Celular CRT dated December 4, 2005, which is included as an exhibit to this report.

Under Brazilian GAAP, the Merger was recorded as from January 1, 2006. Since we were under common control with TSD, TLE and CRT since 2002, the financial information presented in this Item 5 Operating and Financial Review and Prospects combines the results of our operations with those of TSD, TLE and CRT for periods prior to January 1, 2006.

The Extraordinary General Shareholders Meeting held on October 31, 2006 approved the Merger between the fully owned subsidiary GT with Vivo's other fully owned subsidiaries, including Telergipe, Tebahia, Telerj, Telest, Celular CRT, TC and TCO, as well as TCO's subsidiaries, Telegoiás, Telemat, Telems, Teleron, Teleacre, and NBT.

The objective of the corporate restructuring was to simplify the corporate and operational structure by unifying the general business administration of the operations. Operations will now be concentrated in a single operating company controlled by Vivo, to take full advantage of the synergies between the companies involved, increase Vivo

shareholder value and continue the process approved in the Extraordinary General Shareholders Meeting held on February 22, 2006. Upon completion of the corporate restructuring, the name GT was changed to Vivo S.A.

Acquisition of Telpart, Telemig and Tele Norte.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments.

On December 20, 2007, Vivo signed a stock purchase agreement with Telemar for the sale of all of the shares of Tele Norte that it was acquiring from Telpart under the terms of the stock purchase agreement dated August 2, 2007. This additional stock purchase agreement was signed to facilitate Vivo's acquisition of the shares of Telemig from Telpart. See Item 4 Acquisition of Telpart, Telemig and Tele Norte .

Results of Operations for 2007, 2006 and 2005 for Vivo

The following table sets forth certain components of our results for the periods presented.

Statement of Operations

| | Year ended December 31, | | | Percent change | |
|--------------------------------------------------------------------------------------|--------------------------|--------------------------|----------------------|----------------|-----------|
| | 2007 (1) Consolidated | 2006 (1) Consolidated | 2005 (2) Combined | 2007-2006 | 2006-2005 |
| | (in millions of reais) | | | | |
| Net operating revenue | 12,492.5 | 10,936.7 | 11,253.8 | 14.2 | (2.8) |
| Cost of services and goods | (6,623.3) | (5,564.2) | (5,337.3) | 19.0 | 4.3 |
| Gross profit | 5,869.2 | 5,372.5 | 5,916.5 | 9.2 | (9.2) |
| Operating expenses: | | | | | |
| Selling | (3,532.8) | (3,751.1) | (3,614.9) | (5.8) | 3.8 |
| General and administrative | (1,190.0) | (1,099.7) | (1,031.4) | 8.2 | 6.6 |
| Other operating expenses, net | (499.6) | (319.5) | (491.6) | 56.4 | (35.0) |
| Total operating expenses | (5,222.4) | (5,170.3) | (5,137.9) | 1.0 | 0.6 |
| Operating income before financial expense, net | 646.8 | 202.2 | 778.6 | 219.9 | (74.0) |
| Net financial expenses | (468.3) | (748.0) | (913.1) | (37.4) | (18.1) |
| Operating income (loss) | 178.5 | (545.8) | (134.5) | - | 305.8 |
| Net non-operating expense | (20.8) | (289.0) | (96.5) | (92.8) | 199.5 |
| Net income (loss) before income and social contribution taxes and minority interests | 157.7 | (834.8) | (231.0) | - | 261.4 |
| Income and social contribution taxes | (257.1) | 859.1 | (363.0) | - | - |
| Minority interests | | (8.0) | (173.5) | (100.0) | (95.4) |
| Net Income (loss) | (99.4) | 16.3 | (767.5) | - | - |

(1) The financial information presented for 2007 and 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.

(2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

Operating Revenues

Our operating revenues consist of the following:

- usage charges, which include charges for outgoing calls, monthly subscription charges, roaming and similar service;
- revenues from the sale of wireless devices and accessories;
- interconnection charges (or network usage charges), which are amounts we charge other cellular and fixed-line or long-distance service providers for the use of our network; and
- other charges, including charges for the text messaging services (SMS), WAP, downloads, call forwarding, call waiting, voicemail, and call blocking.

The composition of our operating revenues has been affected by the shift in the composition of customers to 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), by our strategic focus on profitability and selective customer growth, and also by the change in the recognition of revenues related to prepaid services.

Vivo's net additions (number of new customers less churn) generated a 12.7% increase in the number of contract customers to 6.2 million in 2007, from 5.5 million in 2006. The 2006 figure represented a 3.5% decrease from 5.7 million in 2005. Similarly, net additions generated a 15.7% increase in the number of prepaid customers to 27.2 million in 2007, from 23.5 million in 2006. The 2006 figure represented a 2.5% decrease from 24.1 million in 2005.

ANATEL authorizes cellular operators to increase tariffs based upon the prior twelve-month period's cumulative inflation, measured by the IGP-DI variation from February to January of each year. Accordingly, changes in our revenues from year to year include the effects of tariff increases which were approximately 2% in 2007 and 2% in 2006 determined on a weighted average basis.

As of July 6, 2003, cellular telecommunications operators in Brazil were required by the SMP rules to implement long-distance carrier selection codes (*códigos de seleção de prestadora*, or CSP) used by customers to choose their carrier for domestic long-distance services (VC2 and VC3) and international cellular calls. As a result, Vivo no longer receives direct revenues or incurs costs in connection with VC2 or VC3 or international calls.

Additionally, in accordance with ANATEL's regulations, Bill & Keep rules were adopted for interconnection charges in July 2003. The rules provide that companies under the SMP regime were not required to pay tariffs for the use of the local network of other SMP providers as long as customers use local service (i.e., make calls in the same registration area) and as long as there is a traffic balance between them. However, if traffic from the SMP provider that originates the call to the SMP provider that terminates the call represents more than 55% of the total local traffic between the two providers, the SMP provider who originates the higher traffic through the other provider's network must pay to such other provider the local usage tariff for the portion of the traffic that exceeds 55%. On July 14, 2006, ANATEL eliminated the rule of the partial Bill & Keep in the remuneration of network usage between SMP networks in favor of a full billing method.

The composition of operating revenues by category of service is presented in our consolidated financial statements and discussed below. We do not present 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 the periods presented.

| | Year ended December 31, | | | Percent change | |
|---------------------------------------------------------|-------------------------|-----------|-----------|----------------|-----------|
| | 2007 (1) | 2006 (1) | 2005 (2) | 2007-2006 | 2006-2005 |
| | (in millions of reais) | | | | |
| Usage, additional call and monthly subscription charges | 7,863.7 | 7,190.9 | 7,349.5 | 9.4 | (2.2) |
| Interconnection charges | 5,109.3 | 4,338.1 | 4,304.4 | 17.8 | 0.8 |
| Sales of wireless devices and accessories | 3,105.7 | 2,742.6 | 3,051.7 | 13.2 | (10.1) |
| Other | 1,565.6 | 1,183.1 | 1,054.8 | 32.3 | 12.2 |
| Gross operating revenue | 17,644.3 | 15,454.7 | 15,760.4 | 14.2 | (1.9) |
| Value-added and other indirect taxes | (3,385.9) | (3,094.1) | (3,157.7) | 9.4 | (2.0) |
| Discounts granted and return of goods | (1,765.9) | (1,423.9) | (1,348.9) | 24.0 | 5.6 |

| | | | | | |
|----------------------------|----------|----------|----------|------|-------|
| Net operating revenues (1) | 12,492.5 | 10,936.7 | 11,253.8 | 14.2 | (2.8) |
|----------------------------|----------|----------|----------|------|-------|

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- (1) The financial information presented for the 2007 and 2006 fiscal year represents information from Vivo's consolidated financial statements.
- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo and TSD, TLE and CRT.

Net operating revenues increased by 14.2% to R\$12,492.5 million in 2007 and from R\$10,936.7 million in 2006, which in turn represented a 2.8% decrease from R\$11,253.8 million in 2005. The growth in 2007 reflects mainly an increase in revenues from interconnection charges, additional call charges and monthly subscription charges, and sales of wireless devices and accessories. The reduction in 2006 reflects mainly a decrease in revenue from sales of wireless devices and accessories and usage charges, partially offset by an increase in interconnection charges and other revenues.

Usage, additional call and monthly subscription charges. Revenues from usage charges increased by 9.4% to R\$7,863.7 million in 2007, from R\$7,190.9 million in 2006, which in turn represented a 2.2% decrease from R\$7,349.5 million in 2005. The growth in usage charges in 2007 was mainly due to an increase of 15.1% in our customer base to 33.5 million. The decrease in usage charges in 2006 was mainly due to a decrease of 2.3% in our customer base to 29.1 million customers in 2006 as compared to 29.8 million customers in 2005.

Interconnection charges. Revenues from interconnection charges increased by 17.8% to R\$5,109.3 million in 2007, from R\$4,338.1 million in 2006, which in turn represented a 0.8% increase from R\$4,304.4 million in 2005. The increase in interconnection charges in 2007 was principally due to the end of the partial Bill & Keep rule in July 2006. The increase in interconnection charges in 2006 was principally due to the end of the partial Bill & Keep rule in July 2006, which was partially offset by the reduction of fixed-line to mobile traffic in substitution for mobile-to-mobile traffic. By eliminating the effects of the partial Bill & Keep rule in 2006, interconnection charges decreased 14.3%. The effect of the partial Bill & Keep system under ANATEL's Personal Mobile Service (*Serviço Móvel Pessoal*, or SMP) regime is described in Item 3 Key Information.

Sales of wireless devices and accessories. Revenues from sales of wireless devices and accessories increased by 13.2% to R\$3,105.7 million in 2007 and from R\$2,742.6 million in 2006, which in turn represented a 10.1% decrease from R\$3,051.7 million in 2005. The increase in 2007 was mainly due to the increase in our customer base, described above, which resulted in part from promotional campaigns to acquire new customers and the launch of GSM technology. The decrease in 2006 was mainly due to a reduction in the ratio of additional clients to our own wireless devices and a decrease in the average selling price due to competition.

Revenues from sales of wireless devices and accessories are reported before commissions and promotional discounts, and include value-added taxes. In general, the purpose of wireless device sales is to encourage growth in customers and traffic (and not necessarily to generate profits). Accordingly, we subsidize part of the costs of wireless devices. The subsidy strategy resulted in a gross loss (calculated as the difference of net operating revenues from sales minus the cost of goods sold) for Vivo of R\$693.6 million, R\$521.8 million and R\$783.5 million in 2007, 2006 and 2005, respectively.

Other. Revenues from other services increased 32.3% to R\$1,565.6 million in 2007, and from R\$1,183.1 million in 2006, which in turn represented a 12.2% increase from R\$1,054.8 million in 2005. The increase was principally due to an increase in our customer base and an increase in the use of data-related services by our customers, including text message services, or SMS, wireless Internet services and other value-added services. The increase in 2006 was principally due to an increase in the use of data-related services by our customers, including text message services, or SMS, wireless Internet services and other value-added services. This increase is a consequence of the development of products and the increased adoption of these services by users, reflecting widespread access and use of the tools, in addition to the increase in the wireless device portfolio.

Value-added and other indirect taxes. Value-added and other indirect taxes increased 9.4% to R\$3,385.9 million from R\$3,094.1 million in 2006, which in turn represented a 2.0% decrease from R\$3,157.7 million in 2005. The increase was principally due to an increase in gross operating revenue, particularly in revenue from usage charges, interconnection and sales of wireless devices and accessories. The decrease in 2006 was principally due to a decrease

in gross operating revenues, particularly in revenues from the sales of wireless devices and accessories and usage charges. The effective rate of taxes on gross operating revenues varies depending on the composition of our revenues, since the interconnection charges are not subject to ICMS. Accordingly, value-added taxes and other indirect taxes corresponded to 19.2%, 20.0% and 20.0% of our gross operating revenues in 2007, 2006 and 2005, respectively.

Discounts and return of goods sold. Discounts and returns increased by 24.0% in 2007 to R\$1,765.9 million, from R\$1,423.9 million in 2006, which in turn represented a 5.6% increase from R\$1,348.9 million in 2005. Discounts and returns corresponded to 10.0%, 9.2% and 8.6% of our gross operating revenues in 2007, 2006 and 2005, respectively. The increase was principally due to increases in discounts on wireless devices and accessories in response to aggressive competition from other providers. The increase in 2006 was principally due to increases in discounts on wireless devices and accessories in response to aggressive competition.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for 2007, 2006, and 2005, as well as the percentage change from the previous year.

| | Year ended December 31, | | | Percent change | |
|-----------------------------------------------------|-------------------------|-----------|-----------|----------------|-----------|
| | 2007(1) | 2006 (1) | 2005 (2) | 2007-2006 | 2006-2005 |
| | (in millions of reais) | | | | |
| Cost of goods sold | (2,096.8) | (1,898.3) | (2,424.7) | 10.5 | (21.7) |
| Depreciation and amortization | (1,378.9) | (1,327.5) | (1,240.4) | 3.9 | 7.0 |
| Supplies, outside services other | (491.6) | (517.9) | (399.4) | (5.1) | 29.7 |
| Interconnection charges | (1,618.2) | (785.0) | (242.7) | 106.1 | 223.4 |
| Rent, insurance, condominium fees, and leased lines | (436.1) | (429.3) | (438.2) | 1.6 | (2.0) |
| Personnel | (102.9) | (88.7) | (98.2) | 16.0 | (9.7) |
| Taxes | (498.8) | (517.5) | (493.7) | (3.6) | 4.8 |
| Cost of services and goods | (6,623.3) | (5,564.2) | (5,337.3) | 19.0 | 4.3 |

(1) The financial information presented for 2007 and 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.

(2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

Cost of services and goods increased by 19.0% in 2007 to R\$6,623.3 million, from R\$5,564.2 million in 2006, which in turn represented a 4.3% increase from R\$5,337.3 million in 2005. The increase in 2007 was principally due to an increase in interconnection costs resulting from the end of the Bill & Keep rule in July 2006, an increase in the cost of goods sold and the depreciation and amortization costs, partially offset by a reduction in the cost of third party services. The increase in 2006 was principally due to an increase in interconnection costs resulting from the end of the Bill & Keep rule in July 2006, and an increase in third-party costs and in depreciation and amortization costs, partially offset by a reduction in the cost of goods sold. Gross margin (gross profit as a percent of net revenues) corresponded to 47.0%, 49.1% and 52.6% in 2007, 2006 and 2005, respectively.

Cost of goods sold. Cost of wireless devices and accessories increased 10.5% to R\$2,096.8 million in 2007, from R\$1,898.3 million in 2006, which in turn represented a decrease of 21.7% from R\$2,424.7 million in 2005. The increase in 2007 was mainly due to the increase in the proportion of additional customers buying our wireless devices, offset by the sale of GSM equipment at prices lower than the acquisition price of CDMA equipment and lower than

the prices we paid to manufacture the GSM equipment. The decrease in 2006 was mainly due to the decrease in the ratio of additional clients to our own wireless devices, lower costs as a result of negotiations with suppliers and valuation of the *real* against the U.S. dollar.

Depreciation and amortization. Depreciation and amortization expenses increased 3.9% to R\$1,378.9 million in 2007, from R\$1,327.5 million in 2006, which in turn represented an increase of 7.0% from R\$1,240.4 million in 2005. The increase in 2007 was principally due to investments and completion of projects, in particular the expansion and coverage of our network, the amortization of intangible goods such as software, and a switch to GSM technology. The increase in 2006 was principally due to investments and completion of projects, in particular the expansion and coverage of our network and the amortization of intangible goods such as software.

Supplies, outside services and other. Cost of materials and third-party services decreased 5.1% to R\$491.6 million in 2007, from R\$517.9 million in 2006, which in turn represented an increase of 29.7% from R\$399.4 million in 2005. The decrease in 2007 was principally due to a decrease in the provision for losses from interconnection

, partially offset by an increase in the third-party services. The increase in 2006 was principally due to an increase in the costs of public services and the cost of the network for service data.

Interconnection charges. Interconnection charges increased by 106.1% to R\$1,618.2 million in 2007, and from R\$785.0 million in 2006, which in turn represented an increase of 223.4% from R\$242.7 million in 2005. The increase in 2007 is due to the end of the Bill & Keep rule in July 2006 and an increase in total call traffic. The increase in 2006 is due to the end of the Bill & Keep rule in July 2006. By eliminating the effects of Bill & Keep in 2006, interconnection charges decreased 31.6% as a result of the reduction in the mobile-to-fixed tariff, partially offset by an increase in total traffic mainly in mobile-to-mobile traffic.

Rent, insurance, condominium fees, and leased lines. Rent, insurance, condominium fees, and leased lines expenses increased 1.6% to R\$436.1 million in 2007, from R\$429.3 million in 2006, which in turn represented a decrease of 2.0% from R\$438.2 million in 2005. The increase in 2007 was principally a result of increases in lease payments for shared space and in the utilization of the circuits. The decrease in 2006 was principally due to a decrease in payment for the connection through the utilization of the circuits and through renegotiating leases.

Personnel. Personnel expenses increased 16.0% to R\$102.9 million in 2007, from R\$88.7 million in 2006, which in turn represented a decrease of 9.7% from R\$98.2 million in 2005. The increase in 2007 was principally due to an increase in salaries under the terms of our collective bargaining agreement, which we renegotiate annually and which takes effect on November 1, and to training program costs. The decrease in 2006 was principally due to a larger number of employees having been allocated to capital expenditure projects, such as the construction of networks, partially offset by the increase in salaries under the terms of our collective bargaining agreement and the increase in the number of employees.

Taxes. Taxes decreased 3.6% to R\$498.8 million in 2007, compared to R\$517.5 million in 2006, which in turn represented a 4.8% increase from R\$493.7 million in 2005. The decrease in 2007 was principally due to the decrease in FISTEL taxes which are calculated based on the total number of clients at the end of the previous fiscal year. As of July 2006, the Company had an adjustment in its customer base and consequently the amount of FISTEL taxes paid in 2006 was higher than in 2007. Overall, the customer base was larger in 2005 compared to the end of 2006.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the years ended December 31, 2007, 2006 and 2005, as well as the percentage change from the prior year.

| | Year ended December 31, | | | Percent change | |
|-------------------------------------|-------------------------|-----------|-----------|----------------|-----------|
| | 2007 (1) | 2006 (1) | 2005 (2) | 2007-2006 | 2006-2005 |
| | (in millions of reais) | | | | |
| Selling expenses | (3,532.8) | (3,751.1) | (3,614.9) | (5.8) | 3.8 |
| General and administrative expenses | (1,190.0) | (1,099.7) | (1,031.4) | 8.2 | 6.6 |
| Other net operating expenses | (499.6) | (319.5) | (491.6) | 56.4 | (35.0) |
| Total | (5,222.4) | (5,170.3) | (5,137.9) | 1.0 | 0.6 |

- (1) The financial information presented for the 2007 and 2006 fiscal year represents information from Vivo's consolidated financial statements.
- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo and TSD, TLE and CRT.

Vivo's operating expenses increased 1.0% to R\$ 5,222.4 million in 2007, from R\$5,170.3 million in 2006, which in turn represented an increase of 0.6% from R\$5,137.9 million in 2005. The increase in operating expenses in 2007 was principally due to the increase in other operating expenses, while general and administrative expenses were partially offset by a reduction in selling expenses. The increase in operating expenses in 2006 was principally due to the increase in general and administrative expenses offset by a reduction in other operating expenses.

Selling expenses. Selling expenses decreased 5.8% to R\$3,532.8 million in 2007, from R\$3,751.1 million in 2006, which in turn represented a 3.8% increase from R\$3,614.9 million in 2005. The decrease in 2007 was principally due to a 49.2% decrease of debtors in default that totaled R\$365.7 million in 2007, an increase in third-party costs, especially in loyalty program and cost of distribution, and an increase in depreciation and amortization, partially offset by a reduction in public services. The increase in 2006 was principally due to a 11.4% increase in debtors in default that totaled R\$720.5 million in 2006, an increase in third-party costs, especially in customer service, and an increase in depreciation and amortization, partially offset by a reduction in advertising costs. The increase in debtors in default in 2006, which includes an incremental value, occurred in the second quarter of R\$161.5 million, mostly due to a migration of clients to new systemic platforms that caused delays in billing and collection in the period that followed the implementation of such platforms. Allowance for doubtful accounts were 2.1%, 4.7% and 4.1% of gross revenues for 2007, 2006, and 2005, respectively.

General and administrative expenses. General and administrative expenses increased by 8.2% in 2007 to R\$1,190.0 million, and from R\$1,099.7 million in 2006, which in turn represented an increase of 6.6% in 2005 from R\$1,031.4 million in 2005. The increase in 2007 was principally due to the increase in third-party costs, especially consulting and general structure, offset partially by a reduction in depreciation and amortization and leasing and insurance costs. The increase in 2006 was principally due to the increase in depreciation and amortization of expenses beyond the increase in personnel, leasing and insurance costs and housing association fees, offset partially by a reduction in third-party costs, especially consulting and general structure costs.

Other net operating expenses. The net amount of other operating expenses increased by 56.4% to R\$499.6 million in 2007, from R\$319.5 million in 2006, which in turn represented a decrease of 35.0% from R\$491.6 million in 2005. The increase in 2007 was principally due to an increase in the provision for contingencies and a reduction in recovered expenses. The decrease in 2006 was principally due to the reversal of provision for PIS and COFINS in the amount of R\$149.1 million, recorded as recovered expenses, and the decrease in goodwill amortization, partially offset by the increase in the provision for contingencies.

Net Financial Expenses

The following table sets forth certain components of our net financial expenses, as well as the percentage change of each component from the previous year, for each of the years ended December 31, 2007, 2006 and 2005.

| | Year ended December 31, | | | Percent Change | |
|---------------------------------------------------------|-------------------------|----------|-----------|----------------|-----------|
| | 2007 (1) | 2006 (1) | 2005 (2) | 2007-2006 | 2006-2005 |
| | (in millions of reais) | | | | |
| Financial income | 185.8 | 286.8 | 439.7 | (35.2) | (34.8) |
| Exchange gains and losses | 297.5 | 323.0 | 466.3 | (7.9) | (30.7) |
| Gains (Losses) on foreign currency derivative contracts | (509.4) | (764.3) | (1,120.0) | (33.3) | (31.8) |
| Financial expenses | (442.2) | (593.5) | (699.1) | (25.5) | (15.1) |
| | (468.3) | (748.0) | (913.1) | (37.4) | (18.1) |

(1)

The financial information presented for 2007 and 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.

- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

Net financial expense reflects, among other things, the net effect of interest income and expense, and the net effect of exchange rate fluctuation affecting our loans, financings and derivative operations. See Note 28 to our financial statements. Our net financial expenses decreased 37.4% to R\$468.3 million in 2007, from R\$748.0 million in 2006, which in turn represented a decrease of 18.1% from R\$913.1 million in 2005. The decrease in 2007 was principally due to the reduction in net indebtedness, due to a large inflow of operating cash and long term financing with lower interest rates, as well as to the decrease in the interest rates during the period (11.8% in 2007 and 15.0% in 2006).

Vivo's net financial expenses decreased between 2005 and 2006 primarily due to the corporate reorganization and financial liabilities restructuring, as well as to the decrease in the interest rates during the period (19.0% in 2005 and 15.0% in 2006).

As of December 31, 2007, all of our foreign exchange indebtedness (R\$1,834.6 million) was covered by long positions under hedging agreements. Under those derivative agreements, our subsidiaries' foreign exchange-denominated obligations are swapped for *real*-denominated obligations bearing interest at rates linked to the *Certificado de Depósito Interfinanceiro* (Interbank Deposit Certificate), or CDI. This resulted in a gain of R\$296.1 million in our foreign currency-denominated debt (a gain of R\$335.0 million in 2006 and a gain of R\$460.1 million in 2005), which was offset by losses in our currency and interest rate derivatives contracts of R\$509.4 million in 2007 (a loss of R\$764.3 million in 2006 and a loss of R\$1,120.0 million in 2005).

Net non-operating Expense

The net non-operating expense decreased by 92.8% to R\$20.8 million from R\$289.0 million in 2006, which in turn represented a 199.5% increase from R\$96.5 million in 2005. In 2006, we recorded a provision for loss in property, plant and equipment in the amount of R\$278.0 million as a result of our analysis of the recoverability of assets related to the technologies. The decrease in 2007 reflects the absence of the provision for loss in property, plant and equipment.

Income and Social Contribution Taxes Income (Expense)

We recorded expense from income and social contribution taxes in the amount of R\$257.1 million in 2007, a decrease from an income of R\$859.1 million that we recorded in 2006, which in turn represented a decrease from an expense of R\$363.0 million in 2005. This shift from expense to income in 2006 resulted from the Corporate Restructuring process and the effect of tax credits. See Note 30 to our financial statements.

Minority Interest

In 2007, there was no minority interest recorded for Vivo due to the completion of the corporate restructuring process which commenced in October 2006. See Note 1 to our Consolidated Financial Statements for further discussion on this process. The minority interests decreased by 95.4% to R\$8.0 million in 2006, from R\$173.5 million in 2005. The minority interest recorded for the year ended December 31, 2006 represents the minority interest in TCO on January 2006. In February 2006, pursuant to the Merger, TCO became a wholly owned subsidiary of Vivo.

Vivo's Segments

As described in Item 4 Information of the Company Our History and Development Corporate Restructuring of Our Operating Subsidiaries, during 2007, we completed corporate restructurings to simplify our corporate legal structure and create a single legal operating company. This resulted in changes to our management structure and operating segments. By the end of the year ended December 31, 2006, we had one operating segment, cellular telecommunications services. Consequently, no separate segment information has been presented.

B. Liquidity and Capital Resources

Sources of Funds

Vivo generated cash flow from operations of R\$3,098.8 million, R\$3,100.2 million and R\$2,302.2 million in 2007, 2006 and 2005, respectively.

Vivo had net cash used in financing activities of R\$395.5 million in 2007. Although Vivo obtained new loans in the aggregate amount of R\$2,095.0 million in that period, these were more than offset by loan repayments of R\$1,911.4 million and net settlements on derivatives contracts of R\$561.5 million.

Vivo had R\$2,397.4 million in long-term loans and financing as of December 31, 2007. Vivo's R\$1,984.0 million in short-term indebtedness as of December 31, 2007 consisted primarily of funding from financial institutions. As of December 31, 2007, Vivo had a working capital (current assets minus current liabilities) deficit of R\$55.9 million compared to a working capital deficit of R\$27.5 million as of December 31, 2006. As of December 31, 2005, Vivo had a working capital (current assets minus current liabilities) of R\$1,326.3 million.

On May 1, 2005, Vivo issued debentures in the aggregate principal amount of R\$1.0 billion in two series, both maturing in May 2015. The first series, in the aggregate amount of R\$200.0 million, bears interest at 103.3% of the average daily interbank deposit rate for deposits of one day (*DI Depósitos Interfinanceiros de um dia, extragrupo*), payable semiannually, and is subject to renegotiation of terms (*repactuação*) in May 2009. The second series, in the aggregate amount of R\$800.0 million, bears interest of 104.2% of the average daily interbank deposit rate, payable semiannually, and is subject to renegotiation of terms in May 2010. The proceeds of the issuance of these debentures were used for the repayment of short-term debt.

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.

Uses of Funds

Our principal uses of funds are for capital expenditures, servicing our debt, payment of dividends and interest on shareholders' equity from TSD, Celular CRT and TCO, which were merged into Vivo in 2006.

Our capital expenditures (including capitalized interest) amounted to R\$1,905.7 million, R\$2,103.9 million and R\$2,206.5 million in 2007, 2006 and 2005, respectively. Payment of debt and derivative instruments consumed cash flows of R\$2,473.0 million, R\$3,602.2 million and R\$4,080.5 million in 2007, 2006 and 2005, respectively. Dividends and interest on shareholders' equity payments consumed cash flows of R\$17.5 million, R\$63.2 million and R\$184.7 million in 2007, 2006 and 2005, respectively.

Capital Expenditures

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

| Vivo | Year ended December 31, | | |
|-----------------------------------|-------------------------|----------------|----------------|
| | 2007 (1) | 2006 (1) | 2005 (2) |
| | (in millions of reais) | | |
| Switching equipment | 417.3 | 375.9 | 523.0 |
| Transmission equipment | 729.6 | 844.4 | 862.8 |
| Information technology | 267.2 | 414.8 | 407.6 |
| Others(3) | 494.3 | 468.8 | 413.1 |
| Total capital expenditures | 1,905.7 | 2,103.9 | 2,206.5 |

(1)

The financial information presented for 2007 and 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.

- (2) The financial information presented for the 2005 fiscal year represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.
- (3) Consisting primarily of wireless devices provided to customers for free, network construction, furniture and fixtures, office equipment and store layouts.

Our capital expenditures over the past three years related primarily to increasing our network capacity and coverage. The Company continued its projects for improvement and expansion of the capacity of services rendered, which provided support to increase the CDMA 1XRTT and EVDO network, expansion of transmission routes, system centralization and integration (billing, collection and CRM, among others), development of new services and opening and renovating points of sale and terminals for the corporate segment.

In the aggregate, R\$1,905.7 million were invested during the year ended December 31, 2007, which included investment in the GSM/EDGE network and in the current CDMA/EV-DO network. This amount represented 15.3% of our net operating revenues.

Our planned capital expenditures for 2008 include investments in network expansion on GSM/EDGE overlay, introduction of new products and services to maximize the use of cellular phones, expansion of our stores and the continual improvement of the quality of services provided to our customers (the amount will be approved at a general shareholders meeting). We intend to pay these expenditures with funds generated by operations and our available borrowing capacity.

Payments of Dividends to Shareholders

The holders of preferred shares are entitled to exercise voting rights since the 2005 general shareholders meeting and until we pay the minimum dividends. However, this has no significant impact on our ownership structure, since our controlling shareholders own more than 50% of our total capital. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Dividend Policy and Dividends Payment of Dividends.

Debt

As of December 31, 2007, Vivo's total debt position was as follows:

| Debt | Amount Outstanding as of December 31, 2007 |
|---------------------------------------|-----------------------------------------------------------|
| | (in millions of reais) |
| Financing from financial institutions | 4,245.5 |
| Fixcel (acquisition of TCO) | 10.7 |
| Interest | 125.2 |
| Total debt | 4,381.4 |
| Long-term debt(1) | 2,397.4 |
| Short-term debt | 1,984.0 |

(1) Excludes the short-term portion of long-term debt.

As of December 31, 2007, Vivo's total debt was R\$4.4 billion, of which R\$1.8 billion, or 41.9%, was denominated in foreign currencies and therefore exposed to currency fluctuations. Of that amount, R\$723.6 million was denominated in U.S. dollars (US\$408.5 million), R\$1,061.2 million was denominated in yen (¥66,997.4 million), R\$39.8 million was denominated in euro (EUR 15.3 million) and R\$10.0 million was denominated in UMBNDES, which comprises a mix of different currencies. Devaluation of the *real* results in exchange losses on our foreign currency indebtedness. In order to protect against this risk, we have entered into over-the-counter derivatives transactions with international and domestic financial institutions. In 2007, we incurred financial expense from foreign currency derivative transactions of R\$509.4 million against financial income from monetary and foreign exchange

variations of R\$296.1 million. At December 31, 2007, we had derivative contracts that covered 96.1% of our foreign currency-denominated debt and other foreign currency liabilities. The unrealized costs (net of unrealized gains on foreign exchange derivatives contracts) at December 31, 2007 were R\$448.4 million.

We are exposed to interest rate risk as a consequence of our floating rate debt. At December 31, 2007, approximately 56.3% of our interest-bearing liabilities bore interest at floating rates and, primarily LIBOR for U.S. dollar-denominated debt and CDI, IGPM and TJLP for *real*-denominated debt. Accordingly, our financing expenses will increase if market interest rates rise. At December 31, 2007, all of our foreign currency derivatives contracts bore interest payments linked to the Brazilian CDI rate. Vivo protected against the risk of interest rates increasing (LIBOR) by entering into derivative contracts in the total amount of US\$52.5 million and R\$1,347.2 million, respectively. The CDI rates as of December 31, 2007 and 2006 were 11.12% and 13.17%, respectively.

Some of the debt agreements of Vivo contain restrictive covenants. Financial ratios apply to some indebtedness and involve (1) current ratios, (2) capitalization ratios, (3) EBITDA margins, (4) interest coverage ratios and (5) debt-

to-capital ratios. Vivo S.A. has indebtedness and financing with the National Economic and Social Development Bank (BNDES), which as of December 31, 2007 totaled R\$685.2 million. In accordance with contractual obligations, there are several economic and financial indicators that must be maintained annually. As of December 31, 2007, Vivo met all relevant economic and financial indicators. Vivo S.A. has indebtedness and financing with the Europe Bank of Investments, which as of December 31, 2007 totaled R\$270.1 million. On that same day, various economic and financial indicators were met by Vivo S.A.

U.S. GAAP Reconciliation

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, which differ in significant respects from U.S. GAAP. Net losses for 2007, 2006 and 2005 were R\$109.6 million, R\$460.5 million and R\$494.2 million under U.S. GAAP, compared to net income (losses) of R\$(99.4) million, R\$16.3 million and R\$(767.5) million, respectively, under accounting practices adopted in Brazil. Shareholders' equity at December 31, 2007, 2006 and 2005 was R\$9,024.9 million, R\$9,126.2 million and R\$7,165.6 million, respectively, under U.S. GAAP, compared to R\$8,297.6 million, R\$8,371.7 million and R\$7,047.5 million, respectively, under accounting practices adopted in Brazil.

See Notes 37 and 38 to our audited consolidated financial statements for a description of the principal differences between the Brazilian GAAP and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net income/loss and total shareholders' equity.

New Accounting Pronouncements

In 2006, we adopted several accounting pronouncements effective December 2006 and January 2007 which were reported in our 20-F report filed in 2006 and which are discussed in the F-pages accompanying the present report.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS 141R). SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition-related items including: (1) expensing acquisition-related costs as incurred; (2) valuing non-controlling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In September 2006, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 157, Fair Value Measurements. SFAS No. 157 provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. We are required to adopt SFAS No. 157 for our fiscal year beginning January 1, 2008, except as it relates to fair value measurements for nonfinancial assets and nonfinancial liabilities, which, in accordance with FSP 157-2 issued by FASB Staff Position (FSP) in February 2008, we will adopt in our fiscal year beginning January 1, 2009. We are currently evaluating the effect that the adoption of SFAS No. 157 will have on our results of operations and financial condition, but we do not expect it to have a material impact.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 allows measurement at fair value of

eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for our fiscal year beginning January 1, 2008. We are currently evaluating the

effect, if any, that the adoption of SFAS No. 159 will have on our results of operations and financial condition, but do not expect it to have a material impact.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statements and separate from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the Consolidated Statement of Operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement will become effective for us on January 1, 2009. We expect SFAS 160 will not have significant impact on our Consolidated Financial Statements. As of December 31, 2007 and 2006, we have no minority interest due to our corporate restructuring as mentioned in note 1 to our financial statements.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires companies to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on nonvested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. EITF 06-11 is effective for us since January 1, 2008. We do not expect the adoption of EITF 06-11 to have a material impact on our Consolidated Financial Statements.

C. Research and Development

Vivo maintains partnerships with the Universidade Federal do Rio Grande do Sul (UFRGS) and with Pontificia Universidade Católica do Rio Grande do Sul (PUCRS). Such partnerships permit Vivo to have laboratories at the universities, which conduct research and development of new technologies, and which support and push innovative processes. We also solidified a partnership at the end of 2004 with the Centro de Pesquisas e Desenvolvimento em Campinas - São Paulo (CPqD), to assess and study new technologies. While we have partnerships with various universities which allow us to make improvements in the R&D area, we also rely on the research and development of our third-party suppliers.

D. Trend Information

In 2007, the rate of growth in Brazil's cellular market is expected to exceed Brazil's economic growth. In addition, we expect continued strong competition from other operators, greater focus on data and value-added services, targeted growth on average revenue per user, and further enhancements related to customer service. We expect that we will maintain our leadership position in the Brazilian cellular market, focusing on differentiation in the development of integrated solutions and the application of new technologies. We plan to continue to offer services and products of high quality in order to meet our clients' expectations.

E. Off-balance sheet arrangements

As of December 31, 2007, there were no off-balance sheet arrangements. 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.

F. Tabular disclosure of contractual obligations

The following table represents our contractual obligations and commercial commitments as of December 31, 2007:

Payments due by Period

| | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---------------------------------------|--------------|-----------------------------|----------------------|----------------------|--------------------------|
| (in millions of reais) | | | | | |
| Contractual obligations: | | | | | |
| Long-term debt(1) | 4,075.5 | 1,678.1 | 819.2 | 290.8 | 1,287.4 |
| Operating leases | 3,343.1 | 381.2 | 727.3 | 679.8 | 1,554.8 |
| Total contractual cash obligations(2) | 7,418.6 | 2,059.3 | 1,546.5 | 970.6 | 2,842.2 |

(1) Includes short-term portions of long-term debt.

(2) Excludes pension fund obligations.

In addition, we have a rental commitment with Telecomunicações de São Paulo S.A. Telesp, a related party, in an annual amount of R\$113.2 million, including all costs related to the rental of certain facilities used in providing telecommunications services, such as electrical and air conditioning equipment.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

Our company is managed by a Board of Directors and a Board of Executive Officers. Our shareholders elect the members of the Board of Directors. The Board of Directors must have between three and twelve members, each serving a three-year term. The board currently consists of nine members. The terms of the current members of the board of directors will expire in April 2009. The Board of Directors hold regular 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.

| Name | Position | Date Elected |
|-------------------------------------------|-----------------|---------------------|
| Luis Miguel Gilpérez López | Chairman | March 22, 2007 |
| | Vice | |
| João Pedro Amadeu Baptista | Chairman | May 10, 2006 |
| Shakhaf Wine | Director | March 26, 2006 |
| Félix Pablo Ivorra Cano | Director | March 26, 2006 |
| Ignacio Aller Malo | Director | March 26, 2006 |
| Rui Manuel de Medeiros D Espiney Patrício | Director | May 10, 2006 |
| Luiz Kaufman | Director | March 26, 2006 |
| José Guimaraes Monforte | Director | June 29, 2007 |

| | | |
|-------------------------------|----------|-------------------|
| António Gonçalves de Oliveira | Director | March 26, 2006 |
|-------------------------------|----------|-------------------|

Set forth below are brief biographical descriptions of our directors.

Luis Miguel Gilpérez López, born on December 7, 1959, is General Director of the Mobile division of Telefónica International and a member of the Supervisory Board of Brasilcel N.V. He was a board member of TCP, Celular CRT, TSD, TCO, Teleacre, Telegoiás, NBT, Telemat, Telems, TCO-IP S.A. and Teleron from 2004 to 2005. He began working for the Telefónica group in 1981, having assumed growing responsibilities in areas including networks, infrastructure, product and services development and marketing. He has a degree in Industrial Engineering and a master's degree in Business Administration.

João Pedro Amadeu Baptista, born on March 23, 1958, is currently the Vice Chairman of the Supervisory Board of Brasilcel N.V.; Vice Chairman of the Board of Directors of Vivo; Chairman of the Supervisory Board of Portugal Telecom Investimentos Internacionais Consultoria Internacional, S.A.; PT Móveis Serviços de Telecomunicações, SGPS, S.A.; PT Acessos de Internet WI-FI, S.A.; PT Ventures, SGPS, S.A.; Portugal Telecom Brasil, S.A. and Mobitel; member of the Board of Directors of Universo Online UOL and Unitel, SARL; Chairman of the Manager Board of Directel, since 2006. He is a member of the Audit Committee of Victoria and Albert Museum em Londres, since 2005. Mr. Baptista was leader of the global team of telecommunications and partner of Booz Allen Hamilton, in the United Kingdom, from 2005 until 2006. Mr. Baptista was global leader for the group of technology, information

and entertainment industry of Marsh & McLennan Companies Inc., from 2004 until 2005. He was member of Executive Commission and partner of Mercer Management Consulting, from 1997 until 2005; global responsibility for the group s of technology, information and entertainment, from 2000 until 2005; co-leader for the United Kingdom, from January 2001 until 2005. He holds a degree in Engineering Mechanics, a post-graduate degree in Energy from the Federal Polytechnical Scholl of Lausanne, Switzerland, and a MBA from Stanford Graduate School of Business, Stanford, CA, EUA.

Shakhaf Wine, born on June 13, 1969, is the President of Portugal Telecom Brasil S.A, an executive board member of PT Investimentos Internacionais S.G.P.S., a member of the board of directors of Brasilcel N.V. and a member of the board of directors of Vivo and Universo Online S.A. Previously Mr. Wine was a board member at TCP, TCO, TSD, Celular CRT and Banco1.Net S.A. Before joining Portugal Telecom in April 2003, Mr. Wine was a Director of Investment Banking and a Relationship Manager for European corporate clients in the Global Telecommunications Group of Merrill Lynch International from 1998 to 2003, based in London. Additionally, he was Senior Associate Director of the Latin American and Telecommunications groups of Deutsche Morgan Grenfell from 1993 until 1998, also based in London. Previously Mr. Wine was a foreign exchange trader and dealer for the Brazilian Central Bank at Banco Icatu S.A. He holds a degree in Economics from the Pontificia Universidade Católica do Rio de Janeiro.

Félix Pablo Ivorra Cano, born on July 1, 1946, was the President of the Board of Directors from February 1999 to September 2005. Mr. Ivorra is currently a member of the Boards of Directors of Telecomunicações de São Paulo S.A, Brasilcel N.V, Vivo Participações. He was a member of the Board of Directors of TSD, TLE, TCO and Celular CRT until February 2006. He joined the Telefónica Group in July 1972 and served in the areas of Technical Specifications, Network Planning, Commercial Planning and as General Director of Advanced Communications. In 1993, he was appointed General Director of the team that founded Telefónica Servicios Móviles, where he held several positions including General Commercial Director and General Director of Business Development until January 2006. During 1997 and part of 1998, he was chairman of the board of Telefónica Móviles group companies Mensatel, S.A. and Radiored, S.A. He has a degree in Telecommunications 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 also in Madrid.

Ignacio Aller Malo, who was born on December 1, 1945, is a member of the Board of Directors of Telefonia Móviles México, S.A. de C.V., Brasilcel N.V, Vivo Participações, S.A. He was a member of the Board of Directors of TSD, TLE and Celular CRT until February 2006. Mr. Aller has served as Chief Operating Officer of Telefónica Móviles S.A. since 2003 and has held several positions at Telefónica de España since 1967.

Rui Manuel de Medeiros D Espiney Patrício, born on August 17, 1932, is a member of the Board of Directors of Monteiro Aranha S.A., Monteiro Aranha Participações, Klabin S.A., Vivo, Jerónimo Martins (Portugal) and Espirito Santo International Holding. He was a member of the Board of Directors of Banco Boavista S.A. from 1997 until 2000; member of the Board of Directors of Banco Inter-Atlântico S.A. from 1980 until 1997, member of the Board of Directors of Ericsson do Brasil from 1979 until 1997, Managing Director and Executive Vice-President of Monteiro Aranha S.A. from 1976 until 1992, Representative of the Monteiro Aranha Group in Europe from 1975 until 1976, and worked at Financiadora Volkswagen do Brasil from 1974 until 1975. Mr. Patrício was Minister for Foreign Affairs of Portugal from 1970 until 1974, Under-Secretary of State for Overseas Economic Development of Portugal from 1965 until 1970, Member of the Commission for Overseas Development Plan from 1963 until 1965, Economic Advisor of Sacor (Oil Company) from 1958 until 1964, and between 1958 and 1963 he was Assistant Professor at Lisbon University. Mr. Patrício has a degree in Law from the University of Lisbon 1955, a post-graduate degree in Political Economics from University of Lisbon 1956 and Business Administration from Fundação Getúlio Vargas (São Paulo) 1975.

Luiz Kaufmann, born on August 7, 1945, has been a member of the Board of Directors and Audit Committee of Vivo since July 2005. He was a member of the Board of Directors and Audit Committee of TSD, TLE, TCO and Celular CRT, since July 2005 and until February 2006. Mr. Kaufmann is President and CEO of Medial Saude S/A, a health care company. Mr. Kaufmann is also a member of the Board of Directors of Gol Linhas Aéreas Inteligentes and chairman of its audit committee. Mr. Kaufmann is a partner at L. Kaufmann Consultores Associados, a boutique investment bank, through which Mr. Kaufmann was in charge of the turn-around and sale of Vésper Brazil from May

2001 to November 2003 and in the turn-around and sale of Primesys from October 2004 to October 2005. Mr. Kaufmann was partner of GP Investimentos from 1999 to 2001 and a Board member of several companies controlled by GP, CEO of Aracruz Celulose S.A. and Chairman of the Board of Directors of Tecflor from November 1993 to April 1998. Previously he spent several years as Managing Director of Arthur D. Little in Brazil. Mr. Kaufmann began his career at Serete S.A. Engenharia as project engineer in 1968, rising to the position of Director of Finance and Control by 1974. Mr. Kaufmann then held various other executive positions prior to those described above. Mr. Kaufmann holds a degree from Universidade Federal do Paraná and a Master of Sciences in Industrial Engineering from Illinois Institute of Technology.

José Guimarães Monforte, born on July 6, 1947, is currently a member of the Board of Directors and Audit Committee of Vivo since June of 2007. Mr. Guimarães Monforte is the president of Jano Comércio, Administração e Participações Ltda. and was the former President of the board of IBGC and Pini Editora S/A, and the Vice President of the board of Klicknet. He was also a member of the board of Natura Cosméticos, Caramuru Alimentos JHSF Participações S/A and the board of Agrenco of Brazil. In addition, Jose Guimarães Monforte was also the Vice President of ANBID and of the board of the Settlement Department of the Commodity Exchange. He was also the Coordinator of the Capital Opening Committee of Bovespa and a member of the Listings Commission. Furthermore, he was a member of the Advisory Panel for the OECD on the Efficiency of the Board of Directors, and a member of the Advisory Board-Americas Cabinet of the Graduate School of Business in Chicago. He also served as an executive in diverse banks and companies, such as BANESPA, Banco Merrill Lynch, Banco Citibank N.A., and was President of VBC Energia S/A. Jose Guimarães Monforte graduated with a degree in Economics from the University of Católica de Santos.

Antonio Gonçalves de Oliveira, born on May 4, 1944, is currently a member of the Board of Directors and Audit Committee of Vivo since July 2005, and a member of the Board of Directors of TCP, since March 2001. Mr. Gonçalves de Oliveira was a member of the Boards of Directors and Audit Committees of TSD, TLE, TCO and Celular CRT, since July 2005 and until February 2006. He is a member of the Board of Auditors of COELBA - Companhia de Eletricidade da Bahia, since April, 2006 at the appointment of *Caixa de Previdência dos Funcionários do Banco do Brasil*, a large Brazilian pension fund and shareholder of COELBA, President of AAMAC - Associação de Amigos do Museu de Arte Contemporânea da USP, an important participant in the contemporary cultural scene (2004/2006) and member of the council of representatives of FIESP (Federation of Industries of the state of Sao Paulo) (2003/2007). Mr. Gonçalves de Oliveira is also a member of the Social and Economic Development Council of the Brazilian Government, a board member of the Small and Medium Company Working Group sponsored by the Brazilian Government, the vice president of the Brazilian Businessmen's Association for Market Integration (ADEBIM), a member of the orientation and steering council of Banco do Povo do Estado de São Paulo and President 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 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.

In accordance with the shareholders' agreement between Portugal Telecom SGPS, S.A., PT Movéis SGPS, S.A. and Telefónica Móviles S.A., PT Movéis is responsible for the appointment of our Chief Executive Officer and Telefónica Móviles is responsible for the appointment of our Chief Financial Officer. PT Movéis appointed three and Telefónica Móviles appointed three of the nine members of our Board of Directors.

Board of Executive Officers

Our by-laws provide for a Board of Executive Officers with six positions, each elected by the Board of Directors for a term of three years. Our Board of Executive Officers currently has six members. In the absence or temporary

inability to perform his duties, the Chief Executive Officer will be replaced by the Executive Vice President of Finance, Planning and Control. In the case of a vacancy in any position on 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.

Our Board of Executive Officers currently has 6 positions to be occupied by 5 members, since the CEO also occupies the position of Executive Vice President of Marketing and Innovation as of February 11, 2008.

The following are the current executive officers and their respective positions.

| Name | Position | Date appointed |
|-----------------------------------|------------------------------------------------------------------------------------------|-----------------------|
| Roberto Oliveira de Lima | Chief Executive Officer | April 12, 2006 |
| | Executive Vice President of Marketing and Innovation | February 11, 2008 |
| Ernesto Gardelliano | Executive Vice President of Finance, Planning and Control and Investor Relations Officer | April 12, 2006 |
| Paulo Cesar Pereira Teixeira | Executive Vice President of Operations | April 12, 2006 |
| Eduardo Aspesi | Executive Vice President of Marketing and Innovation | October 10, 2006 |
| Javier Rodríguez García | Vice President of Networks | April 12, 2006 |
| Sérgio Assenço Tavares dos Santos | Vice President of Regulatory Matters | April 12, 2006 |

Set forth below are brief biographical descriptions of our executive officers.

Roberto Oliveira de Lima, born on April 1, 1951, is Chief Executive Officer and Executive Vice President of Marketing and Innovation since February 11, 2008 of Vivo, Vivo S.A. and TCO-IP S.A. and formerly of TCO, Telerj, Telest, Telebahia, Telergipe, Celular CRT, TC, GT, Telegoiás, Telemat, Telems, Teleacre, Teleron and NBT. Mr. Oliveira de Lima has also been a director of Avista Participações Ltda., Tagilo Participações Ltda., Sudestecel Participações Ltda., TBS Celular Participações Ltda., Ptelecom Brasil S.A., Portelcom Participações S.A. and all affiliates of Brasilcel, since 2005. He was the Chief Executive Officer of TSD, TLE and Celular CRT until February 2006. Mr. Oliveira de Lima was Chairman of the Board of Directors of Grupo Credicard from 1999 to 2005 and Chief Executive Officer of Banco Credicard S.A. from 2002 to 2005. Before 1999, Mr. Oliveira de Lima held executive positions at Accor Brasil S.A., Rhodia Rhone Poulec S.A. and Saint Gobain S.A. Mr. Oliveira holds a degree in Administration and an MBA from Fundação Getulio Vargas, Brasil, and a master's degree in finance and strategic planning from Institute Superieur des Affaires, Jouy en Josas, France. Mr. Oliveira is a Brazilian citizen.

Ernesto Gardelliano, born on January 15, 1962, is Executive Vice President of Finance, Planning and Control and Investor Relations Officer of Vivo, Vivo S.A. and TCO-IP S.A. and formerly of TCO, Telerj, Telest, Telebahia, Telergipe, Celular CRT, TC, GT, Telegoiás, Telemat, Telems, Teleacre, Teleron and NBT. Mr. Gardelliano has also been a director of Avista Participações Ltda., Tagilo Participações Ltda., Sudestecel Participações Ltda., TBS Celular Participações Ltda., Ptelecom Brasil S.A., Portelcom Participações S.A. and all affiliates of Brasilcel. He joined Coopers & Lybrand in Argentina in 1984 where he developed his career in the Audit Department. During 1990, Mr. Gardelliano was transferred to Italy. In January 1993, he joined Movicom, the first mobile telecom operator in Argentina. The Company was a Joint Venture led by BellSouth and Motorola. Mr. Gardelliano acted as the Financial Controller until 1997, when he was promoted to Chief Financial Officer. In 2005, and after the sale of the Latin American Assets of BellSouth, he became Regional Director for Argentina, Chile and Uruguay for Telefónica Móviles and transferred to Brazil to take over responsibilities in the Finance area of the above mentioned Companies, namely Vivo. Mr. Gardelliano is a Certified Public Accountant, a graduate of the University of Buenos Aires and holds a degree in Upper Management from the Instituto de Altos Estudos at the Universidad Austral.

Paulo Cesar Pereira Teixeira, born on June 18, 1957, is the Executive Vice President of operations of Vivo since 2003, Vivo S.A. and TCO-IP S.A. and formerly of TCO, Telerj, Telest, Telebahia, Telergipe, Celular CRT, TC, GT, Telegoiás, Telemat, Telems, Teleacre, Teleron and NBT. Mr. Teixeira is also a director of Avista Participações Ltda.,

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Tagilo Participações Ltda., Sudestecel Participações Ltda., TBS Celular Participações Ltda., Ptelecom Brasil S.A. and Portelcom Participações S.A. He was the Executive Vice-President of Operations of TSD, TLE and Celular CRT until February 2006. Since 1998 Mr. Teixeira has acted as Vice-President of Telerj, Telest, Telebahia, Telergipe, Celular CRT and he was member of the Board of Directors of TSD, TLE and Celular CRT from 2001 until 2003. In 1998 he was a Director of Telepar, Telesc and CTMR Celular S.A., companies of Telecomunicações Brasileiras S.A. Telebrás, and Vice President of Tele Celular Sul S.A. Mr. Teixeira was Director of telecommunications engineering

of Mato Grosso do Sul S.A. Telems, a company of Telecomunicações Brasileiras S.A. Telebrás, from 1995 through 1998. During 1995, he was a Department Manager of investment management. In 1994 he was an Assistant to the Director of Engineering. From 1990 until 1994, Mr. Teixeira served as Divisional Manager of coordination and expansion of Telebrás Holdings. Mr. Teixeira was engineer in the areas of service development and investment control of Telebrás Holding from 1988 through 1990. From 1980 until 1987, Mr. Teixeira performed several different managerial duties at Companhia Riograndense de Telecomunicações S.A. CRT and was also a member of the board of directors from 1985 to 1986. In 1987 and 1988, he held several different positions at Telebrás affiliates. Mr. Teixeira holds an Electrical Engineering degree from the Catholic University of Pelotas, Brazil.

Javier Rodríguez García, born on December 8, 1955, is Executive Vice President of Technology and Networks Vivo, Vivo S.A. and TCO-IP S.A, since April 2005. He was the Executive Vice President of Technology and Networks of TSD, TLE and Celular CRT, until February 2006 and of Telerj, Telest, Telebahia, Telergipe, Celular CRT, TC, since May 2003, TCO, Telegoiás, Telemat, Telems, Teleacre, Teleron and NBT, until October 2006. From 1986 until 1988, Mr. García worked at INDELEC Indústria Electrónica de Comunicaciones 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 Rede Electrica de España S.A. as the person responsible for the 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 telecommunications 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 2003 was the network manager of Telerj and Telest He holds a degree in Technical Telecommunications Engineering from the Technical University of Madrid, Spain.

Sérgio Assenço Tavares dos Santos, born on June 3, 1948, is the Vice President of Regulatory Matters of Vivo Participações, Vivo S.A., and TCO-IP S.A. From January 2006 until February 2006, he was a Vice-President of Regulatory Matters and Institutional Relations of TSD, Celular CRT and TLE and from January 2006 until October 2006, Mr. Tavares dos Santos was a Vice-President of Regulatory Matters and Institutional Relations TCO, Telerj, Telest, Telebahia, Telergipe, Celular CRT, TC, Telegoiás, Telemat, Telems, Teleacre, Teleron, NBT. From October 2004 until December 2005, he was the Regional Director of TCO and subsidiaries, including NBT; from January 2003 until September 2004, he was the President and Vice-President of TCO and subsidiaries, including NBT; from October 1998 until December 2002, he was the Director of Engineering and Operations of TCO and subsidiaries, including NBT; from February 1998 until September 1998, he was Executive Vice-President of TCO, Telegoiás Celular, Telemat Celular, Telems Celular, Teleacre Celular and Teleron Celular. He was Director of Engineering and operations of Telecomunicações de Brasília S.A. Telebrasília S/A, a fixed telecommunications company, between July 1995 and January 1998, and was also Manager of the Business Unit of Advanced Telecommunications of the Operations Department of Telebrasília from April 1994 until July 1995 and Assessor and Coordinator of Special Projects of the Engineering Department of Telebrasília from September 1993 until March 1994. He held several different positions at Telebrás from July 1990 until August 1993 and also held several different positions at Telebrasília between March 1976 and July 1990. Mr. Assenço holds an Electrical Engineering degree from Brasília University, Brazil. Mr. Assenço is a Brazilian citizen.

Eduardo Aspesi, born on August 13, 1959, served as the Executive Vice President of Marketing and Innovation of Vivo Participações, Vivo S.A and TCO-IP S.A. from October 10, 2006 to February 11, 2008. He was General Manager of Hispamar Satélites S.A. from 2005 until October 2006. Mr. Aspesi was Retail Superintendent Director of Telemar between 2001 and 2004. From 1999 until 2001, he was General Director of RBS Direct. Mr. Aspesi was Marketing and New Business Director of Net Sul Comunicações S/A from 1994 until 1999. He worked of Rádio e TV

Gaúcha, between 1991 and 1994. From 1985 until 1991, he held several different positions at RBS Group. He was also Auditor and Department Chief of Companhia Estadual de Energia Elétrica Rio Grande do Sul (CEEE), from 1982 until 1985. He holds a degree in Administration from Pontifícia Universidade Católica de Porto Alegre, RS and Economics from Federal University of Rio Grande do Sul. Mr. Aspesi holds a post-graduate degree in finance and marketing from the Federal University of Rio Grande do Sul.

Board of Auditors

Brazilian Corporate Law requires us to have a Board of Auditors (*Conselho Fiscal*) which is composed of three to five members elected at the general shareholders meeting. The Board of Auditors operates independently from our management and from our external auditors. Its main function is to examine the financial statements of each fiscal year and provide a formal report to our shareholders. Our board of auditors consists of three members and three alternates and meets quarterly. Our Board of Auditors is elected annually at the annual general shareholders meeting.

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-ups; and
- to review and approve the financial statements for the fiscal year.

The Board of Auditors holds regular meetings every three months and special meetings when called by the President or by any member of the Board of Auditors.

Listed below are the current members of our Board of Auditors and their respective positions:

| Name | Position | Date Appointed |
|--------------------------------------|-----------|----------------|
| Claudio José Carvalho de Andrade (1) | Member | March 15, 2007 |
| Paula Bragança França Mansur (2) | Member | March 15, 2007 |
| Fabiana Faé Vicente Rodrigues (2) | Member | March 15, 2007 |
| Daniel Vidal de Almeida (1) | Alternate | March 15, 2007 |
| Norair Ferreira do Carmo (2) | Alternate | March 15, 2007 |
| João Renato Pierre (2) | Alternate | March 15, 2007 |

(1) Appointed by our preferred shareholders.

(2) Appointed by our controlling shareholder.

B. Compensation

For the year ended December 31, 2007, we paid our directors and executive officers, and the directors and executive officers of our subsidiary, as compensation an aggregate amount of R\$11.2 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

complimentary retirement pension plan available to our employees.

C. Board Practices

For more detailed information, see Directors and Senior Management Board of Executive Officers, and Directors and Senior Management Board of Auditors , above, and Item 9.C. The Offer and Listing Committees .

There are no service contracts between us or our subsidiary and any of our directors providing for benefits upon termination of employment.

D. Employees

At December 31, 2007, we had 5,600 full-time employees and 13 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, | | |
|------------------------------------------------|---------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Total number of employees (including trainees) | 5,600 | 5,896 | 6,084 |
| Number by category of activity: | | | |
| Technical and operations area | 1,755 | 1,865 | 1,437 |
| Sales and marketing | 2,061 | 2,117 | 2,347 |
| Finance and administrative support | 1,316 | 1,330 | 1,448 |
| Customer service | 468 | 584 | 852 |

Employees are represented by the *Sindicato dos Trabalhadores em Empresas de Telecomunicações e Operadoras de Mesas Telefônicas no Estado de São Paulo* (SINTETEL). We negotiate new collective-bargaining agreements every year with the labor unions. The collective-bargaining agreements currently in force include a salary increase of 4.4% and a benefit increase of approximately 5%, effective as of December 31, 2007.

Our management considers the relations between our workforce 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-bargaining agreement every year with each local union. The collective-bargaining agreements now in force expire on October 31, 2008.

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.

We maintained the plans *TCPPREV*, *TCOPREV* and *VISÃO CELULAR*, new private pension plans for our employees. Unlike SISTEL's defined benefits plan, the plans *TCPPREV* and *Visão Celular* call for defined contributions by our operating subsidiaries, as sponsors, and by our employees, as participants. *TCOPREV* is a variable contribution plan.

As of February 2, 2007, the board approved for the management of Vivo to transfer the following plans from Fundação SISTEL de Seguridade Social to the institution Visão Prev Sociedade de Previdência Complementar (VISÃO PREV): PBS Telesp Celular, TCPPREV, PBS Tele Centro Oeste Celular, TCOPREV, PBS Telesudeste Celular, Visão Telerj Celular, Visão Telest Celular, PBS Teleleste Celular, Visão Telebahia Celular, Visão Telergipe

Celular and Visão Celular CRT. These eleven plans were transferred gradually to VISÃO PREV from May 2, 2007 until December 31st, 2007.

The management of the previous PBS-A and PAMA plans remains under the direction of SISTEL. The PBS-A plan is a defined benefit plan dedicated to retired participants until January 31, 2000, and the PAMA plan is a multi-sponsor health care plan dedicated to the retired participants from PBS plans.

On August 21, 2007, the board approved the new private pension plan VIVOPREV, a defined contribution plan already managed by VISÃO PREV. From March 2008, the participants of the plans PBS Telesp Celular, TCPPREV, PBS Tele Centro Oeste Celular, TCOPREV, PBS Telesudeste Celular, Visão Telerj Celular, Visão Telest Celular, PBS Teleeste Celular, Visão Telebahia Celular and Visão Telergipe Celular e Visão Celular CRT will have the possibility to migrate to the new VIVOPREV plan.

As of December 31, 2007, 64.13% of our employees were members of these plans. We continue to have a contingent liability for the unfunded obligations of the plans with respect to all inactive employees of the former Telebrás system and all post-retirement healthcare benefits for former Telebrás employees and current employees that have not changed to the new plan.

E. Share Ownership

As of December 31, 2007, 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. We do not offer stock option plans to any of our directors or employees.

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 shares as of December 31, 2007:

| Name | Number of common shares owned | Percentage of outstanding common shares | Number of preferred shares owned | Percentage of outstanding preferred shares |
|-------------------------------------------------|-------------------------------|-----------------------------------------|----------------------------------|--------------------------------------------|
| Brasilcel | 222,877,507 | 42.5 | 364,350,055 | 39.7 |
| Sudestecel Partic Ltda (1) | 88,255,178 | 16.8 | 1,224,498 | 0.1 |
| TBS Celular Partic Ltda (1) | 68,818,554 | 13.1 | 1,165,797 | 0.1 |
| Portelcom Partic. S.A. (1) | 67,349,733 | 12.8 | 1,843 | (2) |
| Tagilo Partic. Ltda (1) | 12,061,046 | 2.3 | 22,625,728 | 2.5 |
| Avista Partic. Ltda (1) | 9,630,458 | 1.8 | 46,613,811 | 5.1 |
| All directors and executive officers as a group | 48 | (2) | 1,751 | (2) |

(1) Subsidiary of Brasilcel.

Less than 1% of aggregate.

(2)

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

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

Brasilcel does not have different voting rights, but as a result of owning more than 50.0% of our common shares, it has the ability to control the election of our Board of Directors and the direction of our future operations. See also Item 4.A. Information on the Company Our History and Development Brasilcel.

B. Related Party Transactions

The main transactions with unconsolidated related parties are as follows:

- Use of network and long-distance (roaming) cellular communication: These transactions involve companies owned by the same controlling group: Telecomunicações de São Paulo S.A. – Telesp and subsidiaries. Some of these transactions were established based on contracts signed by Telebrás with the concessionaire operators during the period prior to privatization, when conditions were regulated by ANATEL. These transactions also include the provision of customer service to Telecomunicações Móveis Nacionais – TMN customers in connection with roaming services in the Company’s network. Roaming international services are provided by Telefônica Móviles Espanã S.A and Telecomunicações Móveis Nacionais – TMN.
- Technical assistance: Refers to the provision of corporate management advisory and business consultancy services by Portugal Telecom, SGPS, S.A., and technical assistance provided by Telefônica S.A., Telefônica International S.A. and TBS Celular Participações S.A., based on a formula proposed in the contracts that includes the variation of the LAIR (Profit Before Income tax) and the variation of the preferred and ordinary shares and that determines a coefficient to be applied upon the performance of services. In the case of the operation of the branch office in the Rio Grande Do Sul, the contract foresees only one 1% fixture on the performance of services.
- Corporate services: These are passed on to the subsidiary at the cost incurred for these services.
- Call-center services: Provided by Atento Brasil S.A. and Mobitel S.A. – Dedic to users of the telecommunications services of the subsidiary, contracted for 12 months and renewable for the same period.
- Systems development and maintenance services: Provided by Portugal Telecom Inovação Brasil S.A. and Telefônica Pesquisa e Desenvolvimento do Brasil Ltda.
- Operating logistical services, accounting and financial assistance: Provided by Telefônica Serviços Empresariais do Brasil Ltda.
- Voice content portal service provider: Provided by Terra Network Brasil S.A.

We have engaged in a number of other transactions with related parties. See Note 34 to our financial statements.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION**A. Consolidated Statements and Other Financial Information**

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

Legal Matters

We are party to several administrative and legal proceedings that, if decided adversely, could have a material adverse effect on our business, financial condition and results of operations. We have recorded provisions in our

financial statements equivalent to the full amount of the estimated losses associated with those claims where the likelihood of an unfavorable outcome is deemed probable by our legal counsel. However, we do not record provisions in those instances where the likelihood of an unfavorable outcome is deemed possible or remote by our legal counsel. Below is a summary of our material pending administrative and legal proceedings:

Civil

Consumer s rights

We are a party to several law suits brought against us by individual consumers or civil associations representing consumers rights that allege our failing to properly provide our products and services. None of these lawsuits are individually material. Based on the opinion of our counsel, we believe that probable losses with respect to these claims total approximately R\$135.1 million, an amount for which we have made provisions, and that possible losses with respect to these claims total approximately R\$346.1 million.

We are a party to several civil claims and we have made provisions for these claims sufficient to meet probable losses. We believe that probable losses with respect to these civil claims total approximately R\$79.3 million, an increase from R\$35.183 million in 2006.

ANATEL

We are also part of several administrative and legal actions brought by Anatel that allege non-compliance with regulatory requirements related to SMP service, in the approximate total amount of R\$18.6 million. Based on the opinion of our counsel, we believe that the likelihood of unfavorable outcomes with respect to these claims are probable.

Breakup of Telebrás

Telebrás, our legal predecessor, was a defendant in a number of administrative and legal proceedings and was subject to various claims and contingencies. Under the terms of the Telebrás breakup, the liability for any claims arising out of acts committed by Telebrás prior to the effective date of the breakup remains with Telebrás, except for labor and tax claims (for which Telebrás and the companies incorporated as a result of the breakup are jointly and severally liable by operation of law) and any liability for which specific accounting provisions have been assigned to us or one of the other companies incorporated as a result of the breakup of Telebrás. In addition, the legality of the breakup of Telebrás had been challenged in numerous legal proceedings; some of which have been dismissed and are still pending. We believe, based on the opinion of outside counsel, that the likelihood of an unfavorable outcome with respect to these claims is remote.

Tax Credits

Vivo and the other new holding companies incorporated in connection with the privatization of the telecommunications companies offset certain tax debts against the premiums paid by their controlling shareholders. A claim was filed on December 16, 1999 against all the new holding companies, including Vivo and TCO, seeking relief in the form of the annulment of the administrative acts that recognized these offsets. Although we believe that the restructuring was implemented in accordance with Brazilian law, we believe, based on the opinion of outside counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible. We would be required to pay all the taxes that were offset against goodwill. We are unable to determine at this time the extent of any potential liabilities with respect to this claim.

Ownership of Caller ID

Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda., a Brazilian company, filed on November 20, 2001 lawsuits against 23 wireless telecommunications operators, including Telesp Celular Participações and its subsidiaries. The lawsuits allege that those operators violated patent number 9202624-9, related to *Equipamento*

Controlador de Chamadas Entrantes e do Terminal do Usuário, or Caller ID, granted to Lune by the Brazilian Intellectual Property Agency INPI, on September 30, 1997. Lune calls on the operators to cease to provide Caller ID services and seeks payment from them for the unauthorized use of the Caller ID system in an amount equivalent to the payment of fees received by such operators for use of the Caller ID system. However, Lune's right to use patent number 9202624-9 was suspended by a federal judge in response to a lawsuit filed against Lune and INPI by *Ericsson Telecomunicações S.A.*, *TC* and *Telerj Celular* filed identical lawsuits against Lune and INPI and those lawsuits are still pending before the courts. In connection with this proceeding, a third company, Sonintel, and its two partners

also brought an *Ação de Oposição*, whereby they reinvoked their rights to a previous patent related to Caller ID, and to which the above mentioned patent (number 9202624-9) was linked. We believe, based on the opinion of outside counsel that the likelihood of an unfavorable outcome with respect to Luno's claim against us is possible. We are unable to determine at this time the extent of any potential liabilities with respect to this claim.

Validity of Prepaid Plan Minutes

We and our subsidiary, together with other Brazilian wireless telecommunications operators, are defendants in various lawsuits brought by the public prosecutor's office and consumer protection associations challenging the imposition of a deadline for the use of purchased prepaid minutes. The plaintiffs allege that purchased prepaid minutes should not expire after any specified deadline. Conflicting decisions have been issued by the courts reviewing this matter. Although we believe that our criteria for imposing the deadline is in compliance with ANATEL's rules, we believe, based on the opinion of outside counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible.

Litigation Relating to the Charging of a Monthly Subscription Fee

GT, Telegoiás Celular and *Telems Celular*, together with other mobile telecommunications operators, are defendants in class action suits brought by the federal public prosecutor's office and local agencies for consumers protection, which challenged the charging, by these operators, of monthly subscription tariffs, alleging that there is no legal provision authorizing such a charge. According to the plaintiff, the charging of monthly subscription tariffs also violates Brazilian Consumer Law.

In October 2007, the Superior Court of Justice (STJ) has taken a position favorable to Brazilian telecommunications operators holding that the charging of a monthly subscription fee is legal.

Based on the opinion of our legal counsel, we believe that the possibility of an unfavorable decision in this lawsuit is remote, given that the charging of monthly subscription tariffs is expressly allowed by Brazilian telecommunications regulations.

Litigation Relating to Telebrás Loans

In June 15, 1999, TCO filed a lawsuit against *Tele Centro Sul* (one of the holding companies arising from the breakup of *Telebrás*, now *Brasil Telecom Participações S/A*), *Telebrás* itself and KPMG (the auditors during the breakup of *Telebrás*), regarding the distribution of debts and credits of former *Telebrás* loans, after its breakup.

In response to the lawsuit filed against it, *Brasil Telecom Participações S/A* filed two countersuits in October 1999 against *Telebrasília* (which has since merged into TCO) and *Telegoiás* seeking payment of the *Telebrás* loans in the amount of R\$41.3 million from TCO and R\$24.1 million from *Telegoiás*.

The lawsuit filed by TCO against *Brasil Telecom Participações S/A*, *Telebrás* and KPMG, was dismissed. In the two other lawsuits, filed by *Brasil Telecom Participações S/A* against TCO and *Telegoiás*, the court ruled partially in favor of *Brasil Telecom Participações S/A*. In the Court of Appeals of the Federal District, TCO's and *Telegoiás*' appeal was denied. *Brasil Telecom Participações S/A*'s appeal was granted. Since the Court of Appeals of the Federal District rendered unfavorable decisions in these actions, TCO filed an appeal to the Superior Court of Justice and has been awaiting trial since May 2004. On December 17, 2004, the plaintiff in these actions initiated an enforcement proceeding, claiming the amounts owed to be R\$91.5 million from TCO and R\$59.3 million from *Telegoiás*. On August 31, 2005, TCO and *Telegoiás* filed a motion to stay the enforcement, in which they challenge the amounts sought by the plaintiff and on which the court never ruled.

On October 20, 2006, we entered into a settlement agreement with the claimants in this action, whereby we paid R\$153 million to be released from all liability in connection with the claim.

Difference in Shares

Various lawsuits were brought by fixed-subscribers against the holding companies created as a result of the breakup of the Telebrás system. Celular CRT is also named in these lawsuits, rendered by the predecessor company, *Companhia Rio-Grandense de Telecomunicações*, currently *Brasil Telecom S.A.*, in the state of Rio Grande do Sul.

Prior to the privatization process, telecommunications network expansion was partially financed by plans under the Ministry of Communication's Order 1,361/76, which entitled fixed telephone line subscribers to receive a certain number of capital stock shares of the respective fixed telephone service provider, based on amounts that these subscribers have paid for their fixed phone line subscriptions.

The plaintiffs claim to have rights regarding contracts entered into by the predecessor telecommunication company for fixed phone line subscriptions. They claim that the amount they paid for their fixed telephone subscriptions would be convertible to a certain amount of the Company's shares after a 12-month subscription period.

The plaintiffs allege that the procedure by which the shares were subscribed in their names was unlawful, abusive and, during a period of high inflation, did not take into consideration the monetary correction of the amount they had paid to subscribe their fixed telephone lines.

Although an Appeals Court in Rio Grande do Sul has taken a position favorable to the plaintiffs, no decision of this kind has been issued against Celular CRT. We have raised, among other arguments, that the action against us is improper on the grounds that liability for any claims arising out of acts committed prior to the effective date of the breakup should remain with the predecessor company. Decisions favoring this argument have been issued, even by the Supreme Court. A similar argument was adopted in the lawsuits brought against the holding companies created as a result of the breakup of the Telebrás system, because of which the plaintiffs dropped their actions against Vivo and TCO.

Based on the opinion of our counsel, we believe that the likelihood of an unfavorable outcome with respect to these claims is remote.

VU-M

Global Village Telecom (GVT), a Brazilian telecommunications operator, filed a lawsuit against ANATEL and wireless telecommunications operators, including Vivo, claiming that the VU-Ms are fixed at an abusive rate and that these operators employ anticompetitive practices which are causing financial damages to the plaintiff. GVT requested a preliminary injunction in order to reduce the VU-Ms and a determination by a judicially-appointed expert of the proper value of the VU-Ms on a cost-based model. GVT also seeks compensation from the wireless operators in the amount of the difference between the value currently charged by the wireless operators and the value to be declared at the final judgment. The preliminary order was initially denied, but after a renewal requested by the plaintiff, a preliminary order was granted to GVT to allow judicial deposits of the difference between R\$0.2899, which must be paid to wireless operators, and the values currently charged. ANATEL and some wireless operators, including Vivo, appealed from the preliminary order to the Federal Court and a final decision is pending. Based on the opinion of our counsel, we believe that the likelihood of an unfavorable outcome with respect to this claim is possible.

Tax-Related

Application of ICMS

In June 1998, the *Conselho Nacional de Política Fazendária*, or CONFAZ, decided to apply the ICMS tax to certain service revenues, such as activation fees, and to make the application of the tax to such activation fees retroactive for the five years preceding June 30, 1998. This claim impacts our subsidiary. We believe the application of the ICMS tax to nonbasic telecommunications services such as cellular activation is unlawful because it would subject to taxation certain services that are not telecommunications services. In addition, we do not believe new taxes

may be applied retroactively. We believe based on the opinion of outside counsel (including certain judicial precedents) that the likelihood of an unfavorable outcome with respect to this claim is remote. Moreover, we believe that the predecessor companies would be liable to our subsidiary for any tax liability arising from the retroactive application.

In the states of Distrito Federal, Acre, Mato Grosso do Sul, Mato Grosso, Goiás, Roraima and Amazonas, Vivo S.A. received tax assessments totaling R\$67.5 million as of December 31, 2007, in connection with: i) the ICMS tax applied to occasional or complementary services that do not constitute telecommunications services; ii) the ICMS tax applied to international calls made from Brazil; iii) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets used in providing communications services and/or exempt or untaxed outgoing goods; iv) the ICMS tax applied to non-remunerated provisions of telecommunications services consisting of the donation of credits to be used in the prepaid service plan; v) failure to include in the ICMS calculation base fines and arrears interest charged to defaulting clients; vi) alleged failure to comply with supplementary obligations; and vii) other taxes relating to the sale of goods.

In the state of Paraná, Vivo S.A. received tax assessments totaling R\$4.0 million as of December 31, 2007, compared to R\$1.336 million in 2006, in connection with late payment of the ICMS tax.

In the state of Bahia, Vivo S.A. received tax assessments totaling R\$43.7 million as of December 31, 2007, in connection with: i) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets, electric power and switching services resulting from the provision of untaxed communications services; ii) failure to reverse ICMS credits relative to handsets provided for rental and free leases ; iii) late payment of the ICMS tax in the period from February to March 1998; iv) application of the ICMS tax on complementary communications services; v) failure to reverse ICMS credit in relation to long distance and call centers; and vi) the ICMS tax applied to sign-up fees.

In the state of Sergipe, Vivo S.A. received tax assessments totaling R\$17.5 million as of December 31, 2007, in connection with: i) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets, electric power and switching services resulting from the provision of untaxed communications services; ii) failure to reverse ICMS credits in relation to handsets provided for rental and free leases ; iii) application of the ICMS tax on provision of handsets on consignment; and iv) the ICMS tax applied to complementary communications services.

In the state of Espírito Santo, Vivo S.A. received tax assessments totaling R\$6.9 million as of December 31, 2007, in connection with: i) incorrect ICMS credits and ii) failure to write up trade notes.

In the state of Rio de Janeiro, Vivo S.A. received tax assessments totaling R\$148.5 million as of December 31, 2007, in connection with: i) application of the ICMS tax to complementary communications services; ii) application of the ICMS tax on sign-up fees; iii) application of the ICMS tax to calls originating from administrative and test terminals; iv) application of the ICMS tax to services provided to other telecommunications operators for clients not eligible for an exemption; v) application of the ICMS tax on international calls; vi) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets; vii) application of the ICMS tax on the provision of unpaid telecommunications services; and viii) application of the ICMS tax to electric power.

In the state of Rio Grande do Sul, Vivo S.A. received tax assessments totaling R\$25.9 million as of December 31, 2007, in connection with: (i) application of the ICMS tax to international calls; (ii) late payment of the ICMS tax; and (iii) application of the ICMS tax on electric power.

In the state of São Paulo, Vivo S.A. received tax assessments totaling R\$100.0 million as of December 31, 2007, in connection with: (i) incorrect ICMS tax credits and (ii) an incorrect credit received in relation to values posted as extemporary credits.

Proceedings related to the above-mentioned tax assessments are currently occurring in both the administrative and judicial sphere. According to the opinion of counsel, an unfavorable outcome with respect to our claims is possible.

Based on the opinion of our external legal counsel, in the state of Espírito Santo, Vivo S.A. recorded a provision of R\$2.6 million as of December 31, 2007, to cover potential losses from tax-related actions currently in administrative court.

Application of COFINS and PIS

(a) Law No. 9718/98

On November 27, 1998, the method for calculating the amount of contribution required under PIS and COFINS was modified by Law No. 9,718, which increased the COFINS contribution rate from 2% to 3% and permitted the deduction of up to one-third of the amount due under COFINS from the amount due under CSLL. Since our subsidiary had a negative tax calculation basis, they could not benefit from this deduction. In addition, Law No. 9,718 effectively increased the amounts of COFINS and PIS due from our subsidiary by including financial revenues in the calculation methodology. This claim impacts TCP, TC, TCO and GT.

We believe that this increase is unconstitutional because: (1) Article 195 of the Brazilian Constitution, which was effective when Law No. 9,718 was enacted, provided that the PIS contribution could only be levied on compensation of employees, revenues and profits; (2) in order to increase the COFINS and PIS contributions, it would be necessary to enact a law requiring a greater quorum than the one required to approve Law No. 9,718; and (3) the law was made effective before the expiration of the required 90-day waiting period.

We believe based on the opinion of our legal counsel, and in consideration of recent decisions of the Supreme Court of Brazil, that the likelihood of an unfavorable outcome with respect to the calculation methodology is remote (especially since one of our subsidiaries has already obtained a favorable decision in November 2007) but with respect to the contribution rates is possible. However, we do not believe an unfavorable outcome would have a material adverse effect on our financial condition and results of operations. As of December 31, 2007, an amount of R\$10.0 million was recorded by the Company after it made escrow deposits of R\$2.4 million.

(b) PIS and COFINS

In the state of São Paulo, an action was brought against Vivo S.A. (lawsuit No. 19515,000,700/2003-97) claiming that, in January and February of 2000, Vivo had offset COFINS against unwarranted credits received from a deduction that was in excess of the permitted one-third of the amount due under COFINS in 1999 from the amount due under CSLL. The Company recorded a provision in the amount of R\$24.7 million on the accounts as of December 31, 2007 and 2006, after making an escrow deposit in the same amount.

(c) Passing on of the COFINS and PIS to Customers

Several telecommunications carriers, including us, are defendants in a lawsuit brought by the federal public prosecutor's office challenging our policy of passing the COFINS and PIS expenses on to our customers by incorporating them into our charges. This claim impacts our subsidiary. We are challenging the lawsuit on the grounds that COFINS and PIS are cost components of the services provided to our customers and, as such, should be incorporated into the price of such services, as is the practice throughout the telecommunications industry. We believe based on the opinion of our outside counsel that the likelihood of an unfavorable outcome with respect to this claim is remote.

(d) Increase in the Calculation Base

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In the state of São Paulo, Vivo S.A. received tax assessments (lawsuits No. 19515,000701/2003-28 and No. 19515,000699/2003-97) amounting to R\$2.7 million as of December 31, 2007, compared to R\$2.526 million in 2006, as a result of the increase in PIS and COFINS calculation bases. The lawsuits are in administrative court awaiting the decision of the Court of Special Appeal.

(e) Derivative Operations

In the state of Bahia, Vivo S.A. received a COFINS assessment of R\$9.1 million as of December 31, 2007, in connection with losses incurred on derivative operations performed to determine the calculation base for the contribution. The assessment is awaiting judgment in the second administrative instance.

IRPJ, IRRF and CSLL

In the state of Rio de Janeiro, Vivo S.A. received tax assessments amounting to R\$154.5 million as of December 31, 2007, in connection with: i) the use of part of the negative CSLL (federal social contribution on income) calculation base determined by the Company in 1997, which originated from a partial spin-off; ii) alleged underpayment of IRPJ (income tax) and CSLL due to the fact that the inspectors did not approve the deductibility of certain expenses; iii) alleged underpayment of IRRF (withholding tax) on overseas remittances; and iv) changes to the IRPJ and CSLL calculation bases resulting from the reduction in the Company's declared tax loss. There are proceedings based on these assessments currently ongoing in the administrative court.

IRRF, IOF (tax on financing operations) and PIS

In May of 2007, the Company faced tax foreclosures totaling R\$22.4 million as of December 31, 2007 in connection with the tax authorities' refusal to compensate the negative balance of IRPJ (income tax) for fiscal year 2000. The DRF - *Delegacia da Receita Federal* (Regional Brazilian Internal Revenue Service) - did not approve some expenditures included in the Company's income tax return and cancelled the balance of IRPJ credits used to offset the tax, thus leading to the accumulation of debt. The decision of the first judicial instance is pending.

IRPJ

Vivo S.A. assumed the tax assessments received by its former subsidiary TLE amounting to R\$5.9 million as of December 31, 2007, charged on underpayment in connection with the excess of investments in tax incentives paid to FINOR, FINAN or FUNRES (tax incentives in Brazil) as calculated during the review of the Company's income tax return. The decision of second judicial instance is pending.

PIS, IRPJ and CSLL

In September of 2007, in the state of Pará, Vivo S.A. filed a lawsuit aiming to eliminate several federal taxes payable by Vivo S.A. on behalf of the merged company Norte Brasil Telecom S.A. These taxes were automatically assessed by the SIEF system (one of the Brazilian Internal Revenue Service systems) due to information provided in a specific compensation tax return (DCOMP - Declaração de Compensação and PER/DCOMP - Declaração de Compensação, which is sent electronically), and were not approved by Secretaria da Receita Federal do Brasil (Brazilian Internal Revenue Service). These taxes totaled R\$14.6 million as of December 31, 2007. The lawsuit is pending in the second judicial instance.

IRPJ and CSLL

In the state of Rio Grande do Sul, Vivo S.A. was subject to a tax assessment for alleged IRPJ and CSLL debts of R\$283.9 million as of December 31, 2007, and for the allegedly unwarranted amortization of the goodwill on acquisition of the interests of Companhia Riograndense de Telecomunicações (CRT) in fiscal years 1997 and 1998. This assessment is pending judgment in the administrative court.

CIDE

We and our subsidiary filed lawsuits challenging the application of CIDE *Contribuição de Intervenção no Domínio Econômico* on the remittances of payments owed to suppliers headquartered outside Brazil in accordance with technology transfer and technological assistance contracts or trademark and software licenses, in accordance with the terms of Law No. 10,168/2002. We believe based on the opinion of outside counsel that the likelihood of an

unfavorable outcome with respect to this claim is possible. Vivo S.A. recorded a provision in the amount of R\$70.3 million, after it made escrow deposits amounting to R\$44.3 in 2007.

FUST

ANATEL, through the Abridgment of Law n° 7, dated December 15, 2005 established that (i) the values paid for telecommunication companies related to interconnection fees and network usage, cannot be excluded from the tax basis of FUST contributions and (ii) among others, the values received from telecommunication companies, for interconnection usage and for the use of its networks resources, can not be excluded from the tax basis of FUST contributions.

Considering that the second part of the Abridgment of Law is not in accordance with the Law 9.998/2000, all of our former subsidiaries have filed writs of mandamus questioning the legality of this contribution and have been granted a favorable decision which has suspended our liability for the contribution.

We believe, based on the opinion of counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible. As of December 31, 2007, the amount notified by ANATEL for payment is of R\$131.9 million.

FUNTTEL

Vivo's subsidiary filed a writ of mandamus directly to the Managing Chairman of the board of FUNTTEL and the Temporary Secretary of the Ministry of Communications in order to enforce its right to calculate and pay contributions to FUNTTEL, as per the provisions of Law n° 10,052 of November 28, 2000, without including in the calculation amounts received as transfers entitled to interconnection and use of the network integration resources, as expressed in article 6, paragraph 4 of Decree n. 3,737 of January 30, 2001. The Company obtained a favorable judicial decision related to this issue. As of December 31, 2007, the amount of the contributions involved is R\$68.2 million. According to the opinion of counsel, there exists a possibility of having the writ denied.

FISTEL

Our former subsidiaries, *Telerj* and *TCO*, hold two authorizations to provide telecommunication services granted by the government through SMP Authorization Term n° 013/2002: one to explore the *Serviço Móvel Pessoal* for an indeterminate period of time and the other to use radio frequencies for the remaining period of time of the first license but renewable for fifteen years.

On November 30, 2005, the license for the usage of radiofrequency expired and consequently our former subsidiaries requested an extension. In order to renew the license, ANATEL requested the payment of a TFI (Installation Inspection Fee), which our former subsidiaries declined to pay on the ground that they had already paid TFI for all fixed and mobiles stations and radiofrequencies.

In December 2007, our subsidiary Rio Grande do Sul also faced the requirement of paying a TFI at the time of renewing its licenses for its mobile stations. VIVO is currently challenging this requirement.

ANATEL's position is that the TFI assessment is due in accordance with Act n° 255. Given that ANATEL's position does not seem accurate, our former subsidiaries have filed an administrative proceeding in order to contest any requirement for payment of the charge.

As of December 31, 2007, the amount involved is R\$148.9 million (Vivo in Rio de Janeiro) and R\$37.1 million (Vivo in Distrito Federal) and R\$95.9 million (Vivo in Rio Grande do Sul).

Litigation Related to ISS on use of network

The municipalities of Salvador (in the state of Bahia) and Porto Alegre (in the state of Rio Grande do Sul) filed administrative proceedings against Telebahia Celular and Celular CRT in order to collect amounts allegedly due as a services tax (ISS). The municipalities claim that the payments received in consideration of the use of our network could be considered compensation under a lease of a movable asset, and that therefore these payments should be

subject to the application of ISS. Based on the opinion of our legal counsel, we believe that Telebahia Celular and Celular CRT will be successful in its defense in these proceedings and accordingly we have not made any provisions. As of December 31, 2007, the amount involved is R\$109.6 million.

In addition, other municipalities throughout the country (in the states of Amazonas, Mato Grosso, Mato Grosso do Sul, Paraná, Rio de Janeiro, Rio Grande do Sul, Roraima, Espírito Santo and São Paulo) require the payment by VIVO of the ISS services tax for the main purposes of providing telephone complementary services, advertising, licenses and subscriptions. There is no ISS withholding over consulting services. As of December 31, 2007, the amount involved is R\$34.4 million.

Other taxes, rates and contributions

On December 31, 2007, an amount of R\$3.3 million was recorded, related to the following assessments issued by tax authorities: (i) ISS on rental services of goods, support activities and additional services; (ii) income taxes on derivative operations; and (iii) social security contribution (INSS). As of December 31, 2007, a provision of R\$ 4.1 million was recorded for various tax lawsuits.

Other Litigation

We are a party to several labor claims for which we have recorded provisions considered sufficient to meet probable losses in these cases. During the year ended December 31, 2007, no significant labor claims classified as having the potential to incur probable losses were initiated. No significant changes have occurred in the proceedings reported since the last fiscal year. With respect to proceedings in which the possibility of loss is classified as possible, the amount involved is R\$133.0 million.

We are also party to certain legal proceedings arising in the normal course of business. We believe that our provisions are sufficient to cover our estimated losses due to adverse legal decisions. We believe that adverse decisions arising from these other legal proceedings would not have a material adverse effect on our business, financial condition or results of operations. See note 20 to our company's financial statements included in this report.

Dividend Policy and Dividends

We may pay our shareholders both dividends and interest on shareholders' equity which is a form of distribution that is tax deductible in Brazil. We did not pay dividends or interest on Shareholders' equity for the years ended December 31, 2005, 2004 because we recorded a net loss for each of those years. On December 21, 2007, we paid dividends with respect to fiscal year ended December 31, 2006 in the amount of R\$16.8 million, which was insufficient to meet the minimum dividend required by law. For the fiscal year ended December 31, 2007, we were unable to pay minimum dividends, because we had net losses. As a result, holders of Vivo's preferred shares now have the same voting rights as the holders of common shares until we pay minimum dividends.

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.

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Under Brazilian Corporate Law, a company is permitted to suspend the payment of the mandatory dividend in respect of its common and preferred shares if:

its board of directors, independent auditors and board of auditors report to the shareholders meeting that the distribution would be incompatible with the financial conditions of that company; and

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the shareholders ratify this conclusion at the shareholders meeting. In this case,

the board of executive officers would forward to the CVM, within five days of the shareholders meeting, an explanation for the suspension of the payment of the mandatory dividends; and

the amounts which were not distributed are to be recorded as a special reserve, and, if not absorbed by losses in subsequent fiscal years, they must be distributed as dividends as soon as the financial condition of that company permits. Dividends may be distributed by us out of our retained earnings or accumulated profits in any given fiscal year.

Under our by-laws, we may pay dividends out of retained earnings or accumulated profits in any given fiscal year. For the purposes of Brazilian Corporate Law, accumulated profits are defined as net income after the provision of income tax and social contribution for the relevant fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to warrants, income bonds, employees and management's participation in a company's profits. Retained earnings are defined as the amount of our net income in prior years that was not paid out as dividends in the year in which it was earned, but rather was retained in accordance with a proposal of the board of directors duly approved by a shareholders meeting.

At each annual shareholders meeting, the board of directors is required to determine how net profits for the preceding fiscal year are to be allocated. Under Brazilian Corporate Law, we are required to maintain a statutory reserve, to which we must allocate 5% of our net profits for each fiscal year until the amount of such reserve equals 20% of our paid-in capital. Losses, if any, may be charged against the statutory reserve.

Brazilian Corporate Law 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;

second, if the amount of unrealized revenue exceeds the sum of (i) the statutory reserve and (ii) 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 Brazilian Corporate Law 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 Brazilian GAAP, which differs from other financial statements such as our consolidated financial statements included in this annual report.

Priority and Amount of Preferred Dividends

Our by-laws provide for a minimum noncumulative dividend 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, whichever is greater. As a result of such provision, holders of our preferred shares are entitled to receive, in any year, distributions of cash dividends prior to the holders of our common shares receiving any distribution of cash dividends in such year. In addition, distributions of cash dividends in any year are made:

first, to the holders of preferred shares up to the amount of the dividend that must be paid to the holders of preferred shares for such year;

then, to the holders of common shares until the amount distributed in respect of each common share is equal to the preferred dividend; and

thereafter, distributed equally among holders of preferred and common shares.

Payment of Dividends

We are required by Brazilian Corporate 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 Brazilian Corporate Law, 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 depositary, 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 *pro rata* 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 depositary, 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 depositary, which will then convert those proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary 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

There were no significant changes in 2007 other than as already discussed in other sections of this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Brazilian private equity and debt are 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. In the United States, our preferred shares trade in the form of ADSs that each represent 1 preferred share as of December 31, 2007 and that are issued by The Bank of New York, as depositary pursuant to a Deposit Agreement among Vivo, the depositary and the registered holders and beneficial owners from time to time of ADSs. The ADSs commenced trading on the New York Stock Exchange on November 16, 1998 under the symbol TCP. After the corporate restructuring, the symbol became VIV.

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The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on The New York Stock Exchange, in U.S. dollars, and the preferred shares on the São Paulo Stock Exchange, in *reais*:

| | New York Stock Exchange US\$ per ADS | | São Paulo Stock Exchange R\$ per 1 preferred shares | |
|-------------------|--------------------------------------------|------|-----------------------------------------------------------|-------|
| | High | Low | High | Low |
| Year ended | | | | |
| December 31, 2003 | 6.55 | 2.04 | 20.51 | 7.84 |
| December 31, 2004 | 8.94 | 5.38 | 27.39 | 16.00 |
| December 31, 2005 | 7.52 | 3.12 | 19.38 | 7.00 |
| December 31, 2006 | 4.09 | 2.28 | 8.91 | 4.95 |
| December 31, 2007 | 5.98 | 3.41 | 10.65 | 7.10 |

Year ended December 31, 2006

| | | | | |
|----------------|------|------|-------|------|
| First quarter | 5.51 | 3.90 | 11.74 | 8.66 |
| Second quarter | 4.58 | 2.28 | 9.87 | 5.13 |
| Third quarter | 3.28 | 2.29 | 6.99 | 4.95 |
| Fourth quarter | 4.14 | 3.11 | 8.74 | 6.87 |

Year ended December 31, 2007

| | | | | |
|----------------|------|------|-------|------|
| First quarter | 4.25 | 3.41 | 8.84 | 7.10 |
| Second quarter | 5.17 | 3.59 | 10.00 | 7.23 |
| Third quarter | 5.36 | 3.72 | 10.25 | 7.50 |
| Fourth quarter | 5.98 | 4.63 | 10.65 | 8.44 |

Quarter ended

| | | | | |
|-----------------------------------|------|------|-------|------|
| March 31, 2008 (through March 25) | 6.78 | 4.45 | 11.30 | 7.80 |
|-----------------------------------|------|------|-------|------|

Month ended

| | | | | |
|-------------------------------|------|------|-------|------|
| October 31, 2007 | 5.95 | 4.63 | 10.65 | 8.44 |
| November 30, 2007 | 5.98 | 4.93 | 10.64 | 9.06 |
| December 31, 2007 | 5.81 | 4.75 | 10.44 | 8.45 |
| January 31, 2008 | 5.87 | 4.45 | 10.15 | 7.80 |
| February 29, 2008 | 6.78 | 5.52 | 11.30 | 9.82 |
| March 2008 (through March 25) | 6.59 | 5.60 | 11.08 | 9.51 |

B. Plan of Distribution

Not applicable.

C. Markets**Trading on the São Paulo Stock Exchange (BOVESPA)**

In 2000, the BOVESPA was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

When shareholders trade in common and preferred shares on the BOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia S.A.*, or CBLC.

The BOVESPA is an entity owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BOVESPA has two open outcry

trading sessions each day from 11:00 a.m. to 1:30 p.m. and from 2:30 p.m. to 5:45 p.m., São Paulo time, except during daylight savings time in the United States. During daylight savings time in the United States, the sessions are from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 4:45 p.m., São Paulo time, to closely mirror the NYSE trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the BOVESPA and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system that links electronically with the seven smaller regional exchanges. The BOVESPA also permits trading from 6:45 p.m. to 7:30 p.m. on an online system connected to traditional and Internet brokers called the after market. Trading on the after market is subject to regulatory limits on price volatility and on the volume of shares transacted through Internet brokers.

In order to better control volatility, the BOVESPA adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the BOVESPA falls below the limits of 10% or 15%, respectively, 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.

The BOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 31, 2007, the aggregate market capitalization of the 404 companies listed on the BOVESPA was equivalent to approximately R\$2,477.6 billion (US\$1,398.7 billion). By comparison, as of December 31, 2007, the aggregate market capitalization of the 2,297 companies (including U.S. and non-U.S. companies) listed on the NYSE was approximately US\$2.72 billion. Although all of the outstanding shares of an exchange-listed company may trade on the BOVESPA, in most cases only the preferred shares or fewer than half of the listed common shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder, 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. Overall, the Brazilian equity market is relatively small and illiquid compared to major world markets. In 2007, the combined daily trading volumes on BOVESPA averaged approximately US\$2,554.8 million. See Item 3.D. Key Information Risk Factors Risks Relating to Our Securities The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of our ADSs.

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 Council 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 Law No. 6,404, as amended, known as 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 and autonomy altered and expanded. 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. Other modifications include changes in the proportion of common and preferred shares (these changes apply solely to companies incorporated after the enactment of the new law), new rules for the issuance of debentures and the exercise of the right of withdrawal, enhanced duties and powers for 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, and approved the necessary modifications to our by-laws.

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 BOVESPA 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.

Trading of securities on BOVESPA may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of 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.

Principal Differences Between the Brazilian and U.S. Corporate Governance Practices

The significant differences between our corporate governance practices and the NYSE corporate governance standards are as follows:

Independence of Directors and Independence Tests

The Brazilian Corporate Law and our by-laws require that our directors be elected by our shareholders at a general shareholders meeting. Nine of our directors are appointed by our controlling shareholder, but three were appointed in accordance with Sarbanes-Oxley.

The Brazilian Corporate Law and CVM establish rules in relation to certain qualification requirements and restrictions, investiture, compensation, duties and responsibilities of the companies executives and directors. Although we believe these rules provide adequate assurances that our directors are independent, we believe such rules would permit us to have directors that would not otherwise pass the independence tests established by the NYSE.

Executive Sessions

According to the Brazilian Corporate Law, up to one-third of the members of the board of directors can be elected into executive positions. The remaining non-management directors are not expressly empowered to serve as a check on management and there is no requirement that those directors meet regularly without management.

Notwithstanding, none of our executive officers are members of our board of directors.

Committees

We have an Audit Committee and a Disclosure Committee, but we are not required under applicable Brazilian Corporate Law to have, and accordingly we do not have a Nominating Committee, Corporate Governance Committee or Compensation Committee. Pursuant to our by-laws our directors are elected by our shareholders at a general shareholders meeting. Compensation for our directors and executive officers is established by our shareholders.

Audit Committee and Audit Committee Additional Requirements

In April 2003, the SEC stated that the listing of securities of foreign private issuers may be exempt from the audit committee requirements if the issuer meets certain requirements under Rule 10A-3(c)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Notwithstanding the exemptions provided for pursuant to Rule 10A-3(c)(3), we have an Audit Committee, whose members fully comply with the independence requirements of Rule 10A-3. See Item 6.C. Directors, Senior Management and Employees Board Practices and Item 16.D. Exemptions from the Listing Standards for Audit Committees.

The function of our audit committee is to oversee the:

- evaluation of accounting and financial data;
- recruitment, selection and evaluation of third party auditors;
- evaluation of internal auditing;
- evaluation of internal control procedures;
- preparation of Audit Committee Reports that are required to be included in the Company's annual proxy statement, pursuant to SEC rules and regulations;
- observance of industry best practices with respect to laws and regulations; and
- assembly, whenever deemed necessary, for meetings of the committee.

It is also the responsibility of the committee to take all actions necessary in connection with delegations by the Company's board of directors pursuant to the committee's charter and domestic and international legal and regulatory requirements.

Disclosure Committee and Disclosure Policy

The Policy for Disclosure of Relevant Act or Fact was set up by the Board of Directors of Vivo in compliance with Article 16 of CVM Instruction no. 358, dated July 17, 2002.

The ultimate responsibility for the disclosure of relevant information, acts or facts is incumbent upon the CEO, the CFO and the Investor Relations Officer, the first two being responsible for authorizing information to be disclosed, while the Investor Relations Officer is responsible for the communication itself of the relevant information, under the terms of the provisions of the Relevant Act or Fact Policy and CVM Instructions 358/02 and 369/02.

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

The Disclosure Committee reports directly to the CEO and to the CFO and is composed of one coordinator and ten members (representing the Investor Relations, Controls, Corporate Communication, Accounting, Financial, Mergers and Acquisitions, Communication and Publicity and Compliance Officers, as well as the General Secretary and the Legal Officer), and has the duty of evaluating the need to outsource services (such as auditors, legal counsel and other

independent consultants), in order to provide adequate support for the disclosure process.

Shareholder Approval of Equity Compensation Plans

Our shareholders do not have the opportunity to vote on all equity compensation plans. However, any issuance of new shares that exceeds the authorized capital is subject to shareholder confirmation.

Corporate Governance Guidelines

We have not adopted any corporate governance guidelines in addition to the rules imposed upon us by applicable Brazilian Corporate Law. We believe that the corporate governance guidelines applicable to us under Brazilian Corporate Law are consistent with the guidelines established by the NYSE. We have adopted and observe (i) the Policy of Disclosure of Material Acts or Facts, which deals with the public disclosure of all relevant information as per CVM's guidelines; and (ii) the Policy of Negotiation of Equities, which requires management to inform all transactions relating to our securities.

Code of Business Conduct and Ethics

Although the adoption of a code of ethics is not required by Brazilian Corporate Law, Vivo implemented a Code of Ethics and Conduct for all Directors and employees in May, 2005. See Item 16.B. Code of Ethics.

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 Corporate 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.

Registration

Our amended and restated by-laws were registered with the Public Registry of the state of São Paulo, or JUCESP, No. 120.067/06 -7 on May 08, 2006, under company number (NIRE) 3530015879-2. Article 5 of our bylaws were amended as a result of the capital increase approved by the general meeting of our shareholders on March 15, 2007, and were registered with the Public Registry of the state of São Paulo, or JUCESP, N° 94.964/07-5 on March 22, 2007.

Objectives and Purposes

We are a publicly traded company duly registered with the Brazilian securities commission under No. 017710. Article 2 of our by-laws provides that our corporate purpose is to:

- exercise 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 subsidiary or controlled companies, the expansion and implementation of 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 subsidiary and affiliated companies, specialized technical services related to the telecommunications sector;
- promote, encourage, carry out and coordinate, through our subsidiary 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 subsidiary 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

Below 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 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 alternate are elected by the majority vote of the holders of our preferred shares present at the annual meeting of shareholders at which the 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 execution of agreements with related parties whose terms and conditions are more burdensome for the Company than terms in the market for similar agreements in all cases subject to the provisions of article 117 of Law 6,404/76; and article 9 of our by-laws.
- 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 official gazette and two other Brazilian newspapers, as determined by the shareholders, at least thirty days prior to the meeting, but would not generally require any other form of notice. The execution of agreements with related parties, under terms and conditions more burdensome for the Company than market terms for agreements of the same nature shall require prior approval by the General Meeting of Shareholders, with due regard, in any case, to the provisions in Article 117 of Law 6,404/76.

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

We did not pay dividends or interest on shareholders' equity for the years ended December 31, 2005 and 2004 because we recorded a net loss for each of those years. On December 21, 2007, we paid dividends with respect to fiscal year ended December 31, 2006 in the amount of R\$16.8 million which was insufficient to meet the minimum dividend required by Brazilian Corporate Law. For the fiscal year ended December 31, 2007, we were unable to pay minimum dividends because we had net losses. As a result, holders of Vivo's preferred shares now have the same

voting rights as the holders of common shares until we pay minimum dividends.

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 official gazette and one or two other newspapers, 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 object 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, article 136 of Law 6,404/76). 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, Vivo 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 depositary 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.

Regulation of Foreign Investment and Exchange Controls

There are no restrictions on ownership of our preferred shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to restrictions under foreign investment legislation which

generally require, among other things, that the relevant investment be registered with the Central Bank and the CVM.

Foreign investors may register their investment in our shares under Law 4,131 of September 3, 1962 or Resolution 2,689 of January 26, 2000. Registration under Resolution 2,689 affords favorable tax treatment to non-Brazilian investors who are not residents in a tax haven jurisdiction (*i.e.*, countries that do not impose income tax or where the maximum income tax rate is lower than 20%), as defined by Brazilian tax laws.

Under Resolution 2,689, non-Brazilian investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution 2,689, the definition of non-Brazilian investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Under Resolution 2,689, a non-Brazilian investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investment;
- register as a non-Brazilian investor with the CVM; and
- register its foreign investment with the Central Bank.

Additionally, the investor operating under the provisions of Resolution 2,689 must be registered with the Brazilian internal revenue service (*Receita Federal*) pursuant to the latter's Regulatory Instruction 200. This registration process is undertaken by the investor's legal representative in Brazil.

Securities and other financial assets held by non-Brazilian investors 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 the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will. See [Taxation Brazilian Tax Considerations](#) for more information.

Resolution 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Accordingly, the proceeds from the sale of ADSs by holders of American Depositary Receipts outside Brazil are free of Brazilian foreign investment controls and holders of ADSs who are not resident in a tax haven jurisdiction will be entitled to favorable tax treatment.

The right to convert dividend payments and proceeds from the sale of our 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 investment be registered with the Central Bank. Restrictions on the remittance of foreign capital abroad could hinder or prevent the custodian for the preferred shares represented by ADSs, or holders who have exchanged ADSs for preferred shares, from converting dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. Delays in, or refusal to, granting the required government approval for conversions of Brazilian currency payments and remittances abroad could adversely affect holders of ADSs.

We have obtained a certificate of registration in the name of The Bank of New York, the depositary. Pursuant to this certificate, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by ADSs into foreign currency and to remit the proceeds outside Brazil. If a holder exchanges ADSs for preferred shares, such holder may continue to rely on the depositary's certificate of capital registration for only five business days after such exchange. After that, such holder must seek to register its investment directly with the Central Bank. Thereafter, unless the holder has registered its investment with the Central Bank, such holder may not convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares. Such holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADSs.

Before March 14, 2005, there were two principal foreign exchange markets in Brazil, in which notes were freely negotiated but could be strongly influenced by Central Bank intervention:

- the commercial rate exchange market dedicated principally to trade and financial foreign exchange transactions such as the buying and selling of registered investments by foreign entities, the purchase or sale of shares, or the payment of dividends or interest with respect to shares; and

- the floating rate exchange market that was generally used for transactions not conducted through the commercial foreign exchange market.

On March 4, 2005, the National Monetary Council enacted Resolution No. 3,265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified in a sole exchange market, effective as of March 14, 2005. The new regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a person or legal entity, without limitation of the amount involved, provided, however, the legality of the transaction.

Under Brazilian law, whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restriction on the remittance of foreign currency abroad and on the conversion of Brazilian currency into foreign currencies. Such restrictions may hinder or prevent the custodian or holders who have exchanged ADSs for underlying preferred shares from converting distributions or the proceeds from any sale of such shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad.

C. Material Contracts

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 of GT 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 GT.

For a description of such acquisitions, see Item 4. Information on the Company Our History and Development Global Telecom (currently Vivo S.A.).

On December 10, 2002, TC 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 TC to provide SMP services until August 5, 2008. It may be renewed for an additional term of fifteen years upon payment of 2% of TC'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, TC 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, TC 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 Guatará and the district of Bonfim Paulista. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes TC to provide SMP services until January 20, 2009. It may be renewed for an additional term of fifteen years upon payment of 2% of TC'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, TC 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, GT 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 GT to provide SMP services until April 8, 2013. It may be renewed for an additional term of fifteen years upon payment of 2% of GT'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, GT 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, Telebahia 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 state of Bahia. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telebahia Celular to provide SMP services until June 29, 2008. It may be renewed for an additional term of fifteen years upon payment of 2% of Telebahia Celular'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, Telebahia 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, Telergipe 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 state of Sergipe. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telebahia Celular to provide SMP services until December 15, 2008. It may be renewed for an additional term of fifteen years upon payment of 2% of Telergipe Celular'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, Telergipe 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, Telerj 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 state of Rio de Janeiro. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telerj Celular to provide SMP services until November 30, 2005. It may be renewed for an additional term of fifteen years upon payment of 2% of Telerj Celular'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, Telerj Celular was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunications services in the region covered thereby.

On December 10, 2002, Telest 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 state of Espírito Santo. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telest Celular to provide SMP services until November 30, 2008. It may be renewed for an additional term of fifteen years upon payment of 2% of Telest Celular'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, Telest Celular was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunications services in the region covered thereby.

On February 3, 2003, TCO 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 Brazil's Federal District. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes TCO to provide SMP services until July 24, 2006. It may be renewed for an additional term of fifteen years upon payment of 2% of TCO'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, TCO was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby. TCO's subsidiaries also entered into authorization agreements with ANATEL under similar terms.

On April 25, 2003, TCP acquired 64.03% 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. 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.

In August 2006, we began installing a new network based on GSM/GPRS/EDGE technology, with a core dual 2G/3G and 2G access, which will be superimposed onto the current CDMA network of Vivo, with completion scheduled for December 31, 2010. Such implementation includes acquiring all the hardware, software and engineering services necessary as well as installation, configuration, integration, testing, activation and temporary operation of the respective elements. The contracts also include the SW updates and the furnishing of the new features, guarantees, support and management, as well as O&M and integration with the network system management, the interaction capability of the networks to function with other operators and integrating with the service platforms. The total cost of this new network is R\$1,089 million.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments. On December 20, 2007, Vivo signed a stock purchase agreement with Telemar for the sale of all of the shares of Tele Norte that it was acquiring from Telpart under the terms of the stock purchase agreement dated August 2, 2007. This additional stock purchase agreement was signed to facilitate Vivo's acquisition of the shares of Telemig from Telpart. See Item 4.A. Information on company Our History and Development Acquisition of Telpart, Telemig and Tele Norte and the August 2, 2007 stock purchase agreement, which is included in this Annual Report as an exhibit.

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 on shareholders' equity 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 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 the Brazilian stock exchange. Registration is available to qualified foreign investors, which principally include foreign financial institutions, legal entities and individuals. 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 which must be done before the first investment on Brazilian stock exchanges (the amount so registered is referred to as registered capital) allows the remittance to and 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 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 Item 10.E. Additional Information 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 Item 10. Taxation Brazilian Tax Considerations.

Under current Brazilian legislation, the Brazilian 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 Brazilian 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 Brazilian government will not impose similar restrictions on foreign repatriations in the future. See Item 3.D. Key Information Risk Factors Risks Relating to Brazil.

E. Taxation

The following discussion contains a description of the material Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by certain holders. This summary is based

upon the 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, U.S. federal or other tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs, including, in particular, the effect of any state, local or non-U.S., non-Brazilian 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 summarizes the material 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 Shareholders' Equity

Brazilian corporations may make payments to shareholders characterized as interest on shareholders' equity capital as an alternative form of making 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. The total amount distributed as interest on shareholders' equity 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 shareholders' equity capital are decided by the shareholders on the basis of recommendations of the company's board of directors.

Distributions of interest on shareholders' equity 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 shareholders' equity capital instead of by means of dividends.

Amounts paid as interest on shareholders' equity 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 Brazilian Corporate Law. Distributions of interest on shareholders' equity 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 other non-Brazilian holder on the disposition of property located in Brazil, including preferred shares, to another non-Brazilian holder are subject to Brazilian tax. In this case, gains would be subject to a 15% withholding tax rate, except if the beneficiary is located in a low-tax jurisdiction, as defined by Brazilian law, in which case the applicable rate would be 25%.

Our understanding is that ADSs do not qualify as property located in Brazil and, therefore, are not subject to Brazilian taxes upon disposition to other non-Brazilian holders. Insofar as this understanding has not been tested through the administrative or judicial courts, we are unable to evaluate what the final ruling on the matter will be.

Gains realized by a U.S. holder or other non-Brazilian holder on dispositions of preferred shares in Brazil or in transactions with Brazilian residents may be free of Brazilian tax, or may be taxed at a rate of 25% or 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 on preferred shares through transactions with Brazilian residents or through transactions in Brazil off of the Brazilian stock exchanges are generally subject to be taxed at a rate of 15%.
- Gains realized on preferred shares through transactions on Brazilian stock exchanges are generally subject to tax at a rate of 15%, 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. The preferential treatment generally afforded under Resolution 2,689 and afforded to investors in ADSs is not available to residents of tax havens. All preferred shares underlying ADSs qualify under Resolution 2,689.

There can be no assurance that the current preferential treatment for U.S. holders and other non-Brazilian holders 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. Although the matter is not free from doubt, there are arguments to sustain the position that 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 Exchange Controls Registered Capital.

- Gains realized by a U.S. holder and other 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 be taxed at a rate of 15%. In case the non-Brazilian holder is domiciled in a tax haven jurisdiction, the applicable rate would be 25%.

As of January 1, 2005, the purchase price of preferred shares sold on the Brazilian stock exchange is subject to withholding tax at a rate of 0.005%, except in the case of non-Brazilian holders who invest through Resolution No. 2,689. This tax may be offset against the 15% income tax due on the gains realized upon the sale of the shares.

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

depository 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 are 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. Upon receipt of the underlying preferred shares, a U.S. holder or other 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 Exchange Controls 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. Brazil's tax treaties do not grant relief from taxes on gains realized on sales or exchanges of preferred shares.

1. Beneficiaries Residing or Domiciled in Tax Havens or Low-Tax Jurisdictions

Law No. 9,779, dated as of January 19, 1999, states that, with the exception of limited circumstances, any income derived from operations by a beneficiary that resides or is domiciled in a country considered to be a tax haven is subject to income tax to be withheld by the source at a rate of 25%. Accordingly, if the distribution of interest attributed to shareholders' equity is made to a beneficiary residing or domiciled in a tax haven, the applicable income tax will be at a rate of 25%, instead of 15%. The increased rate also applies for capital gains paid to residents of low-tax jurisdictions as of February 2004.

In accordance with Law No. 9,959, non-Brazilian holders of ADSs or preferred shares who are residents of tax havens have been excluded from the tax incentives granted to holders of ADSs and investors under Resolution No. 2,689 since January 1, 2000 and are subject to the same tax treatment applicable to holders who are residents of or domiciled in Brazil.

2. 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 who 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.

Tax on Financial Transactions

The IOF is a tax on foreign exchange, securities, credit and insurance transactions. The IOF rate may be changed by an Executive Decree (rather than a law). In addition, the IOF rate is not subject to the ex-post-facto principle, which provides that laws increasing the rate of or creating new taxes will only come into effect as of the latter of (i) the first day of the year following their publication, or (ii) ninety days after their publication. A statute increasing the IOF rate will therefore take effect from its publication date.

Regarding foreign exchange transactions, in spite of the maximum rate of IOF being 25%, the inflow and outflow of funds are generally subject to IOF at a rate of 0.38%; however, the inflow and outflow of funds from portfolio investors located outside Brazil are not taxed. The conversion of Brazilian currency into foreign currency for purposes of paying dividends on preferred shares and ADS is currently not taxed.

The IOF tax may be also levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges. The rate of the IOF tax with respect to many securities transactions is currently 0 percent, although certain transactions may be subject to specific rates. The minister of finance, however, has the legal authority to increase the rate to a maximum of 1.5% per day of the amount of the taxed transaction, during the period the investor holds the securities, up to the amount equal to the gain made on the transaction and only from the date of its increase or creation. The acquisition, holding and disposition of preferred shares traded on a Brazilian exchange is currently not subject to tax.

Temporary Contribution on Financial Transactions (CPMF Tax)

Until December 31, 2007, any transaction carried out by a holder of securities in Brazil that results in the transfer of *reais* from an account maintained by such holder (or its custodian) with a Brazilian financial institution may be subject to the CPMF tax, at the rate of 0.38% . The funds transferred for the acquisition of shares on a Brazilian stock exchange are exempt from the CPMF tax.

As of January 1, 2008, this tax has been repealed by the Brazilian Congress (Senate).

U.S. Federal Income Tax Considerations

The following are the material U.S. federal income tax consequences to U.S. Holders described herein of owning and disposing of preferred shares or ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities. The discussion applies

only if you hold preferred shares or ADSs as capital assets for tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding preferred shares or ADSs as part of a hedge, straddle, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt organizations;
- persons holding preferred shares or ADSs that own or are deemed to own ten percent or more of our voting stock; or
- persons who acquired our ADSs or shares pursuant to the exercise of any employee stock option or otherwise as compensation.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds preferred shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships holding preferred shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the preferred shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. 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.

You are a U.S. Holder if you are a beneficial owner of preferred shares or ADSs and if you are, for U.S. federal tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. U.S. HOLDERS OF PREFERRED SHARES OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISERS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF PREFERRED SHARES OR ADSs, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAWS.

In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released or intermediaries in the chain of ownership between U.S. Holders and the issuer of the security underlying the ADSs may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of Brazilian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

Please consult your tax advisers concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of preferred shares or ADSs in your particular circumstances.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company, as described below.

Taxation of Distributions

Distributions paid on ADSs or preferred shares will generally be treated as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions will be reported to U.S. holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2011, are taxable at a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. You should consult your tax advisers to determine whether the favorable rate will apply to dividends you receive and whether you are subject to any special rules that limit your ability to be taxed at this favorable rate.

Bills have been introduced in both the U.S. House and the U.S. Senate which would, if enacted, deny the favorable tax rates described in the preceding paragraph for dividends paid in respect of certain securities where the issuer of the securities is allowed a deduction under the tax laws of a foreign country with respect to such dividend. It is unclear how the proposed legislation would apply to securities such as the preferred shares where distributions may be made in the form of interest on shareholders' equity capital. The proposed legislation would apply to dividends received after the date of its enactment. It is not possible to predict whether the proposed legislation will be enacted, either in its present form or any other form. Non-corporate U.S. Holders should consult their tax advisers with respect to the potential enactment of currently proposed legislation and its application in their particular circumstances.

The amount of a dividend will include any amounts withheld by us in respect of Brazilian taxes on the distribution. The amount of the dividend will be treated as foreign-source dividend income to you and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends will be included in your income on the date of your, or in the case of ADSs, the Depositary's, receipt of the dividend. The amount of any dividend income paid in *reais* will be a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is not converted into U.S. dollars on the date of such receipt.

Subject to applicable limitations that may vary depending upon your circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Brazilian income taxes withheld from dividends on preferred shares or ADSs will be creditable against your U.S. federal income tax liability. The rules governing foreign tax credits are complex and, therefore, you should consult your tax adviser regarding the availability of

foreign tax credits in your particular circumstances. Instead of claiming a credit, you may, at your election, deduct such Brazilian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale and Other Disposition of Preferred Shares or ADSs

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of preferred shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if you held the preferred shares or ADSs for more than one year. The amount of your gain or loss will equal the difference between your tax basis in the preferred shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. Consequently, if a Brazilian 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 U.S. 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 Item 10.E. Additional Information Taxation Brazilian Tax Considerations Taxation of Gains for a description of when a disposition may be subject to taxation in Brazil.

Passive Foreign Investment Company Rules

The Company believes that it was not a passive foreign investment company (PFIC) for U.S. federal income tax purposes for its 2007 taxable year. If the Company were a PFIC for any taxable year during which a U.S. Holder held preferred shares or ADSs, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the preferred shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the preferred shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the amount allocated to such taxable year. Similar rules would apply to any distribution in respect of preferred shares or ADSs in excess of 125% of the average of the annual distributions on preferred shares or ADSs received by a U.S. Holder during the preceding three years or such holder's holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment) of the preferred shares or ADSs. U.S. Holders should consult their tax advisers to determine whether any such elections are available and, if so, what the consequences of the alternative treatments would be in those holders' particular circumstances.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) you are a corporation or other exempt recipient or (ii) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

U.S. HOLDERS OF OUR PREFERRED SHARES OR ADSs SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE BRAZILIAN, U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OUR PREFERRED SHARES OR ADSs BASED UPON THEIR PARTICULAR CIRCUMSTANCES.

F. Dividends and Paying Agents

On December 21, 2007, we paid dividends with respect to fiscal year ended December 31, 2006 in the amount of R\$16.8 million, which was insufficient to meet the minimum dividend required by Brazilian Corporate Law. For the fiscal year ended December 31, 2007, we were unable to pay minimum dividends because we had net losses.

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. 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 Avenida Doutor Chucri Zaidan, 860, 04583-110, 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 wireless devices) are all or partially denominated in currencies (primarily the U.S. dollar and the Yen) 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 have entered into derivative instruments, such as foreign currency swaps to manage the exchange rate risk. We do not hold or issue derivative or other financial instruments for trading purposes.

Exchange Rate Risk

The principal foreign exchange rate risk faced by us arises from our U.S. dollar, Japanese yen, Euros and UMBNDES-denominated indebtedness. At December 31, 2007, we had US\$408.5 million, ¥66,997.4 million and 15.2

million of indebtedness and R\$10 million was denominated in UMBNDES. Our revenues are earned almost entirely in *reais* and we have no material U.S. dollar-denominated assets (except for our hedge contracts). At December 31, 2007, all of our U.S. dollar-denominated indebtedness and other foreign exchange liabilities were covered by long positions of hedging agreements. Under those derivative agreements, our subsidiary's U.S. dollar, Japanese yen and UMBNDES-denominated obligations are swapped for real-denominated obligations bearing interest at rates linked to the Certificado de Depósito Interfinanceiro (Interbank Deposit Certificate), or CDI. At December 31, 2007, our outstanding hedging positions covered 96% of our foreign currency-denominated financial indebtedness

and other liabilities. We are following up on market conditions and will eventually unwind the position and/or apply it to other foreign currency-denominated commitments, such as liabilities with suppliers and management fee. At December 31, 2007, we recorded financial expense from foreign currency derivative transactions of R\$509.4 million against financial income from monetary and foreign exchange variations of R\$296.1 million.

Our foreign currency-denominated debt produced a gain of R\$296.1 million in 2007 a gain of R\$335.0 million in 2006 and a gain of R\$460.1 million in 2005. This was offset by our derivatives, which produced a loss of R\$509.4 million in 2007, a loss of R\$764.3 million in 2006 and a loss of R\$1,120.0 million in 2005. The unrealized costs, net of unrealized loss on foreign exchange derivatives contracts was R\$448.4 million at December 31, 2007. The unrealized costs, net of unrealized loss on foreign exchange and interest rates derivatives contracts was R\$500.5 million at December 31, 2006. The unrealized gains, net of unrealized costs on foreign exchange derivatives contracts was R\$376.7 million at December 31, 2005.

The potential loss to us over one year that would have resulted from a hypothetical, instantaneous and unfavorable change of 1000 basis points in the foreign exchange applicable to financial assets and liabilities on December 31, 2007 would be approximately R\$199.3 million. On the other hand, our derivative instruments would have a gross gain of R\$191.1 million. The net loss would be R\$8.2 million.

Exchange rate sensitivity analysis was made by applying a 10% change to the Brazilian Central Bank exchange rate on December 31, 2007 of R\$1.771 to U.S.\$1.00, which would represent a devaluation of the *real* of R\$0.771. We then assumed that this unfavorable currency shift would be sustained from December 31, 2007 through December 31, 2008. The foreign exchange loss that affects financial expenses was calculated by applying such devaluation to our indebtedness and foreign exchange purchase commitments, net of derivative instruments.

Interest Rate Risk

We are exposed to interest rate risk as a result of an investment of cash and cash equivalents mainly in short-term real-denominated instruments. At December 31, 2007, this amount totaled R\$1,895.1 million.

Additionally, we are exposed to interest rate risk as a consequence of our floating rate debt in U.S. dollars and due to the nature of our derivative agreements, whereby our U.S. dollar, yen and euro-denominated obligations are swapped into real-denominated obligations bearing interest linked to the CDI.

At December 31, 2007, we had R\$4,381.4 million in loans and financing outstanding, of which approximately R\$2.1 billion bore interest at fixed rates and approximately R\$2.3 billion bore interest at floating rates of interest (primarily LIBOR, CDI, IGPM, TJLP-based. Loans and financing in foreign currency are mainly denominated in U.S. dollars, yen and euros, and bear interest at fixed rates ranging from 0% to 27.5% per annum, or are subject to variable interest from 1.25% per annum above LIBOR. 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 from 92.8% to 107.6% of CDI. At December 31, 2007 the CDI rate was 11.12% . We hedged against the risk of interest rates increasing (LIBOR) at the amount of US\$52.5 million (face value).

We have financing in local currency with *Banco Nacional de Desenvolvimento Econômico e Social* BNDES subject to a variable interest rate of 3.5% and 4.6% above the TJLP.

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 rate applicable to financial assets and liabilities on December 31, 2007, would be approximately R\$18.3 million. The above sensitivity analysis is based on the assumption of an unfavorable 100 basis points increase in 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.

Interest rate sensitivity was calculated by applying a 10% increase to all floating rate-denominated debt, assuming that the different indexes (CDI, TJLP, IGPM, LIBOR and UMBNDES coupons) would all rise by 1.0% instantaneously on December 31, 2007, 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**(a) 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 as of December 31, 2007. 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. Our disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and are effective in ensuring that information to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Vivo's internal control system was designed to provide reasonable assurance as to the integrity and reliability of the published financial statements. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the control system are met.

Management evaluated the internal control over financial reporting under the supervision of our Chief Executive Officer, or CEO and Chief Financial Officer (our Vice-President of Finance), or CFO as of December 31, 2007. Management evaluated the effectiveness of our internal control over financial reporting based on the criteria set out in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Vivo's management concluded that as of December 31, 2007, our internal control over financial reporting was adequate and effective, based on those criteria.

Our independent registered public accounting firm, Ernst Young Auditores Independentes S.S., has issued an attestation report on the effectiveness of our internal controls over financial reporting as of December 31, 2007. The report on the audit of our internal control over financial reporting is included herewith.

(c) Attestation Report of the Registered Public Accounting Firm

Ernst & Young Auditores Independentes S.S. (EY), the independent registered public accounting firm that has audited our consolidated financial statements, has issued an attestation report on the effectiveness of our internal

controls over financial reporting as of December 31, 2007. The attestation report appears on page F-4.

(d) Changes in Internal Control over Financial Reporting

We have made no change to our internal control over financial reporting for the year ended 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

At the Board of Directors meeting on July 29, 2005, our Directors determined and designated that Luiz Kaufmann is an audit committee financial expert within the meaning of this Item 16A.

ITEM 16B. CODE OF ETHICS

In May 2005, we implemented a Code of Ethics and Conduct for all employees. The Code's objective is to promote the fulfillment of policies, regulations and other applicable rules with honesty, accuracy and ethics. It applies to all employees and/or persons exercising similar functions in the Company and sets forth the consequences and responsibilities for non-compliance. Vivo executives have pledged to fulfill the directions of their superiors and applicable rules, policies, directions and legislation and to cause their subordinates to do the same, and also to make the necessary clarifications and communications, so that the Code's principles and values can be practiced by all those involved. You can obtain a copy of our Code of Ethics, free of charge, by requesting a copy from Mr. Carlos Raimar Schoeninger at +55(11) 7420-1172.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. (Ernst Young) for the year ended December 31, 2007 and by Deloitte Touche Tohmatsu Auditores Independentes (Deloitte) for the years ended December 31, 2006 and 2005. The chart below sets forth the total amount billed to us by Ernst Young and Deloitte for services performed in the years 2007 and 2006, respectively, and breaks down these amounts by category of service:

| | For year ended December 31, | |
|--------------------|------------------------------------|--------------|
| | 2007 | 2006 |
| | (in thousands of reais) | |
| Audit fees | 4,146 | 4.654 |
| Audit-related fees | 306 | |
| Tax fees | 176 | 268 |
| Total | 4,628 | 4,922 |

Audit Fees

Audit fees are the aggregate fees billed by Ernst Young and Deloitte for the audit of our consolidated and annual financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

Audit-related Fees

Audit-related fees are the aggregate fees billed by Ernst Young Auditores Independentes S.S. for audit compliance reports issued in connection with regulatory requirements from ANATEL and in connection with training regarding compliance with Sarbanes-Oxley.

Tax Fees

Tax fees are fees for professional services rendered by Deloitte for tax compliance services.

Pre-Approval Policies and Procedures

The audit committee approves all audit, audit-related services, tax services and other services provided by Ernst Young and Deloitte. Any services provided by Ernst Young and Deloitte that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement. The audit committee is permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis*

exception before the completion of the engagement. In 2007 and 2006, none of the fees paid to Ernst Young and Deloitte were approved pursuant to the *de minimis* exception.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

We have an audit committee, whose members follow the independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended. See Item 9.C. The Offer and Listing Committees Audit Committee and Audit Committee Additional Requirements.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASERS

None.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 8. Financial Statements.

ITEM 18. FINANCIAL STATEMENTS

See our consolidated financial statements beginning on Page F-1.

ITEM 19. EXHIBITS

- 1.1 By-laws (*Estatuto Social*) of *Vivo Participações S.A.* English translation. (1)
- 2.1 Deposit Agreement dated as of July 21, 1998, as amended and restated as of November 2, 1998. (2)
- 2.2 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. (3)
- 2.3 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.* (3)
- 2.4 Shareholders Agreement dated as of February 6, 2001, among DDI Corporation, *Inepar Telecomunicações S.A.*, ITX Corporation and *Telesp Celular Participações S.A.* (3)
- 2.5 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. (3)
- 4.1 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telesp Celular Participações S.A.* English translation. (4)
- 4.2 Authorization Term of the Personal Mobile Service entered by ANATEL and Global Telecom S.A. English translation. (4)
- 4.3 Authorization Term of the Personal Mobile Service entered by ANATEL and *Tele Centro Oeste Celular Participações S.A.* English translation. (5)
- 4.4 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telebahia Celular S.A.* English translation. (6)
- 4.5 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telergipe Celular S.A.* English translation. (6)
- 4.6 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telerj Celular S.A.* English translation. (7)
- 4.7 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telest Celular S.A.* English translation. (7)
- 4.8 Agreement between *Telesp Celular Participações S.A.* and *Fixcel S.A.* dated as of April 25, 2003 for the acquisition of 64.03% of the voting capital stock of *Tele Centro Oeste Celular Participações S.A.* English Summary. (1)
- 4.9 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. (8)
- 4.10 Supply Agreement (*Contrato de Fornecimento*) dated as of August 27, 2001, between Global Telecom S.A. and Motorola do Brasil Ltda. English summary. (3)
- 4.11 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) English summary. (3)
- 4.12 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) English summary. (3)
- 4.13 Protocol of Merger of Shares and Merger of Companies and Instrument of Justification among *Telesp Celular Participações S.A.* and *Tele Centro Oeste Celular Participações S.A.*, *Tele Sudeste Celular Participações S.A.*, *Tele Leste Celular Participações S.A.* and *Celular CRT Participações S.A.* dated December 4, 2005. (9)
- 4.14 Agreement dated as of August 4, 2006 among *Vivo Participações S.A.*, Ericsson and Huawei English summary. (1)

- 4.15 Stock Purchase Agreement dated as of August 2, 2007 among *Telpart Participações S.A* and *Vivo Participações S.A.* (10)

| | |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6.1 | Statement regarding computation of per share earnings. (11) |
| <u>8.1</u> | <u>List of Subsidiaries.</u> |
| <u>12.1</u> | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>12.2</u> | <u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>13.1</u> | <u>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.</u> |
| <u>13.2</u> | <u>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.</u> |

(1) Incorporated by reference to our Form 20-F for the fiscal year ended December 31, 2006, filed with the Commission on May 3, 2007.

(2) Incorporated by reference to Exhibit 1 to the Registration Statement on Form F-6 filed by Telesp Celular Participações S.A. on October 18, 2002 (Registration No. 333-100644).

(3) Incorporated by reference to *Telesp Celular Participações S.A.* annual report on Form 20-F for the fiscal year ended December 31, 2001, filed on June 21, 2002.

(4) Incorporated by reference to *Telesp Celular Participações S.A.* annual report on Form 20-F/A for the fiscal year ended December 31, 2002, filed on June 24, 2003.

(5) Incorporated by reference to *Tele Centro Oeste Celular Participações S.A.* s annual report on Form 20-F for the fiscal year ended December 31, 2002, filed on June 30, 2003.

(6) Incorporated by reference to *Tele Leste Celular Participações S.A.* annual report on Form 20-F for the fiscal year ended December 31, 2002, filed on June 24, 2003.

(7) Incorporated by reference to *Tele Sudeste Celular Participações S.A.* annual report on Form 20-F for the fiscal year ended December 31, 2002, filed on June 24, 2003.

(8) Incorporated by reference to *Telesp Celular Participações S.A.* annual report on Form 20-F for the fiscal year ended December 31, 2000, filed on June 29, 2001.

(9) Incorporated by reference to our Form F-4 filed with the Commission on December 16, 2005.

(10) Incorporated by reference to our Form 6-K filed with the Commission on August 13, 2007.

(11) Incorporated by reference to note 37(j) to our audited consolidated financial statements included elsewhere in this annual report.

These exhibits omit certain promissory notes and other instruments and agreements with respect to our long-term debt, none of which authorize any securities totaling more than 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 upon request by the Commission.

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.

VIVO PARTICIPAÇÕES S.A.

By: /s/ Roberto Oliveira de Lima

Name: Roberto Oliveira de Lima
Title: Chief Executive Officer

By: /s/ Ernesto Gardelliano

Name: Ernesto Gardelliano
Title: Executive Vice President of Finance,
Planning and Control and Investor
Relations Officer

Date: March 28, 2008

Vivo Participações S.A.

*Consolidated Financial Statements
for the Years Ended December 31, 2007, 2006 and 2005 and
Report of Independent Registered Public Accounting Firm*

ERNST & YOUNG Auditores Independentes S.S.

F-1

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

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Definitions:

Brazilian GAAP - Accounting practices adopted in Brazil.

U.S. GAAP - Accounting principles generally accepted in the United States of America.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Vivo Participações S.A.

We have audited the accompanying consolidated balance sheets of Vivo Participações S.A. and subsidiary as of December 31, 2007, and the related consolidated statements of operation, changes in shareholders' equity, changes in financial position and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vivo Participações S.A. and subsidiary at December 31, 2007, and the consolidated results of their operations, changes in their financial position and their cash flows for the year then ended, in conformity with accounting practices adopted in Brazil, which differ in certain respects from accounting principles generally accepted in the United States of America (See Notes 37, 38 and 39 to the consolidated financial statements).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Vivo Participações S.A.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2008, except for internal control over financial reporting related to Notes 37, 38 and 39 to the 2007 consolidated financial statements of Vivo Participações S.A., as to which the date is March 25, 2008, expressed an unqualified opinion thereon.

São Paulo, February 8, 2008,
except as to Notes 37, 38 and 39, as to which the date is March 25, 2008

/s/ ERNST & YOUNG
Auditores Independentes S.S.
CRC-2-SP-015199/O-6

Luiz Carlos Passetti
Partner

Drayton Teixeira de Melo
Partner

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Vivo Participações S.A.

We have audited Vivo Participações S.A. and subsidiary's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Vivo Participações S.A.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Vivo Participações S.A. and its subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vivo Participações S.A. as of December 31, 2007, and the related consolidated statements of operations, changes in shareholders' equity, changes in financial position, and cash flows for the year then ended and our report dated February 8, 2008, except as to Notes 37, 38 and 39, as to which the date is March 25, 2008, expressed an unqualified opinion thereon.

São Paulo, February 8, 2008, except
for internal control over financial reporting related to Notes 37, 38 and 39 to the 2007 consolidated financial statements as to which the date is March 25, 2008.

/s/ ERNST & YOUNG
Auditores Independentes S.S.
CRC-2-SP-015199/O-6

Luiz Carlos Passetti
Partner

Drayton Teixeira de Melo
Partner

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Vivo Participações S.A.

We have audited the accompanying consolidated financial statements of Vivo Participações S.A. (a Brazilian Corporation) as of December 31, 2006, and the related consolidated statements of operations, change in shareholders equity and changes in financial position for each of the two years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006, and the consolidated results of its operations, the changes in shareholders' equity and the changes in its financial position for the two years in the period ended December 31, 2006, in conformity with accounting practices adopted in Brazil.

Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 36 to the consolidated financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated statements of cash flows for the years ended December 31, 2006 and 2005 are presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

The combined statements of operations, changes in shareholders' equity, changes in financial position and cash flows for the year ended December 31, 2005 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2006 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 27, 2007 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu
Auditores Independentes

April 27, 2007
São Paulo, Brazil

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VIVO PARTICIPAÇÕES S.A.**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31, 2007 AND 2006

(In thousands of Brazilian reais)

| | | December 31, | |
|----------------------------------------------|-------------|---------------------|-------------------|
| | Note | 2007 | 2006 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 4 | 2,190,990 | 1,401,996 |
| Short-term investments pledged as collateral | 4 | 32,359 | 45,644 |
| Trade accounts receivable, net | 5 | 2,178,745 | 1,961,246 |
| Inventories | 6 | 376,624 | 282,020 |
| Advances to suppliers | - | 832 | 13,142 |
| Recoverable taxes | 7 | 707,471 | 784,342 |
| Deferred income taxes | 30.c | 906,906 | 878,397 |
| Derivative contracts | 10 | 916 | 1,298 |
| Prepaid expenses | 8 | 228,922 | 181,872 |
| Other assets | 9 | 197,578 | 122,537 |
| Total current assets | | 6,821,343 | 5,672,494 |
| Non-current assets: | | | |
| Long-term assets: | | | |
| Long-term investments pledged as collateral | 4 | 27,108 | - |
| Recoverable taxes | 7 | 769,884 | 693,520 |
| Deferred income taxes | 30.c | 1,664,032 | 1,931,418 |
| Derivative contracts | 10 | 3,835 | 135 |
| Prepaid expenses | 8 | 59,870 | 21,314 |
| Other assets | 9 | 26,623 | 21,732 |
| Goodwill, net | 11 | 667,369 | 979,045 |
| Goodwill on merged subsidiary, net | 15 | 24,578 | 33,004 |
| Property, plant and equipment, net | 12 | 6,301,389 | 6,445,479 |
| Intangible assets, net | 13 | 1,660,299 | 1,642,683 |
| Deferred assets, net | 14 | 64,886 | 101,253 |
| Total non-current assets | | 11,269,873 | 11,869,583 |
| TOTAL ASSETS | | 18,091,216 | 17,542,077 |

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

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VIVO PARTICIPAÇÕES S.A.**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31, 2007 AND 2006

(In thousands of Brazilian reais)

Table of Contents**December 31,**

| | Note | 2007 | 2006 |
|------------------------------------------------|-------------|-------------|-------------|
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Payroll and related accruals | 16 | 173,472 | 156,625 |
| Trade accounts payable | 17 | 3,069,308 | 2,627,013 |
| Taxes payable | 18 | 570,972 | 453,710 |
| Loans, financing and debentures | 19 | 1,984,036 | 1,590,345 |
| Interest on shareholders' equity and dividends | - | 22,219 | 51,702 |
| Provision for contingencies | 20 | 81,395 | 61,911 |
| Derivative contracts | 10 | 429,661 | 372,229 |
| Other liabilities | 21 | 546,169 | 386,422 |
| Total current liabilities | | 6,877,232 | 5,699,957 |
| Non-current liabilities: | | | |
| Long-term liabilities: | | | |
| Taxes payable | 18 | 181,359 | 212,469 |
| Loans, financing and debentures | 19 | 2,397,404 | 2,910,048 |
| Provision for contingencies | 20 | 118,009 | 84,712 |
| Derivative contracts | 10 | 23,482 | 129,718 |
| Other liabilities | 21 | 196,153 | 133,427 |
| Total non-current liabilities | | 2,916,407 | 3,470,374 |
| Shareholders' equity: | | | |
| Capital stock | 22 | 6,347,784 | 6,347,784 |
| Treasury shares | 22 | (11,070) | (11,070) |
| Capital reserves | 22 | 1,071,316 | 1,071,316 |
| Income reserves | 22 | 889,547 | 765,068 |
| Retained earnings | - | - | 198,648 |
| Total shareholders' equity | | 8,297,577 | 8,371,746 |

| | | |
|--------------------------------------------------|------------|------------|
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 18,091,216 | 17,542,077 |
|--------------------------------------------------|------------|------------|

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

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VIVO PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 , 2006 AND 2005
(In thousands of Brazilian reais, except earnings (loss) per share)

| | Note | Years Ended December 31, | | | Combined |
|--------------------------------------------------------------------------------------|------|--------------------------|-------------|-------------|-------------|
| | | 2007 | 2006 | 2005 | 2005 |
| NET OPERATING REVENUE | 23 | 12,492,494 | 10,936,714 | 7,473,066 | 11,253,834 |
| COST OF SERVICES AND GOODS SOLD | 24 | (6,623,290) | (5,564,168) | (3,412,596) | (5,337,339) |
| GROSS PROFIT | | 5,869,204 | 5,372,546 | 4,060,470 | 5,916,495 |
| Selling expenses | 25 | (3,532,783) | (3,751,070) | (2,483,680) | (3,614,895) |
| General and administrative expenses | 26 | (1,189,991) | (1,099,748) | (657,455) | (1,031,468) |
| Other operating expenses, net | 27 | (499,621) | (319,470) | (432,699) | (491,564) |
| | | (5,222,395) | (5,170,288) | (3,573,834) | (5,137,927) |
| OPERATING INCOME BEFORE NET FINANCIAL EXPENSES | | 646,809 | 202,258 | 486,636 | 778,568 |
| NET FINANCIAL EXPENSES | 28 | (468,339) | (747,985) | (917,614) | (913,142) |
| OPERATING INCOME (LOSS) | | 178,470 | (545,727) | (430,978) | (134,574) |
| Net nonoperating expenses | 29 | (20,810) | (288,970) | (65,318) | (96,489) |
| NET INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES AND MINORITY INTEREST | - | 157,660 | (834,697) | (496,296) | (231,063) |
| Income and social contribution taxes | 30 | (257,051) | 859,012 | (246,066) | (362,955) |
| Minority interest | | - | (7,968) | (166,884) | (173,446) |
| NET INCOME (LOSS) FOR THE YEAR | - | (99,391) | 16,347 | (909,246) | (767,464) |
| SHARES OUTSTANDING AT DECEMBER 31 (IN THOUSANDS) | | 1,437,623 | 1,437,623 | 662,325 | 1,109,225 |
| EARNINGS (LOSS) PER SHARE OUTSTANDING AT THE BALANCE SHEET DATE (IN BRAZILIAN REAIS) | - | (0,06914) | 0.01137 | (1.3728)(*) | (0.6919)(*) |

(*) On April 1, 2005, the shareholders approved a reverse stock split in the proportion of 2,500 (two thousand and five hundred) shares to 1 (one) share of the same class.

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

VIVO PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005
(In thousands of Brazilian reais)

| | Capital reserves | | | Income reserves | | | Treasury shares | Retained earnings (accumulated losses) |
|--------------------------------------------------------------------|------------------|------------------|--------------------------|-----------------------|---------------|---------------------------|-----------------|----------------------------------------|
| | Capital stock | Goodwill reserve | Special goodwill reserve | Tax incentive reserve | Legal reserve | Reserve for contingencies | | |
| BALANCES AT DECEMBER 31, 2004 | 4,373,661 | 99,710 | 990,169 | - | - | - | - | (2,550) |
| Capital increase - Special Shareholders Meeting of January 7, 2005 | 2,053,896 | - | (53,896) | - | - | - | - | - |
| Capital increase - Special Shareholders Meeting of July 31, 2005 | 242,595 | - | (242,595) | - | - | - | - | - |
| Premium paid on acquisition of fractional share | - | 8 | - | - | - | - | - | - |
| Net loss for the year | - | - | - | - | - | - | - | (900) |
| Consolidation adjustments: | | | | | | | | |
| Tax incentives | - | - | - | - | - | - | - | - |
| Donations received by subsidiaries | - | - | - | - | - | - | - | - |
| BALANCES AT DECEMBER 31, 2005 | 6,670,152 | 99,718 | 693,678 | - | - | - | - | (3,440) |

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

VIVO PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (Continued)
(In thousands of Brazilian reais)

| | Capital reserves | | | Income reserves | | | Treasury shares | Retain earnings (accumulated losses) |
|-----------------------------------------------------------------|------------------|------------------|--------------------------|-----------------------|---------------|---------------------------|-----------------|--------------------------------------|
| | Capital stock | Goodwill reserve | Special goodwill reserve | Tax incentive reserve | Legal reserve | Reserve for contingencies | | |
| BALANCES AT DECEMBER 31, 2005 | 6,670,152 | 99,718 | 693,678 | - | - | - | - | (3,448) |
| Capital reduction | (3,147,782) | - | - | - | - | - | - | 3,147,782 |
| Merger of TSD, TLE, CRT and TCO(see Note 1) | 2,631,137 | 415,371 | 347,331 | 3,589 | 97,421 | 11,070 | 602,612 | (11,070) |
| Minority interest incorporation | - | - | - | - | - | - | - | - |
| Write off of tax loss carryforward of subsidiaries | - | - | (294,094) | - | - | - | - | - |
| Unclaimed dividends and interest on shareholders equity | - | - | - | - | - | - | - | - |
| Capital increase - Special Shareholders Meeting of June 8, 2006 | 194,277 | - | (194,277) | - | - | - | - | - |
| Net income for the year | - | - | - | - | - | - | - | - |
| Consolidation adjustments: | | | | | | | | |
| Tax incentives | - | - | - | - | - | - | - | - |
| Donations received by subsidiary | - | - | - | - | - | - | - | - |
| Proposed allocation of income: | | | | | | | | |
| Legal reserve | - | - | - | - | 3,539 | - | - | - |
| Dividends | - | - | - | - | - | - | - | - |
| Reserve for expansion and modernization | - | - | - | - | - | - | 50,426 | - |

**BALANCES AT
DECEMBER 31,
2006**

| | | | | | | | | | |
|--|-----------|---------|---------|-------|---------|--------|---------|----------|-----|
| | 6,347,784 | 515,089 | 552,638 | 3,589 | 100,960 | 11,070 | 653,038 | (11,070) | 198 |
|--|-----------|---------|---------|-------|---------|--------|---------|----------|-----|

Unclaimed dividends
and interest on
shareholders' equity

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| - | - | - | - | - | - | - | - | - | 11 |
|---|---|---|---|---|---|---|---|---|----|

Net loss for the year

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|------|
| - | - | - | - | - | - | - | - | - | (99) |
|---|---|---|---|---|---|---|---|---|------|

Consolidation
adjustments:

Donations received
by subsidiary

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| - | - | - | - | - | - | - | - | - | 13 |
|---|---|---|---|---|---|---|---|---|----|

Transfer to reserve
for expansion
and modernization

| | | | | | | | | | |
|---|---|---|---|---|---|---|---------|---|-------|
| - | - | - | - | - | - | - | 124,479 | - | (124) |
|---|---|---|---|---|---|---|---------|---|-------|

**BALANCES AT
DECEMBER 31,
2007**

| | | | | | | | | |
|--|-----------|---------|---------|-------|---------|--------|---------|----------|
| | 6,347,784 | 515,089 | 552,638 | 3,589 | 100,960 | 11,070 | 777,517 | (11,070) |
|--|-----------|---------|---------|-------|---------|--------|---------|----------|

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

VIVO PARTICIPAÇÕES S.A.

**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In thousands of Brazilian reais)**

| | Years ended December 31, | | | Combined |
|---------------------------------------------------------------|---------------------------------|------------------|----------------|------------------|
| | 2007 | 2006 | 2005 | 2005 |
| SOURCES OF FUNDS | | | | |
| From operations | | | | |
| Net income (loss) | (99,391) | 16,347 | (909,246) | (767,464) |
| Items not affecting working capital: | | | | |
| Depreciation and amortization | 2,376,172 | 2,394,385 | 1,552,485 | 2,245,093 |
| Depreciation of shared systems | - | - | 1,080 | 1,278 |
| Minority interest | - | 7,968 | 166,884 | 173,446 |
| Monetary and exchange variations on non-current items, net | (100,438) | (123,721) | (253,207) | (295,948) |
| Net book value of assets disposals | 25,792 | 48,828 | 1,733 | 33,481 |
| Provision for loss on assets | - | 277,987 | 36,403 | 36,403 |
| Provision for contingencies | 80,692 | 50,344 | 3,251 | 14,534 |
| Provision for pension and other post-retirement benefit plans | 1,361 | 824 | 125 | 8 |
| Gain on extinguishments of liabilities | - | - | (7,425) | (7,425) |
| Taxes other than income taxes | (39,140) | (4,403) | - | - |
| Income taxes | - | (929,699) | - | 2,606 |
| Loss on investment in subsidiaries | - | 671 | 15,830 | 17,328 |
| Loss on derivative contracts | 172,916 | 280,203 | 363,712 | 422,559 |
| Others | 147 | 1,013 | - | 634 |
| Total from operations | 2,418,111 | 2,020,747 | 971,625 | 1,876,533 |
| From shareholders: | | | | |
| Capital increase | - | - | 58 | 58 |
| Reserves | - | - | 8 | 8 |
| From third parties: | | | | |
| Loans and financing | 1,231,217 | 1,217,420 | 2,288,542 | 2,288,542 |
| Premium reserve adjustments | - | - | - | 11,819 |
| Unclaimed dividends and interest on shareholders' equity. | 11,936 | 22,728 | - | - |
| Increase in non-current liabilities | 115,766 | 166,478 | - | 50,015 |
| Tax incentive | - | 24,162 | - | - |
| Transfer from non-current to current assets | 470,084 | 283,936 | 394,871 | 559,291 |
| Transfer of derivatives from non-current to current assets. | 17,538 | 10,180 | 311,395 | 311,395 |
| | - | - | 5,276 | 5,276 |

Transfer from property, plant and equipment
to current assets

| | | | | |
|---------------|-----------|-----------|-----------|-----------|
| Total sources | 4,264,652 | 3,745,651 | 3,971,775 | 5,102,937 |
|---------------|-----------|-----------|-----------|-----------|

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

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VIVO PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (Continued)
(In thousands of Brazilian reais)

| | Years ended December 31, | | | Combined |
|-----------------------------------------------------------------------------------|--------------------------|-----------|-------------|-------------|
| | 2007 | 2006 | 2005 | 2005 |
| USES OF FUNDS | | | | |
| Additions to property, plant and equipment and intangible | 1,903,667 | 2,102,422 | 1,546,065 | 2,203,410 |
| Additions to deferred assets | 2,067 | 1,510 | 580 | 3,046 |
| Additions to investment | - | 3 | 8,771 | 9,471 |
| Goodwill paid on acquisition of subsidiaries | - | - | 12,100 | 12,100 |
| Provision of special goodwill reserve | - | 52,412 | - | 3,910 |
| Acquisition of minority interest | - | 2,681 | - | - |
| Increase in deferred taxes | - | - | - | 38,065 |
| Increase in non-current assets | 320,090 | 27,886 | 34,536 | 131,730 |
| Decrease in non-current liabilities | - | - | 20,539 | - |
| Transfer from non-current to current liabilities | 92,496 | 306,477 | - | 20,749 |
| Transfer from loans and financing and contract non-current to current liabilities | 1,967,043 | 2,590,561 | 738,332 | 873,719 |
| Transfer from current to non-current assets | 7,715 | - | - | 4,530 |
| Interest on shareholders' equity and dividends | - | 16,808 | 46,345 | 116,700 |
| Loss and share subscription by minority shareholders | - | - | 7,214 | 7,214 |
| Total use of funds | 4,293,078 | 5,100,760 | 2,414,482 | 3,424,644 |
| EFFECT ON WORKING CAPITAL ARISING FROM MERGER | | | | |
| | - | 1,050,802 | - | - |
| INCREASE (DECREASE) IN WORKING CAPITAL | | | | |
| | (28,426) | (304,307) | 1,557,293 | 1,678,293 |
| REPRESENTED BY | | | | |
| Current assets: | 1,148,849 | 1,070,700 | 238,443 | 104,082 |
| At the beginning of the year | 5,672,494 | 4,601,794 | 4,363,351 | 7,149,742 |
| At the end of the year | 6,821,343 | 5,672,494 | 4,601,794 | 7,253,824 |
| Current liabilities | 1,177,275 | 1,375,007 | (1,318,850) | (1,574,211) |

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| | | | | |
|----------------------------------------|-----------|-----------|-----------|-----------|
| At the beginning of the year | 5,699,957 | 4,324,950 | 5,643,800 | 7,501,710 |
| At the end of the year | 6,877,232 | 5,699,957 | 4,324,950 | 5,927,499 |
| INCREASE (DECREASE) IN WORKING CAPITAL | (28,426) | (304,307) | 1,557,293 | 1,678,293 |

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

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VIVO PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In thousands of Brazilian reais)

| | Years ended December 31, | | | Combined |
|--------------------------------------------------------------------------------------|---------------------------------|-------------|-------------|-----------------|
| | 2007 | 2006 | 2005 | 2005 |
| OPERATING ACTIVITIES | | | | |
| Net income (loss) | (99,391) | 16,347 | (909,246) | (767,464) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | | | |
| Minority interest | - | 7,968 | 166,884 | 173,446 |
| Depreciation and amortization | 2,376,172 | 2,394,385 | 1,552,485 | 2,245,093 |
| Depreciation of shared systems | - | - | 1,080 | 1,278 |
| Gain on prepayment of loans | - | - | (7,425) | (7,425) |
| Provision for loss on assets | - | 277,987 | 36,403 | 36,403 |
| (Gain) loss on property, plant and equipment disposals | 20,528 | (1,220) | (1,922) | 27,605 |
| Unrealized loss in forward, swap and option contracts | 509,415 | 764,264 | 941,142 | 1,119,993 |
| Monetary and exchange variation | (296,138) | (334,978) | (380,782) | (460,130) |
| Allowance for doubtful accounts receivable | 365,740 | 720,496 | 514,756 | 647,015 |
| Provision for pension and other post-retirement benefit plans | 5,542 | 824 | 125 | 125 |
| Provision for loss on investment | - | 671 | 15,830 | 17,328 |
| (Increase) decrease in customer accounts receivable | (583,239) | 102,074 | (806,346) | (1,149,034) |
| (Increase) decrease in inventories | (94,604) | 80,292 | 196,557 | 196,557 |
| (Increase) decrease in recoverable taxes and deferred income taxes | 239,384 | (907,635) | 99,924 | 120,852 |
| Decrease in income and social contribution taxes | - | - | 3,502 | - |
| (Increase) decrease in other current and non-current assets | (153,228) | 254,956 | 73,181 | 224,838 |
| Increase (decrease) in payroll and related accruals | 16,847 | 6,785 | 779 | (271) |
| Increase (decrease) in accounts payable | 442,295 | 153,870 | (155,832) | (288,402) |
| Increase (decrease) in interest payable | (6,362) | (56,064) | 24,393 | 24,816 |
| Increase (decrease) in taxes payable | 86,152 | (219,211) | 36,578 | 67,236 |
| Increase (decrease) in provision for contingencies | 52,781 | (211,366) | 58,894 | 85,625 |
| Decrease in provision for pension fund | - | - | - | (117) |
| Increase (decrease) in other current and non-current liabilities | 216,930 | 50,333 | 8,839 | (13,163) |

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| | | | | |
|-------------------------------------------|-----------|-----------|-----------|-----------|
| Net cash provided by operating activities | 3,098,824 | 3,100,778 | 1,469,799 | 2,302,204 |
|-------------------------------------------|-----------|-----------|-----------|-----------|

INVESTING ACTIVITIES

| | | | | |
|-----------------------------------------------------------|-------------|-------------|-------------|-------------|
| Additions to property, plant and equipment and intangible | (1,903,667) | (2,102,422) | (1,546,065) | (2,203,410) |
| Additions to deferred assets | (2,067) | (1,510) | (580) | (3,046) |
| Short-term investments pledged as collateral | 13,823 | 145,523 | (166,395) | (191,166) |
| Escrow deposits | - | (11,387) | - | 40,041 |
| Acquisition of minority interest | - | (2,681) | - | - |
| Other investments | - | (3) | (8,771) | (9,471) |
| Cash received on sale of property, plant and equipment | 5,264 | 50,048 | 3,655 | 5,876 |
| Net cash used by investing activities | (1,914,293) | (1,922,432) | (1,718,156) | (2,361,176) |

VIVO PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (Continued)
(In thousands of Brazilian reais)

| | Years ended December 31, | | | Combined |
|---------------------------------------------------------------------------------|---------------------------------|--------------------|-----------------|------------------|
| | 2007 | 2006 | 2005 | 2005 |
| FINANCING ACTIVITIES | | | | |
| Loans, financing and debentures: | | | | |
| New loans and debentures | 2,094,965 | 2,200,702 | 3,592,689 | 3,780,314 |
| Loans repaid | (1,911,418) | (2,962,043) | (2,999,002) | (3,280,265) |
| Net settlement on derivative contracts | (561,537) | (640,470) | (657,993) | (800,210) |
| Interest on shareholders' equity and dividends paid to minorities | (17,547) | (63,167) | (76,854) | (184,689) |
| Cash received relating to reverse stock split | - | 6,580 | 64,344 | 111,702 |
| Capital increase | - | - | 58 | 58 |
| Premium paid on acquisition of fractional shares | - | - | 8 | 8 |
| Net cash used in financing activities | (395,537) | (1,458,398) | (76,750) | (373,082) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | |
| | 788,994 | 280,052 | (325,107) | (432,054) |
| Cash consolidated on January 1, 2006 due to merger of TSD, TLE and CRT (Note 1) | | | | |
| | - | 826,297 | - | - |
| CASH AND CASH EQUIVALENTS | | | | |
| At the beginning of the year | 1,401,996 | 855,751 | 1,180,858 | 2,114,102 |
| At the end of the year | 2,190,990 | 1,401,996 | 855,751 | 1,682,048 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | | |
| Income and social contribution taxes paid | 14,685 | 154,509 | 406,567 | 541,218 |
| Interest paid | 311,771 | 453,229 | 447,694 | 470,682 |
| NONCASH TRANSACTION | | | | |
| Donation | 13,286 | 19,254 | 9,159 | 14,034 |
| Capitalized cost of disassembled and equipment | - | - | 4,853 | 5,703 |
| Transference to advance for suppliers | - | - | 5,276 | 5,276 |

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| | | | | |
|----------------------------------------------------------|--------|-----------|---------|---------|
| Write off of tax loss carryforward of subsidiaries | - | 294,094 | - | - |
| Unclaimed dividends and interest on shareholders' equity | 11,936 | 22,728 | - | - |
| Proposed dividends | - | 16,808 | - | - |
| Tax incentive | - | 24,162 | 7,887 | 7,887 |
| Transfer goodwill | - | 259,069 | 133,370 | 191,480 |
| Merged net assets, net of cash | - | 3,761,352 | - | - |

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

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VIVO PARTICIPAÇÕES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. OPERATIONS

Vivo Participações S/A (Company) - formerly Telesp Celular Participações S/A - is a publicly traded corporation which at December 31, 2007 has as controlling shareholders Brasilcel N.V. and its subsidiaries Portelcom Participações S/A, Sudestecel Participações Ltda., Avista Participações Ltda., TBS Celular Participações Ltda. and Tagilo Participações Ltda. that jointly hold (treasury shares excluded) 62.95% of the Company's total capital.

Brasilcel N.V. is jointly controlled by Telefonica S/A (50% of total capital), PT Móveis Serviços de Telecomunicações SGPS S/A (49.999% of total capital) and Portugal Telecom SGPS S/A (0.001% of total capital).

The wholly-owned subsidiary Vivo S.A. (Vivo) is a provider of mobile telephone services, including activities necessary or useful for the performance of such services, in accordance with authorizations granted for the areas of service described below:

| Operation area | Expiration date of authorization |
|-----------------------------------------------------------|----------------------------------|
| Areas 1 and 2: | |
| São Paulo | August 05, 2008 |
| São Paulo (Ribeirão Preto, Guatapar and Bonfim Paulista) | January 20, 2009 |
| Area 3: | |
| Rio de Janeiro | November 29, 2020 |
| Esprito Santo | November 30, 2008 |
| Area 5: | |
| Paran and Santa Catarina | April 08, 2013 |
| Area 6: | |
| Rio Grande do Sul | December 17, 2022 |
| Areas 7 and 8: | |
| Distrito Federal | July 24, 2021 |
| Gias and Tocantins | October 29, 2008 |
| Mato Grosso | March 30, 2009 |
| Mato Grosso do Sul | September 28, 2009 |
| Rondnia | July 21, 2009 |
| Acre | July 15, 2009 |
| Amazonas, Roraima, Amap, Par and Maranho | November 29, 2013 |
| Area 9: | |
| Bahia | June 29, 2008 |
| Sergipe | December 15, 2008 |

The authorizations granted may be renewed just once, for a 15-year period, against a payment every two years of rates equivalent to 2% (two percent) of revenues for the year prior to that of the payment, net of taxes and mandatory social contributions related to the application of the Basic and Alternative Plans of Service. Vivo, in the states of Rio de Janeiro, Rio Grande do Sul and in Distrito Federal (Brazilian federal district) had their authorizations extended by Act No. 54,324 of November 28, 2005; No. 59,121 of June 20, 2006; and No. 59,120 of June 20, 2006, respectively.

VIVO PARTICIPAÇÕES S.A.

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The authorizations that need to be renewed in 2008 are already in the process of renewal by the regulatory agency. In the Company's opinion the regulatory agency's renewal of such authorization is probable.

The subsidiary's business and the services it may provide are regulated by the National Telecommunications Agency (ANATEL), the regulator for telecommunications services in Brazil, in accordance with Law No. 9,472 of July 16, 1997 and respective regulations, decrees, decisions and complementary plans.

On February 22, 2006, the General Shareholders' Meeting approved the merger of shares of Tele Centro Oeste Celular Participações S/A (TCO) to be converted into a wholly-owned subsidiary of Vivo Participações S/A and the merger of Tele Sudeste Celular Participações S/A (TSD), Tele Leste Celular Participações S/A (TLE) and Celular CRT Participações S/A (CRTPart) into the Company, as described in the Notice of a Material Fact dated December 4, 2005.

The results of the merged companies from January 1 to February 22, 2006 were consolidated in the Company's statement of operations for the year ended December 31, 2006, as agreed in the merger protocol.

Auction of share fractions

On April 19 and 24, 2006 auctions were held on the Sao Paulo Stock Exchange (BOVESPA) to place 641,766 shares (310,366 common shares under code VIVO3 and 331,400 preferred shares under code VIVO4) on the Free Float market, corresponding to the fractions determined in the exchange of shares of Tele Sudeste Celular Participações S/A, Tele Centro Oeste Celular Participações S/A, Tele Leste Celular Participações S/A and Celular CRT Participações S/A for shares of Vivo Participações S/A resulting from the Corporate Restructuring approved by the Special Shareholders' Meeting of February 22, 2006. The amounts determined on the sale are at the disposal of the holders of these share fractions at any branch of Banco ABN Amro Real S/A, the depositary entity of the book-entry shares of Vivo Participações S/A.

Corporate Restructuring

At the Extraordinary Shareholders' Meeting held on October 31, 2006, the merger by the wholly-owned subsidiary Global Telecom S/A of the other wholly-owned subsidiaries of Vivo Participações S/A, namely Telergipe Celular S/A, Telebahia Celular S/A, Telerj Celular S/A, Telest Celular S/A, Celular "CRT" S/A, Telesp Celular S/A and Tele Centro Oeste Celular Participações S/A, as well as of the latter's subsidiaries Telegoias Celular S/A, Telemat Celular S/A, Telems Celular S/A, Teleron Celular S/A, Teleacre Celular S/A and Norte Brasil Telecom S/A was approved.

The objective of the Corporate Restructuring was intended to simplify the corporate and operational structure, by unifying the general business management of the operating companies, which were concentrated in a single operating company controlled by the Company. Additionally, it was planned to optimize synergies between the companies involved, following the process which began with the Corporate Restructuring approved at the special shareholders meetings held on February 22, 2006. Similarly and simultaneously with the Corporate Restructuring accomplishment, the name of Global Telecom S/A was changed into Vivo S/A (Vivo).

VIVO PARTICIPAÇÕES S.A.NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
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The merger of the subsidiaries was previously approved by ANATEL on July 25, 2006 by the Act No. 59,867, published in the Federal Official Gazette (DOU) on July 27, 2006.

By the fact that the Corporate Restructuring did not directly involve Vivo Participações S/A, and was restricted to its subsidiaries, the Company's capital and shareholders' equity as well as its shareholding structure and the rights derived from the shares it issued did not undergo any change.

Acquisitions - Telemig Participações S.A. and Tele Norte Participações S.A.

On August 02, 2007, in accordance with the terms of the Instruction CVM no. 358, of January 03, 2002, the Company announced a stock purchase agreement with Telpart Participações S.A. ("Telpart") to acquire (i) 72,581,089,368 (seventy-two billion, five hundred eighty-one million, eighty-nine thousand, three hundred sixty-eight) common shares and 9,699,320,342 (nine billion, six hundred ninety-nine million, three hundred twenty thousand and three hundred and forty-two) preferred shares of Telemig Celular Participações S.A. ("Telemig Participações"), corresponding to 53.90% of voting capital, 4.27% of non-voting capital and 22.72% of total capital; and (ii) 64,633,961,594 (Sixty-four billion, six hundred thirty-three million, nine hundred sixty-one thousand, five hundred ninety-four) common shares and 185,778,351 (one hundred eighty-five million, seven hundred seventy-eight thousand, three hundred fifty-one) preferred shares of Tele Norte Celular Participações S.A. ("Tele Norte Participações"), corresponding to 51.86% of voting capital, 0.09% of non-voting capital and 19.34% of total capital (the Acquisition").

Telemig Participações is the controlling shareholder of *Telemig Celular S.A.* ("Telemig Celular"), which is the SMP - Personal Mobile Service provider in Area 4 of Region 1 of the General Plan of Authorizations of SMP, that covers the State of *Minas Gerais*. *Tele Norte Participações* is the controlling shareholder of the *Amazônia Celular S.A.* ("Amazônia Celular"), which is the mobile service provider of SMP in Area 8 of Region 1 of the General Plan of Authorizations of SMP, that embraces the States of *Amazonas*, *Roraima*, *Amapá*, *Pará* and *Maranhão*.

The permission of the sale and purchase agreement was approved by the general meetings of shareholders of the Company and of Telpart held on August 21, 2007. The conclusion of the Acquisition ("Closing") is subjected to certain conditions precedent set forth in the stock purchase agreement, including, without limitation, the approval by ANATEL.

The agreement, in its clause 7.1 letter (g), establishes that the sale can be cancelled, amongst other situations: for any one of the parties if the Closing does not take place up to March 31, 2008 ("Date of Rescission"), being established that (a) Telpart will have the right to prorogue the cited Date of Rescission up to June 30, 2008, only if, up to March 31, 2008, the only other condition for the Closing is the consent of ANATEL to the transfer of control of any companies involved in the operation; and (b) the Company will have the right to prorogue the Date of Rescission up to September 30, 2008, only if, up to March 31, 2008, the only other condition for the Closing is any of the following events: (i) neither definitive restraining order or another order, decree or rule issued by a Governmental Authority, nor any Law promulgated or approved for any Governmental Authority, will have to be valid to forbid, to restrict or to hinder the conclusion of the closing, and (ii) all the corporate authorizations included in the contract will have also to be valid and should not have to be suspended for any judicial lawsuit court. Telpart and the Company, as the case, will have to notify in writing to the other party concerning its intention to previously prorogue the Date of the Rescission

in or as of March 31, 2008.

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The price agreed in the stock purchase agreement is of R\$1,213,100,000.00 (the "purchase price"), that corresponds to: (i) R\$1,093,090,107.00 for the shares held by Telemig Participações in Telpart, represented by R\$14.21 per lot of 1,000 common shares of Telemig Participações and R\$6.39 per lot of 1,000 preferred shares of Telemig Participações and, (ii) R\$120,009,893.00 for the shares held by Tele Norte Participações owned by Telpart, represented by R\$1.85 per lot of 1,000 common shares of Tele Norte Participações and R\$0.66 per lot of 1,000 preferred shares of Tele Norte Participações. The Purchase Price to be paid by Vivo Participações implies R\$2,488.29 for common shares of Telemig Celular and of R\$56.72 for lot of 1,000 common shares of the Amazônia Celular. The references to the Purchase Price regarding each type of shares relate to the prices for lots of 1,000 shares, in order to be consistent with the form in which such shares are trade on the market (except with respect to Telemig Celular shares, which are traded on a per share basis).

From the execution of the stock purchase agreement until the date of the Closing, the Purchase Price will be indexed by the Brazilian daily CDI rate and will be subjected to certain adjustments as contemplated in the stock purchase agreement. Moreover, the prices for share mentioned before will be further adjusted to reflect the result of ongoing reverse split processes approved at shareholders meeting of Telemig Participações, Tele Norte Participações and Amazônia Celular all held on July 12, 2007.

At October 23, 2007, in the meeting of the ANATEL's Board of Directors the acquisition of Telemig Participações S.A. for the Company was approved unanimously by votes (5 to 0). This approval was published on November 06, 2007, by the Act nº 68,401, still pending the approval of the acquisition of Tele Norte Participações S.A. shares. The acquisition still depends of approval by the Administrative Council of Economic Defense - CADE. As a reminder the financial closing of the acquisition will only take place when ANATEL also approves Tele Norte Participações S.A.

Preferred shares of non-conforming shareholders

On November 21, 2007, the Ordinary Meeting of the Board of Directors approved the replacement in the "Free Float" of 7 (seven) preferred shares held in treasury by the Company and previously withheld by the shareholders who had relatively exercised the right to withdraw due to the acquisition of control of Telemig Participações and Tele Norte Participações and, indirectly, of its respective controlled companies, Telemig Celular and Amazônia Celular.

Selling - Tele Norte Participações SA

On December 20, 2007 in accordance with the terms of Instruction CVM 358 of 01/03/02, the Company announced that a stock purchase agreement was signed with Telemar Norte Participações, in order to sell the shares of Tele Norte Participações, which Telpart Participações S.A. (Telpart) had previously undertook to sell and transfer to the Company under the terms of the stock purchase agreement dated as of August 02, 2007.

Therefore, with the sale of shares of Tele Norte Participações, the Company believes that any eventual regulatory issues will be resolved, which may be impacting the deliberation by ANATEL of the acquisition of shares of Tele Norte Participações, and makes possible the closing of the transaction agreed with Telpart.

VIVO PARTICIPAÇÕES S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
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The sale agreement with Telemar Norte Leste S.A. was agreed to be made in the amount of R\$120.009.893,00 (one hundred, twenty million, nine thousand, eight hundred ninety-three Reais) and is subject to the monetary update set forth in the Stock Purchase Agreement and that is equivalent to the price paid by Vivo Participações for the same shares under the terms of the Original Agreement signed on August 02, 2007. The sale shall be concluded as soon as certain conditions precedent set forth in the Stock Purchase Agreement are implemented, including the approval of the transaction by ANATEL.

Auction of the Frequencies 1.9 Mhz

On September 25, 2007, the Company, through its subsidiary VIVO S.A. was the winning bidder of the Band L lots, except for lot 16 (area of Londrina- state of Paraná) and of lot 20 (North of Brazil), after opening the proposals carried through in that date in the headquarters of ANATEL. Band L comprises lots in the frequency range from 1895 to 1900 Mhz and from 1975 to 1980 Mhz, with 5 + 5 Mhz width, in all the regions served by the SMP. Accordingly, Vivo managed to complete its last coverage gap and will be soon operating in the whole Brazilian territory.

In order to achieve this benchmark, Vivo offered 50.60% average premium over the minimum price set in the auction call notice. Vivo's offer was approximately R\$169.7 million for all Band L lots acquired. However, pursuant to the rules provided for in the auction call notice, the price to be paid refers to the remaining term of the pre-existing authorizations for each lot acquired, which term is always counted as from the date of execution of the Term of Authorization referring to this bidding process. The resultant amount of the governmental bidding for Vivo totaled R\$50.3 million, without including the lots of state of Minas Gerais. The licenses are for a period of 15 years, subject to a one-time renewal period of 15 years, dependent of ANATEL's approval.

Auction of the Frequencies of 2.1 Mhz (3 G)

On December 20, 2007, the Company, through its subsidiary, announces that it was the winning bidder in the Band J lots, with 10 + 10 MHz width, with exception of the areas VII and X. In order to achieve this benchmark, Vivo has paid 92.5% average premium over the minimum price set in the auction call notice. For all Band J lots acquired, the Vivo offer was approximately R\$1.1 billion for a period of 15 years, subjected to a one-time renewal period of 15 years. The total amount or 10% should be paid at the time of the execution of the Terms of Authorization. The remaining 90% may be paid in 6 equal and annual installments, with a grace period of 3 years, adjusted to the Telecommunications Sector Index - IST variation, plus 1% monthly.

Agreement between Telefonica and Telecom Italy

In October of 2007, TELCO S.p.A. (in which Telefonica S.A holds a participation of 42.3%), completed the acquisition of 23.6% of Telecom Italia. Telefonica S.A. has joint control of Vivo, through its joint venture with Portugal Telecom. Telecom Italia has controlling interest in TIM Participações S.A (TIM), which is a mobile operator in Brazil. As result of the acquisition of its interest in Telecom Italia, Telefonica S.A. is precluded from having any direct involvement in the operations of TIM. Additionally, any transactions between the Company and TIM are transactions in the normal course of business for inter-operator transactions which are regulated by the ANATEL.

VIVO PARTICIPAÇÕES S.A.

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For the year ended December 31, 2007, inter-operator revenues and costs relating to Telecom Italia group of companies were R\$147,697 and R\$110,599, respectively.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The consolidated financial statements are presented in accordance with accounting practices adopted in Brazil, as prescribed by Brazilian Corporate Law, standards applicable to concessionaries of public telecommunication services and accounting standards and procedures established by the Brazilian Securities Commission (CVM).

The statements of operations, changes in financial position and cash flows for the year ended December 31, 2005 do not include the effects of the mergers mentioned in Note 1, and, consequently, are not comparable with the financial statements as of December 31, 2007 and 2006.

Since the companies merged in 2006 are under common control with Vivo Participações from December 28, 2002, the Company has presented combined statements of operations, changes in shareholders' equity, and changes in financial position and cash flows, reflecting the operations of Vivo Participações combined with those of TSD, TLE and CRT. In preparing these combined financial statements, the acquisition of minority interest in TCO was accounted for on February 22, 2006. The combined financial statements have not been presented in the Company's statutory filings.

Intercompany assets, liabilities, revenues and expenses balances were eliminated on consolidation. The consolidated financial statements include monetary restatement of property, plant and equipment and shareholders' equity through December 31, 1995, in accordance with legislation in force.

The authorization for conclusion of the local financial statements by management occurred in the Officer's Board meeting carried through at January 21, 2008.

Some accounts of the consolidated income statement for the year ended on December 31, 2006 were reclassified to allow the comparison, as follows:

Reclassification of depreciation of handsets available to corporate customers free of charge (*comodato* agreement): from general and administrative expenses to selling expenses;

Reclassification of revenues related to commercial incentives (cash rebates): from other operating income to selling expenses.

| Accounts | Prior 2006 Statement of operations | Reclassification | 2006 Statement of operations |
|-------------------------------------|------------------------------------------|------------------|---------------------------------|
| Selling expenses | (3,787,500) | 36,430 | (3,751,070) |
| General and administrative expenses | (1,112,184) | 12,436 | (1,099,748) |
| Other operating income | 541,928 | (48,866) | 493,062 |

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Additionally, pursuant to CVM Resolution No. 489/05, as from 2006, the amounts of escrow deposits linked to the provision for contingencies are presented as deductions from the related liabilities.

The accompanying financial statements are a translation and adaptation of those originally issued in Brazil, based on Brazilian GAAP. Certain reclassifications and changes in terminology have been made and the notes have been expanded, in order to conform more closely to prevailing reporting practices pursuant to US GAAP.

In order to facilitate the understanding of its financial information, and to provide more uniform information to its foreign and local shareholders, the Company has elected to prepare and present its primary financial statements in accordance with Brazilian GAAP, expressed in Brazilian Reais. Because Brazilian GAAP differs in certain significant respects from US GAAP, a reconciliation of the net income and shareholders equity from Brazilian GAAP to equivalent amounts prepared under US GAAP is provided herein (Note 37).

3. SUMMARY OF ACCOUNTING PRACTICES

a) Cash and cash equivalents

Cash and cash equivalents represent all available balances in cash and banks and highly liquid temporary short-term investments, stated at cost, plus accrued interest to the balance sheet date, with original maturity dates of three months or less.

b) Trade accounts receivable

The amounts billed are calculated at the tariff rate on the date the services were rendered. Trade accounts receivable also include services provided to customers up to the balance sheet date, but not yet invoiced, as well as accounts receivable from the sale of handsets and accessories.

c) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for trade accounts receivable when collection is considered remote.

d) Translation of foreign currency transactions

Foreign currency transactions are recorded at the exchange rate at transaction date and the related balances are updated through the balance sheet date. The exchange variation is recognized in the statements of operations as part of financial net expense. Exchange variation and premiums related to derivative contracts are calculated and recorded monthly, regardless of the settlement dates.

e) Inventories

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

f) Prepaid expenses

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VIVO PARTICIPAÇÕES S.A.

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Stated at amounts disbursed for expenses which have not yet been incurred.

g) Other assets

Include subsidies on sales of handsets to the accredited agents, which are deferred and recognized in results as these handsets are activated. They also include the balances to be received from commercial agreements that are proceeding from current transactions between the subsidiary and its suppliers, primarily based on the volume of purchases and cost shared regarding marketing campaigns.

h) Goodwill

Represents goodwill recorded on acquisitions of consolidated subsidiaries. The accounting practices of direct and indirect subsidiaries are consistent with those applied by the Company. Impairment is recognized on goodwill if the expected net cash flows generated from the acquired net assets is not sufficient to cover its book value.

i) Goodwill on merged subsidiary

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

j) Property, plant and equipment and intangible assets

It is stated at acquisition or construction cost, less accumulated depreciation and amortization calculated by the straight-line method based on the estimated useful lives of these assets (Notes 12 and 13). The costs incurred for repairs and maintenance that represent improvements and increases in capacity or useful life are capitalized, while other routine costs are charged to results of operations. The estimated costs to be incurred for asset retirement obligation of towers and equipment on leased property are capitalized (Note 21) and depreciated over the useful life of the equipment, not exceeding the term of lease agreements. The leasehold improvements are depreciated taking into account the economic useful life of the assets and the leasing term, whichever is shorter.

The interests and other financial charges over loans obtained from third parties, which are directly attributable to the acquisition and construction of the subsidiary's network assets, are being capitalized during the construction-in-progress, in compliance with Deliberation CVM nº 193. The allocation of these financial charges to the results of operations is effected in accordance with the useful lives of related assets.

k) Deferred charges

It represents pre-operating expenses recorded during the start-up phase and are amortized using the straight-line method, over a ten-year period.

The premium paid on owned stores was recorded as deferred assets and is amortized over the term of the related agreements.

1) Accrual for customer loyalty program

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VIVO PARTICIPAÇÕES S.A.NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
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The subsidiary has implemented a customer loyalty program that enables users to accumulate points based on cellular services usage. These points may be exchanged for handsets in the future. The subsidiary records an accrual based on the points earned by customers at the balance sheet date, which is calculated based on the cost of the handsets and expected utilization taking in consideration the customer profile.

m) Taxes, Rates and Contributions

The service revenues are subject to the taxation of VAT state tax (ICMS), municipal tax over services provided (ISS) with applicable rates for each region and, VAT federal taxes (PIS and COFINS) in the cumulative method of taxation for revenue services of telecommunications, by the tax rate of 0.65% and 3.00%, respectively. For other revenues earned by the subsidiary, including revenues related to the resale of merchandise, in the non-cumulative method of taxation, by the tax rate of 1.65% and 7.60% for PIS and COFINS, respectively.

The credits generated by the non-cumulative method of taxation for PIS and COFINS are disclosed in the statement of operation as a deduction of costs of merchandise sold.

The advanced amounts or available for future tax offset are classified as current assets and non-current, in accordance with estimated period of realization.

The taxation on profits consists of income tax and social contribution calculated based on the taxable income (adjusted), to the applicable tax rate in accordance with enacted law: 15%, plus an additional rate of 10% when the taxable income exceeds R\$240 annually and 9% for the social contribution.

The deferred income tax and social contribution assets are comprised of carryforward income tax and social contribution losses and temporary differences, based on the enacted rates of the mentioned taxes. This is in accordance with the provisions of *Deliberação CVM No. 273*, as of August 20, 1998 and *Instrução CVM No. 371* as of June 27, 2002, and taking into consideration the taxable income to be generated in the future based on the business plan approved by Board of Directors.

n) Advertising expense

Advertising costs are charged to expense as incurred and amounted to R\$323,660, R\$320,186 and R\$268,713 for the years ended December 31, 2007, 2006 and 2005, respectively.

o) Loans, financing and debentures

Loans and financing are remeasured for monetary and/or exchange variations and accrued interests to the balance sheet date.

p) FISTEL fees

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

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q) Provision for contingencies

The provision for contingencies is recorded based on management and the Company and subsidiary's external legal counsel evaluation in respect of the probable outcome of pending cases and is adjusted to the balance sheet date based on the probable amount of the loss, in accordance with the nature of each contingency.

r) Pension and post-retirement benefit plans

Actuarial liabilities are calculated by projected unit credit method and plan assets are stated at fair market value. Actuarial gains and losses are recorded immediately in income (loss) for the year. Deficits (actuarial obligations in excess of the plan's assets) are recognized at the end of each year. In the absence of prospects of a reduction of future contributions, surpluses are not recognized (Note 32).

s) Revenue recognition

Revenues from services are recognized when services are provided and are billed on a monthly basis. Unbilled revenues are estimated and recognized as revenues when the services are provided. Revenues from sales of prepaid cellular minutes are deferred and recognized in income as they are used. Revenue from the sale of handsets and accessories, effected in owned stores, is recorded at the time of the sale to the final customer. Sales made through dealers are recorded as revenue when the handsets are activated.

t) Net financial expense

It represents interest, monetary and exchange variation resulting from temporary cash investments, loans and financing obtained and granted.

u) Derivatives

The Company and its subsidiary maintain certain foreign currency derivative contracts to manage their exposure to exchange rate fluctuations in relation to their foreign currency cash flow. These derivative contracts are recorded at the exchange rates in effect at the balance sheet date, and premiums paid or received in advance are deferred and amortized over the effective period of the contracts. Gains and losses, realized or unrealized, based exclusively on contractual terms, are recorded as financial results.

v) Employees' profit sharing

Employees are entitled a participation bonus based on the achievement of certain goals agreed upon with employees and their union at the beginning of each year. The amounts accrued reflect management's best estimate of the amount to be paid.

w) Segment information

The subsidiary operates in one cellular telecommunications services segment.

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x) Earnings (loss) per thousand shares

Calculated based on the number of shares outstanding at balance sheet date.

y) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions relating to the reported amount of assets and liabilities and of revenues, costs and expenses. Actual results could differ from these estimates.

4. CASH AND CASH EQUIVALENTS

| | As of December 31, | |
|------------------------|--------------------|------------------|
| | 2007 | 2006 |
| Cash and banks | 328,256 | 82,927 |
| Short-term investments | 1,862,734 | 1,319,069 |
| Total | 2,190,990 | 1,401,996 |

Short-term investments earn mainly fixed interest rates, which are indexed by the interbank deposit rates (CDI), with immediate liquidity.

As of December 31, 2007, the subsidiary had financial investments pledged in guarantee of lawsuits and of loans and financing (Note 19.d), amounting to R\$32,359 (R\$38,601 in 2006) and R\$27,108 (R\$7,043 in 2006), respectively.

VIVO PARTICIPAÇÕES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
 (In thousands of Brazilian reais, unless otherwise indicated)

5. TRADE ACCOUNTS RECEIVABLE, NET

| | As of December 31, | |
|---------------------------------------|--------------------|------------------|
| | 2007 | 2006 |
| Receivables from unbilled services | 414,192 | 320,281 |
| Receivables from billed services | 1,032,439 | 1,038,397 |
| Receivables from interconnection fees | 630,679 | 674,311 |
| Receivables from goods sold | 446,136 | 281,563 |
| (-) Allowance for doubtful accounts | (344,701) | (353,306) |
| Total | 2,178,745 | 1,961,246 |

The subsidiary has no client balances that represent more than 10% of net trade accounts receivable as of December 31, 2007 and 2006.

At December 31, 2007 the balance of accounts receivable includes R\$269,026 (R\$545,864 in 2006) related to co-billing with other telecom operators, which amounts were determined on the basis of statements of commitment, since contracts have not yet been signed by the parties. Pending matters related to the definition of responsibility for losses resulting from fraud have not yet been resolved, and depend upon decision by the regulating agency and agreement between the parties. The subsidiary does not expect any loss regarding these receivables.

The changes in the allowance for doubtful accounts are as follows:

| | Years ended December 31, | |
|----------------------------------|--------------------------|----------------|
| | 2007 | 2006 |
| Balance at beginning of year | 353,306 | 249,399 |
| Additional allowance (Note 25) | 365,740 | 720,496 |
| Write-offs and recoveries | (374,345) | (723,931) |
| Merged assets | - | 107,342 |
| Balance as of at year end | 344,701 | 353,306 |

6. INVENTORIES

| | As of December 31 | |
|--------------------------------|-------------------|----------|
| | 2007 | 2006 |
| Handsets | 382,410 | 320,162 |
| Accessories and other | 7,330 | 6,002 |
| Simcard (chip) | 24,700 | - |
| (-) Provision for obsolescence | (37,816) | (44,144) |
| Total | 376,624 | 282,020 |

VIVO PARTICIPAÇÕES S.A.

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7. RECOVERABLE TAXES

| | As of December 31, | |
|------------------------------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Income and social contribution taxes paid in advance | 573,705 | 602,503 |
| Withheld income taxes | 81,368 | 28,145 |
| Recoverable state VAT (ICMS) (a) | 463,573 | 431,436 |
| Recoverable federal VAT (PIS and COFINS) | 241,516 | 307,580 |
| Other recoverable taxes | 34,870 | 59,928 |
| Total recoverable taxes | 1,395,032 | 1,429,592 |
| State VAT (ICMS) on fixed assets non-current (a) | 82,323 | 48,270 |
| Total | 1,477,355 | 1,477,862 |
| Current | 707,471 | 784,342 |
| Non-current | 769,884 | 693,520 |

(a) Recoverable ICMS taxes represent the amount paid in the acquisition of equipment and inventories and may be offset against ICMS on telecommunications services. The non-current portion refers to ICMS paid on the purchase of property items, which are available for offset over a period of 48 months.

8. PREPAID EXPENSES

| | As of December 31, | |
|------------------------------|--------------------|---------|
| | 2007 | 2006 |
| FISTEL fee | 110,304 | 47,277 |
| Rent | 16,459 | 17,007 |
| Advertisement to be incurred | 133,324 | 114,927 |
| Financial charges | 2,816 | 3,847 |
| Other | 25,889 | 20,128 |
| Total | 288,792 | 203,186 |

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| | | |
|-------------|---------|---------|
| Current | 228,922 | 181,872 |
| Non-current | 59,870 | 21,314 |

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VIVO PARTICIPAÇÕES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
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9. OTHER ASSETS

| | As of December 31, | |
|---------------------------------------|--------------------|----------------|
| | 2007 | 2006 |
| Escrow deposits | 101,036 | 85,716 |
| Advances to employees | 5,973 | 7,483 |
| Credits with suppliers | 52,232 | 3,338 |
| Intercompany credits | 10,661 | 4,167 |
| Subsidies on handsets sold to dealers | 45,982 | 37,335 |
| Other assets | 8,317 | 6,230 |
| Total | 224,201 | 144,269 |
| Current | 197,578 | 122,537 |
| Non-current | 26,623 | 21,732 |

10. DERIVATIVE CONTRACTS

The Company and subsidiary's foreign-currency loans are denominated in U.S. dollars and Japanese yen and are translated at the exchange rates prevailing at December 31, 2007 and 2006, as follows:

| | 2007 | 2006 |
|---------------------------------|----------|----------|
| Exchange rate from R\$ to US\$ | 1.7713 | 2.1380 |
| Exchange rate from R\$ to Yens | 0.015839 | 0.017954 |
| Exchange rate from R\$ to Euros | 2.60753 | 2.815746 |

The forward and swap contracts described below were entered into in order to mitigate the Company's and subsidiary's exposure to foreign exchange variations.

VIVO PARTICIPAÇÕES S.A.

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| Issuance | Maturity date | Notional amount buy (sell) (thousands) | | Forward swap/exchange rate | Current assets | | Non-current assets | |
|------------------------------|------------------------------|----------------------------------------|----------------|----------------------------|----------------|-------|--------------------|------|
| | | 2007 | 2006 | | 2007 | 2006 | 2007 | 2006 |
| from 08/17/04 To 06/20/14 | from 01/15/09 To 12/19/14 | 102,568 USD | 482,261 USD | 1.8123 to 3.003 | - | - | - | - |
| from 08/30/07 to 12/10/07 | from 02/02/09 To 08/19/09 | 17,123,604 JPY | 50,044,022 JPY | 0.0157 to 0.0173 | - | 115 | - | - |
| from 09/13/06 to 05/22/07 | from 01/02/09 to 02/09/10 | 210,000 BRL | 110,000 BRL | | - | 3,720 | 135 | |
| Short-term contracts | | 266,691 USD | 511,904 USD | 1.7916 to 2.997 | 36 | 1,298 | - | - |
| Short-term contracts | | 15,234 EUR | 1,866 EUR | 2.594 | 102 | - | - | - |
| Short-term contracts | | 48,941,680 JPY | 241,616 JPY | 0.0156 to 0.0192 | 743 | - | - | - |
| Short-term contracts | | 997,596 BRL | 1,507,088 BRL | | 35 | - | - | - |

| | | | | | | | | | |
|-------|--|--|--|--|--|-----|-------|-------|-----|
| Total | | | | | | 916 | 1,298 | 3,835 | 135 |
|-------|--|--|--|--|--|-----|-------|-------|-----|

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VIVO PARTICIPAÇÕES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
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| Issuance | Maturity date | Notional amount buy (sell) (thousands) | | Forward swap/exchange rate | Current liabilities | | Non-current liabilities | |
|---------------------------|---------------------------|----------------------------------------|----------------|----------------------------|----------------------------|---------|----------------------------|--------|
| | | 2007 | 2006 | | Book value on December 31, | | Book value on December 31, | |
| | | 2007 | 2006 | 2007 | 2007 | 2006 | 2007 | 2006 |
| from 08/17/04 to 06/20/14 | from 01/15/09 To 12/19/14 | 102,568 USD | 482,261 USD | 1.8123 à 3.003 | - | 249,798 | 10,583 | 74,755 |
| from 08/30/07 to 12/10/07 | from 02/02/09 To 08/19/09 | 17,123,604 JPY | 50,044,022 JPY | 0.0157 à 0.0173 | - | 92,056 | 12,899 | 54,963 |
| from 09/13/06 to 05/22/07 | from 01/02/09 To 02/09/10 | 210,000 BRL | 110,000 BRL | | | - | | - |
| Short-term contracts | | 266,691 USD | 511,904 USD | 1.7916 à 2.997 | 222,387 | 25,357 | | - |
| Short-term contracts | | 15,234 EUR | 1,866 EUR | 2.594 | | 171 | | - |
| Short-term contracts | | 48,941,680 JPY | 241,616 JPY | 0.0156 à 0.0192 | 203,402 | 703 | | - |
| Short-term contracts | | | | | 3,872 | 4,144 | | - |

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| | |
|---------|-----------|
| 997,596 | 1,507,088 |
| BRL | BRL |

| | | | | | | | | |
|-------|--|--|--|--|---------|---------|--------|---------|
| Total | | | | | 429,661 | 372,229 | 23,482 | 129,718 |
|-------|--|--|--|--|---------|---------|--------|---------|

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VIVO PARTICIPAÇÕES S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - Continued
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
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11. GOODWILL

Components and changes

| | As of December 31, | |
|------------------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Goodwill on investment acquisitions, net | 909,766 | 1,290,512 |
| Provision for investment losses | (242,397) | (311,467) |
| Net balance | 667,369 | 979,045 |

Changes in goodwill balances are as follows:

| | As of December 31, | |
|------------------------------------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Balance, net of provision for loss - beginning of the year | 979,045 | 1,550,101 |
| Amortization of goodwill paid on investment acquisitions | (311,676) | (311,987) |
| Transfer of tax benefit on goodwill to GT | - | (259,069) |
| Balance, net of provision for loss - end of the year | 667,369 | 979,045 |

12. PROPERTY, PLANT AND EQUIPMENT, NET

12.1) Balances

| | As of December 31, | | |
|--|--------------------|-----------------------------|-----------------------------|
| | 2007 | | 2006 |
| | Cost | Accumulated depreciation | Property and equipment, net |
| | | Property and equipment, net | Property and equipment, net |

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| | | | | |
|--------------------------|-------------------|---------------------|------------------|------------------|
| Transmission equipment | 7,515,674 | (5,316,853) | 2,198,821 | 2,002,026 |
| Switching equipment | 3,473,847 | (2,105,727) | 1,368,120 | 1,431,518 |
| Infrastructure | 2,507,440 | (1,341,281) | 1,166,159 | 1,161,294 |
| Land | 59,785 | - | 59,785 | 59,929 |
| Buildings | 282,869 | (72,891) | 209,978 | 214,900 |
| Handsets equipment | 1,893,738 | (1,603,340) | 290,398 | 292,944 |
| Other assets | 1,419,770 | (910,599) | 509,171 | 545,710 |
| Construction in progress | 498,957 | - | 498,957 | 737,158 |
| Total | 17,652,080 | (11,350,691) | 6,301,389 | 6,445,479 |

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12.2) Depreciation rates

The useful lives of property, plant and equipment on a consolidated basis are as follows:

| | Useful lives | | |
|----------------------------------|--------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Transmission and other equipment | 5 to 10 | 5 to 10 | 5 to 10 |
| Switching equipment | 5 to 10 | 5 to 10 | 5 to 10 |
| Infrastructure | 5 to 35 | 5 to 35 | 5 to 35 |
| Buildings | 25 to 35 | 25 to 35 | 25 to 35 |
| Other assets | 1.5 to 35 | 1.5 to 35 | 1.5 to 35 |

As of December 31, 2007, the subsidiary capitalized interests incurred on loans that were financing the work in process amounting R\$11,175 (R\$1,604 as of December 31, 2006).

At December 31, 2007, the subsidiary had property and equipment offered as guarantee in lawsuits in the amount of R\$ 109,158 (R\$108,118 as of December 31, 2006), as shown below:

| | As of December 31, | |
|-----------------|--------------------|----------------|
| | 2007 | 2006 |
| Tax | 98,614 | 97,034 |
| Labor and civil | 10,544 | 11,084 |
| Total | 109,158 | 108,118 |

During 2006, the subsidiary started offering services to the customers based on the Global System for Mobile Communications (GSM) technology. Management understands that the adoption of GSM will have no impact on amounts previously invested in the other technologies of its network.

12.3) Rentals

The Company, through its subsidiary rents equipment and building through a number of operating lease agreements that expire at different dates. Total annual rent expense under these agreements were R\$300,891, R\$280,833 and R\$75,106 for the years ended December 31, 2007, 2006 and 2005, respectively, and combined was R\$261,733 for the

year ended December 31, 2005. Rental commitments, related primarily to facilities, including the future minimum rental payment, are as follows:

| Year | Amount |
|---------------------|-----------|
| 2008 | 381,158 |
| 2009 | 363,679 |
| 2010 | 363,679 |
| 2011 | 339,893 |
| 2012 | 339,893 |
| 2013 and thereafter | 1,554,809 |
| | |
| Total | 3,343,111 |

13. INTANGIBLE ASSETS

13.1) Balances

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| | As of December 31, | | | |
|--------------------------|--------------------|--------------------------|------------------|------------------|
| | | 2007 | | 2006 |
| | Cost | Accumulated amortization | Intangible net | Intangible net |
| Software user rights | 3,203,376 | (2,078,269) | 1,125,107 | 1,135,026 |
| Concession licenses | 1,026,891 | (627,864) | 399,027 | 414,694 |
| Other assets | 35,511 | (28,849) | 6,662 | 12,359 |
| Construction in progress | 129,503 | - | 129,503 | 80,604 |
| Total | 4,395,281 | (2,734,982) | 1,660,299 | 1,642,683 |

13.2) Depreciation rates

The useful lives of intangible assets on a consolidated and combined basis are as follows:

| | Useful lives | | |
|---------------------|--------------|---------|------------|
| | 2007 | 2006 | 2005 |
| Software use rights | 5 | 5 | 5 |
| Concession license | 5 to 15 | 5 to 15 | 15 |
| Other assets | 5 to 15 | 5 to 15 | 5 to 16.67 |

14. DEFERRED CHARGES, NET

As of December 31,

| | Annual amortization rate % | As of December 31, | |
|-----------------------------------|----------------------------|--------------------|----------------|
| | | 2007 | 2006 |
| Pre-operating expenses | | | |
| Amortization of license | 10 | 80,496 | 80,496 |
| Financial expenses | 10 | 201,131 | 201,131 |
| General & administrative expenses | 10 | 69,960 | 69,960 |
| | | 351,587 | 351,587 |

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| | | | |
|----------------------------|-----|-----------|-----------|
| Goodwill | (a) | 26,861 | 24,794 |
| Total Cost | | 378,448 | 376,381 |
| Accumulated amortization: | | | |
| Pre-operating expenses | | (292,754) | (256,883) |
| Goodwill | | (20,808) | (18,245) |
| Total of the amortizations | | (313,562) | (275,128) |
| Total, net | | 64,886 | 101,253 |

(a) As per agreement periods.

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15. GOODWILL ON MERGED SUBSIDIARY, NET

| | As of December 31 | |
|--------------------------|-------------------|---------------|
| | 2007 | 2006 |
| Cost | 84,265 | 84,265 |
| Accumulated amortization | (59,687) | (51,261) |
| Total | 24,578 | 33,004 |

The amount of goodwill is being amortized using the straight-line method over a ten-year period, based on the expected future profitability of Ceterp Celular S.A., the acquired company.

16. PAYROLL AND RELATED ACCRUALS

| | As of December 31 | |
|----------------------------------------------|-------------------|----------------|
| | 2007 | 2006 |
| Wages and salaries | 101,659 | 79,555 |
| Accrued vacation and social security charges | 62,128 | 64,132 |
| Accrued benefits | 9,685 | 12,938 |
| Total | 173,472 | 156,625 |

17. TRADE ACCOUNTS PAYABLE

| | As of December 31, | |
|---------------------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Suppliers | 2,290,721 | 1,936,194 |
| Interconnection / linking | 193,093 | 176,938 |
| Amounts to be transferred Long Distance (a) | 314,573 | 389,471 |

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| | | |
|--------------------------------------|-----------|-----------|
| Technical assistance related parties | 189,696 | 84,252 |
| Other | 81,225 | 40,158 |
| Total | 3,069,308 | 2,627,013 |

(a) Amounts to be transferred refer to VC2, VC3 and roaming charges, invoiced to our clients and passed on to the long distance operators.

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18. TAXES PAYABLE

| | As of December 31, | |
|-----------------------------------------------|--------------------|----------------|
| | 2007 | 2006 |
| Current taxes: | | |
| State VAT (ICMS) | 514,688 | 493,796 |
| Income and social contribution taxes | 20,493 | 2,319 |
| Federal VAT (PIS and COFINS) | 122,048 | 71,133 |
| FISTEL | 25,689 | 3,420 |
| FUST and FUNTTEL | 9,008 | 7,496 |
| Other taxes, fees and mandatory contributions | 23,592 | 11,252 |
| Total | 715,518 | 589,416 |
| Legal liabilities (CVM 489/05): | | |
| Federal VAT (PIS and COFINS) | 7,566 | 56,108 |
| CIDE (federal tax) | 25,997 | 17,600 |
| Other taxes, fees and mandatory contributions | 3,250 | 3,055 |
| Total | 36,813 | 76,763 |
| Total | 752,331 | 666,179 |
| Current | 570,972 | 453,710 |
| Non-current | 181,359 | 212,469 |

Current Taxes:

At December 31, 2007, the non-current amount of R\$168,850 (R\$151,131 in 2006) of the long-term liability refers to *ICMS - Programa Paraná Mais Emprego* (a program to increase the number of jobs) resulting from an agreement with the state of Paraná involving the postponement of the ICMS payment. This agreement establishes that ICMS payment falls due always in the forty-ninth month after that on which ICMS was determined.

Legal Liabilities - CVM Resolution 489/05

This includes the taxes that fall within the scope of CVM Resolution No. 489 as of October 3, 2005, issued by the Brazilian Securities Commission (CVM), approved by IBRACON (Brazilian Institute of Independent Auditors) rule called NPC (Rules and Accounting Pronouncements) No. 22.

For financial statement purposes the amounts of judicial deposits of said taxes, if applicable, were offset against taxes, fees and mandatory contributions payable.

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a) PIS and COFINS

Vivo S.A. in the state of São Paulo was assessed (lawsuit No. 19515,000,700/2003-97) for having offset COFINS, in January and February 2000, against credits derived from the excess of 1/3 of COFINS paid in 1999, after being offset against social contribution taxes. Conservatively, management maintained the amount of R\$24,671 on the accounts as of December 31, 2007 and 2006, having made an escrow deposit for the same amount.

Law No. 9,718/98

On November 27, 1998, calculation of PIS and COFINS was amended by Law No. 9,718, which: (i) increased the COFINS rate from 2% to 3%; (ii) authorized deduction of up to 1/3 of the COFINS amount from the amount of CSLL and (iii) indirectly increased the COFINS and PIS due by the subsidiary, by ordering the inclusion of revenue in excess of billing in the calculation bases.

On November 9, 2005, the Plenary Session of the Federal Supreme Court took a position in respect of the unconstitutionality of the changes in the calculation bases of contributions to PIS and COFINS introduced by Law No. 9,718/98, which had been the object of innumerable lawsuits brought by taxpayers in general and by the Company and its subsidiary.

In evaluating Extraordinary Appeals No. 357,950, No. 390,840, No. 358,273 and No. 346,084, it declared the unconstitutionality of paragraph 1, article 3 of the above-mentioned Law, which ruled that these contributions would be due not only on billing, but on all income received by the corporate entity, irrespective of the type of activity exercised and the accounting classification used for the income .

Due to the changes introduced by Laws No. 10,637/02 and No. 10,833/03, the subsidiary started to include income in excess of billing in the PIS and COFINS calculation bases.

Thus, the Company and its subsidiary maintain accrued the relative income in excess of billing, which is being argued judicially. On November 30, 2007, a final decision was issued related to one of the cases in discussion (Recurso Extraordinário No. 567,584 - Vivo in the state of Rio de Janeiro), resulting the reversal of the provision totaling R\$52,109. On December 31, 2007 an amount of R\$9,969 (R\$58,511 in 2006) was still recorded on the subsidiary's books, having made escrow deposits of R\$2,403.

b) CIDE - Contribution of Intervention of Economic Dominion

It refers to administrative and judicial discussion in order to avoid the taxation of CIDE on remittances of funds abroad, related to the technology transfer agreements, licensing of trademarks and software, etc. Conservatively, management maintained the amount of R\$70,342 (R\$55,466 in 2006) recorded as of December 31, 2007, having made escrow deposits amounting to R\$44,345 (R\$37,866 in 2006).

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c) Other taxes and contributions

On December 31, 2007, an amount of R\$3,250 (R\$3,055 as of December 31, 2006) was recorded, related to assessments issued by tax authorities (i) ISS on rental services of goods, support activities and additional services; (ii) income taxes on derivative operations and (iii) social security contribution (*INSS*).

Below are the changes in the legal obligations arising from compliance with CVM Resolution No. 489/05:

| | Legal Obligations | (-) Escrow deposits | Total |
|------------------------------------------------|----------------------|------------------------|-----------|
| Balance as of December 31, 2005 | 180,773 | (49,150) | 131,623 |
| Reversal | (138,410) | (5,397) | (138,410) |
| Additions | 8,631 | | 3,234 |
| Monetary restatement | 14,760 | - | 14,760 |
| Amounts recorded in connection with the merger | 75,949 | (10,393) | 65,556 |
| Balance as of December 31, 2006 | 141,703 | (64,940) | 76,763 |
| Reversals | (52,262) | (6,479) | (52,262) |
| Additions | 16,684 | | 10,205 |
| Monetary restatement | 3,402 | - | 3,402 |
| Payments | (1,295) | - | (1,295) |
| Balance as of December 31, 2007 | 108,232 | (71,419) | 36,813 |

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19. LOANS, FINANCING and DEBENTURES

a) Breakdown of debt

a.1.) Loans and Financing

| Description | Currency | Interest | Maturity | As of December 31, | |
|---------------------------------|----------|------------------------------------|----------------------------|--------------------|---------|
| | | | | 2007 | 2006 |
| Resolution 2770 | US\$ | 1.00% p.a. to 6.24% p.a. | 01/16/08 to 10/10/08 | 406,651 | 928,388 |
| Resolution 2770 | ¥ | 0% to 4.38% p.a. | 02/01/08 to 12/04/08 | 555,639 | 771,695 |
| Resolution2770 | R\$ | IGP-M + 9.45% p.a. | 02/09//10 | 118,618 | 111,666 |
| European Investment Bank BEI | US\$ | 1.4% p.a. + Libor to 4.47% p.a. | 01/14/08 to 12/19/14 | 270,087 | 240,482 |
| Compror | US\$ | 19.45% p.a. | 01/02/08 | 13,623 | 33,456 |
| Compror | ¥ | 1.00% p.a. to 27.5% p.a. | 01/07/08 to 08/19/09 | 490,769 | 131,133 |
| Compror | EUR | 5.15% p.a. | 01/21/08 | 39,724 | - |
| BNDES | URTJLP | TJLP + 3.5% p.a. to 4.6% p.a. | 01/15/08 to 08/15/14 | 675,192 | 163,795 |
| | | | 01/15/08 to | | |

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| | | | | | |
|---------------------------------------------|---------|------------------------|----------------------------|-----------|-----------|
| BNDES | UMBNDES | 3.5% p.a. to 4.6% p.a. | 07/15/11 | 9,994 | 28,075 |
| Commercial Paper | US\$ | | | - | 448,980 |
| Bank of the Northeast of Brazil - BNB | R\$ | 11.5% p.a. | 01/29/08 to 01/29/15 | 164,810 | - |
| Others | R\$ | Column 27 FGV | 10/25/08 | 426 | 851 |
| Investment acquisition "TCO" | R\$ | 100% CDI + 1% p.a. | 04/25/08 | 10,697 | 10,697 |
| Interest | | | | 85,298 | 82,219 |
| Total | | | | 2,841,528 | 2,951,437 |
| Current | | | | 1,444,124 | 1,541,389 |
| Non-current | | | | 1,397,404 | 1,410,048 |

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a.2) Debentures

| Description | Currency | Interest | Maturity | As of December 31, | |
|--------------|----------|-----------------------------|----------------------------|--------------------|------------------|
| | | | | 2007 | 2006 |
| Debentures | R\$ | 103.0% CDI to 104.2% CDI | 02/01/08 to 05/01/15 | 1,500,000 | 1,500,000 |
| Interests | | | | 39,912 | 48,956 |
| Total | | | | 1,539,912 | 1,548,956 |
| Current | | | | 539,912 | 48,956 |
| Non-current | | | | 1,000,000 | 1,500,000 |

b) Maturities long-term

On December 31, 2007, the maturities of the long-term portion of loans, financing and debentures are as follows:

| Year | |
|--------------|------------------|
| 2009 | 360,170 |
| 2010 | 301,423 |
| 2011 | 157,578 |
| 2012 | 146,452 |
| After 2013 | 1,431,781 |
| Total | 2,397,404 |

c) Restrictive Covenants

The subsidiary has financing agreements with the *Banco Nacional de Desenvolvimento Econômico e Social - BNDES* (National Bank for Social and Economic Development), which balance as of December 31, 2007 was R\$685,186 (R\$191,870 in 2006). In accordance with the contract, there are several economic and financial indexes that must be

determined on a six-month and annual basis. At year end the financial indexes established in the contract were met by the subsidiary.

As of December 31, 2007 the subsidiary has loans agreement with European Investment Bank, which balance as of December 31, 2007 amounted to R\$270,087 (R\$240,482 in 2006). At year end, the economic and financial indexes established in the contract were met by the subsidiary.

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d) Collateral

On December 31, 2007, for the subsidiary's loans and financing, denominated in local currency, amounting to R\$849,996, being R\$164,810 from *Banco do Nordeste do Brasil - BNB*, R\$675,192 from *BNDES* (indexed by *URTJLP*) and R\$9,994 at *BNDES* (indexed by *UMBNDDES*), the following guarantees were provided:

| Banks | Collateral |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BNDES | <p>Contract (VIVO-2007) R\$612,946: Referring guarantee in receivables 15% of the debt balance or 4 (four) times the major value of installment, of the highest value.</p> <p>Contract (VIVO-"NBT/TCO") R\$3,195: 100% of the receivables and more CDB are pledged to an amount equivalent to the two due installments .</p> <p>Contract (VIVO-"GT") R\$76,826: 45% of the receivables are pledged referring to revenue of services</p> <p>Vivo Participações is intervening guarantor in these contracts with the BNDES.</p> |
| Banco Europeu de Investimento BEI | <p>Commercial risk guaranteed by <i>Banco Espírito Santo</i>, BBV, Rabobank and BBVA Portugal</p> <p>Vivo Participações is intervening guarantor in these contracts with <i>Banco Espírito Santo</i>.</p> |
| Banco do Nordeste do Brasil S.A. | <p>Bank guarantee granted by <i>Banco Bradesco S.A.</i> an amount equivalent to 100% of the debit balance of the financing obtained.</p> <p>Establishing a liquidity fund comprising financial investments at an amount equivalent to three amortization installments by reference to the average post-grace period installment</p> <p>Vivo Participações is intervening guarantor</p> |

e) Debentures

On August 1, 2007 the second renegotiation of the first public issue of debentures was completed, consisting of 5,000 (five thousand) simple, non-convertible and non-guaranteed debentures, with a par value of R\$100 (one hundred thousand Reais) each, maturing on August 1, 2008. The renegotiation involving the total volume of the original issue occurred on August 1, 2003, at the rate of 104.6% of CDI, and a reduction in the rate to 103% of CDI also took place.

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

The Offering was comprised by the issuance of 100,000 simple, non-convertible, unsecured debentures with a par value of R\$10 (ten thousand Reais), totaling R\$1,000,000 (one billion Reais), in two series, being R\$200,000 (two hundred million Reais) in first series and R\$800,000 (eight hundred million Reais) in the second series, with final maturity on May 1, 2015. The debentures are subject to interest, payable on a six-month period basis, corresponding

to 103.3% (first series) and 104.2% (second series) of the

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accumulated daily average rates for DI (one-day Interbank, extra group deposits) (DI rates), as calculated and published by the Center for Custody and Financial Settlement of Certificates and Bonds (CETIP).

Remuneration of Debentures is due to be renegotiated on May 1, 2009 (first series) and May 1, 2010 (second series).

On July 11, 2007, the Board of Directors approved the following conditions for renegotiation of the debentures of its first series, whose characteristics are:

- a) Maturity Term of Remuneration: the new maturity term of the remuneration (being this the "Third Maturity Term of the Remuneration") will be of 12 months, as from August 01, 2007 to August 01, 2008. During this time, the remuneration conditions defined herein will remain unchanged;
- b) Remuneration: during the Third Maturity Term of the Remuneration, the debentures will be entitled to a remuneration of 103% (one hundred three percent) of the average rate of interbank deposits for one day, denominated Extra Group Overnight Interbank Deposit, calculated according to the rule established in the clause 4.8.1 of the legal document of first Issuance of the Debentures;
- c) Payment Period of the Remuneration: during the Third Maturity Term of the Remuneration, the payment of the remuneration will be made on February 01, 2008 and August 01, 2008, until the date of closing of the Third Maturity Term of the Remuneration, the first payment to be made on February 01, 2008; and
- d) Guarantee: the guarantee represented by the collateral granted by Vivo S.A. ("Guarantor") will remain unaffected for the new remuneration period.

20. PROVISION FOR CONTINGENCIES

The Company and its subsidiary are parties to judicial proceedings that originated administrative and judicial contingencies related to labor, tax and civil claims. Relevant accounting provisions have been set up concerning such proceedings considered as probable losses.

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Components of the provisions are as follows:

| | As of December 31, | | | |
|--------------------|--------------------|---------------------|----------------|----------------|
| | 2007 | | 2006 | |
| | Provision | (-) Escrow deposits | Net | Net |
| Tax | 6,752 | - | 6,752 | 2,942 |
| Civil | 190,714 | (39,971) | 150,743 | 102,541 |
| Labor | 62,275 | (20,366) | 41,909 | 41,140 |
| Total | 259,741 | (60,337) | 199,404 | 146,623 |
| Current | | | | |
| | | | 81,395 | 61,911 |
| Non-current | | | | |
| | | | 118,009 | 84,712 |

The changes in the provision for contingencies are as follows:

| | Years ended December 31, | |
|---------------------------------------------------|--------------------------|----------------|
| | 2007 | 2006 |
| Balance at beginning of year | 146,623 | 212,784 |
| Additional provisions, net of reversals (Note 24) | 184,594 | 109,550 |
| Monetary variation | 1,468 | 8,837 |
| Payments | (128,400) | (220,434) |
| Provisions recorded in connection with merger | - | 78,064 |
| Additional escrow deposits | (4,881) | (42,178) |
| Balance at year end | 199,404 | 146,623 |

20.1. Tax proceedings

The following is the legend related to the taxes and contributions shown on this footnote:

- IRPJ federal income tax
- CSSL federal social contribution on income
- COFINS federal VAT
- PIS federal VAT
- ICMS state VAT
- ISS municipal tax on services provided
- IRRF withholding taxes
- IOF federal financial transaction tax
- FUST federal tax that serves to provide funds designed to cover the parcel of the cost attributable exclusively to the fulfillment of universal service targets of the telecommunication services that cannot be recovered through the efficient performance of services.
- FUNTTEL federal tax that serves to stimulate technological development, the qualification of human resources, and job generation and to promote the access of small and medium companies to capital resources, so as to broaden the competitiveness of the Brazilian telecommunications industry.
- FISTEL - federal tax applicable to telecommunications transmission equipment which serves to provide funds to cover the expenses incurred by the Federal Government in performing inspections of telecommunication services and in developing the means and improving the techniques necessary for carrying out these inspections.

20.1.1. Probable losses

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a) ICMS

Based on the opinion of its external legal counsel, Vivo S.A. in the state of Espírito Santo recorded a provision of R\$2,606 as of December 31, 2007 (R\$587 in 2006), referring to tax suits, currently under dispute in the administrative court.

b) Other

On December 31, 2007, a provision of R\$4,146 (2,355 in 2006) was recorded for various tax suits, based on the opinion of its external legal counsel.

20.1.2. Possible losses

Based on the opinion of its legal counsel and tax advisers, management believes that settling the matters listed below will not have a materially adverse effect on its financial position.

a) ICMS

In the states of Acre, Mato Grosso do Sul, Mato Grosso, Goiás, Roraima, Amazonas and in the Brazilian federal district (Distrito Federal) Vivo S.A. received tax assessments totaling R\$67,489 as of December 31, 2007 (R\$77,186 in 2006), mainly in respect of: i) ICMS on occasional or complementary services that do not constitute telecommunications services; ii) ICMS on international calls made from Brazil; iii) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets used in providing communications services and/or exempt or untaxed outgoing goods; iv) ICMS on nonremunerated provision of telecommunications services, consisting of the donation of credits to be used in the prepaid service plan; v) failure to include in the ICMS calculation base fines and arrears interest charged to defaulting clients; vi) alleged failure to comply with supplementary obligations and vii) others relating to the sale of goods.

In the state of Paraná Vivo S.A. received tax assessments totaling R\$3,981, as of December 31, 2007 (R\$1,336 in 2006) in respect of late payment of ICMS.

In the state of Bahia Vivo S.A. received tax assessments totaling R\$43,686, as of December 31, 2007 (R\$35,953 in 2006), mainly in respect of: i) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets, electric power and switching services arising from providing untaxed communications services; ii) failure to reverse ICMS credits relative to handsets provided for rental and free lease ; iii) late payment of ICMS in the period February to March 1998; iv) ICMS due on complementary communications services; v) failure to reverse ICMS credit in relation to long distance and call center and vi) ICMS on sign-up fees.

In the state of Sergipe Vivo S.A. received tax assessments totaling R\$17,523, as of December 31, 2007 (R\$18,628 in 2006), mainly in respect of: i) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets, electric power and switching services arising from providing untaxed communications services; ii) failure to reverse ICMS credits in relation to handsets provided for rental and free lease ; iii) ICMS on provision of handsets on consignment and iv) ICMS due on complementary communications services.

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In the state of Espírito Santo Vivo S.A. received tax assessments totaling R\$6,900, as of December 31, 2007 (R\$7,926 in 2006), mainly in respect of: i) incorrect ICMS credits and ii) failure to write up trade notes.

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In the state of Rio de Janeiro Vivo S.A. received tax assessments totaling R\$148,484, as of December 31, 2007 (R\$77,615 in 2006), mainly in respect of: i) ICMS due on complementary communications services; ii) ICMS on sign-up fees; iii) ICMS on calls originating from administrative and test terminals; iv) ICMS due on services provided to other telecommunications operators to clients not eligible for exemption; v) ICMS on international calls; vi) failure to reverse proportionally ICMS tax credit on the acquisition of fixed assets; and vii) ICMS on provision of unpaid telecommunications services and viii) ICMS on electric power. Vivo S.A. in the state of Rio Grande do Sul received tax assessments totaling R\$25,877, as of December 31, 2007 (R\$86,421 in 2006), mainly in respect of: (i) ICMS on international calls; (ii) late payment of ICMS and (iii) ICMS on electric power.

Vivo S.A. in the state of São Paulo received tax assessments totaling R\$99,965, as of December 31, 2007 (R\$65,874 in 2006), mainly in respect of: (i) incorrect ICMS credits and (ii) undue credit referring to posting values as extemporary credits.

Some of the discussions above are in the administrative sphere and others in judicial court.

b) PIS and COFINS**b.1) Increase in the Calculation Base**

Vivo S.A. in the state of São Paulo received assessments (lawsuits No. 19515,000701/2003-28 and No. 19515,000699/2003-97) amounting to R\$2,652, as of December 31, 2007 (R\$2,526 in 2006), as a result of the increase in PIS and COFINS calculation bases. The assessments related to administrative court are awaiting the decision of Special Appeal.

b.2) Derivative Operations

Vivo S.A. in the state of Bahia received a COFINS assessment of R\$9,068, as of December 31, 2007 (R\$8,416 in 2006), relating to losses incurred on derivative operations in determining the calculation base for this contribution. The assessment is awaiting judgment in the second administrative instance.

c) ISS**c.1) ISS on Tariff for Use of the Mobile Network**

On the understanding that assignment of the use of the telecommunications networks constitutes a communications service subject to ICMS, and not rental of movable assets, Vivo S.A. in the state of Bahia and Vivo S.A. in the state of Rio Grande do Sul were assessed by their respective municipalities, which are demanding payment of ISS on the tariff for use of the mobile network (TUM). On December 31, 2007, the amount involved is R\$109,561 (R\$102,614 in 2006).

c.2) ISS on Supplemental Service.

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As of December 31, 2007, Vivo S.A. in the states of Amazonas, Mato Grosso, Mato Grosso do Sul, Paraná, Rio de Janeiro, Rio Grande do Sul, Roraima, Espírito Santo and São Paulo maintains discussions related to the ISS, amounting to R\$34,386 (R\$18,048 as of December 31, 2006), whose main object are: i) ISS on supplemental services of telecommunications, value added to the telecommunications, advertising, qualification, identification of calls and signature in telecommunications; ii) no retention of the ISS on consultant services provided by Telefónica International (TISA) to the subsidiary .

The proceedings referred to c.1 and c.2, above, are being discussed in both administrative and others in the judicial court.

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(In thousands of Brazilian reais, unless otherwise indicated)d) IRPJ, IRRF and CSLL

Vivo S.A. in the state of Rio de Janeiro received tax assessments amounting to R\$154,474, as of December 31, 2007 (R\$210,449 in 2006), in respect of: i) the use of part of the negative CSLL calculation base determined by the Company and its subsidiary in 1997, originated from a partial spin-off; ii) alleged underpayment of IRPJ and CSLL, due to the fact that the inspectors did not accept the deductibility of certain expenses; iii) alleged underpayment of IRRF on overseas remittances and iv) changes to the IRPJ and CSLL calculation bases resulting from the reduction in the Company and subsidiary's declared tax loss. The discussions above are in the administrative court.

e) IRRF, IOF and PIS

In May of 2007, the Company was mentioned in tax foreclosures totaling R\$22,364, as of December 31, 2007, since tax authorities have not homologated (approved) the compensation of the negative balance of IRPJ for the fiscal year 2000. The *DRF Delegacia da Receita Federal* (Regional Brazilian Internal Revenue Service) did not approve some expenditures included in the Company's income tax return, therefore, cancelled the credit balance of IRPJ used for offset and still caused the accumulation of debt balance. Decision of first judicial instance is pending.

f) IRPJ

The Company assumed the assessments received by its subsidiary TLE amounting to R\$5,908 as of December 31, 2007 (R\$5,438 in 2006) charged on underpayment, arising from the excess paid to FINOR, FINAN or FUNRES (tax incentives in Brazil), as calculated during the review of the Company's income tax return - excess of investment in tax incentives. Decision of second judicial instance is pending.

g) PIS, IRPJ and CSLL

In September of 2007, Vivo S.A. in the state of Pará filed a lawsuit aiming to cancel the several federal taxes payable on behalf of one of the merged companies called *Norte Brasil Telecom S.A.* These taxes were activated in the SIEF system (one of the Brazilian Internal Revenue Service systems) due to information provided in specific compensation tax returns (*DCOMP Declaração de Compensação* and *PER/DCOMP Declaração de Compensação*, which is sent electronically), which were not homologated by *Secretaria da Receita Federal do Brasil* (Brazilian Internal Revenue Service), totalizing R\$14,607, as of December 31, 2007. The discussion is pending for conclusion in the second judicial instance.

h) FUST

Through Precedent No. 7, of December 15, 2005, ANATEL expressed its understanding that: (i) revenues to be passed on to telecommunications service providers as remuneration for connection and for the use of network resources, among others, may not be excluded from the FUST calculation base; and (ii) revenues received from telecommunications service providers as remuneration for connection and for the use of network resources, among others, may not be excluded from the calculation base for contributions to FUST.

Since the second part of the Precedent is not in accordance with the provisions of Law No. 9,998, of August 17, 2000, article 6, sole paragraph, the subsidiary filed a writ of mandamus challenging the legality of this requirement, and

obtained a favorable judgment in the first instance.

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At December 31, 2007 the amount notified by ANATEL is R\$131,953 (R\$64,772 as of December 31, 2006).

i) FUNTTTEL

The subsidiary petitioned mandamus directly to the Managing Chairman of the board of the FUNTTTEL and the Temporary Secretary of the Ministry of Communications in order to assure its right to calculate and to pay the contributions to FUNTTTEL, in the terms of Law No. 10,052, as of November 28, 2000, without the inclusion of amounts received as transfers, entitled as interconnection and use of the integrant resources of its network, as expressed in article 6, paragraph 4 of Decree n. 3,737, as of January 30, 2001. The Company obtained favorable judicial decision related to this issue. On December 31, 2007 the amount involved is R\$68,249.

j) FISTEL

Vivo S.A. in the state of Rio de Janeiro and Vivo S.A. in Distrito Federal (Brazilian federal district) hold two authorizations granted by the Brazilian Government through SMP (Personal Mobile Service), through the Authorization Document No. 013/2002: one to operate the Personal Mobile Service for an indeterminate period, and the other to use the radio frequency on a primary basis for the remaining term of the first license, renewable for a further 15 years.

In the case of Vivo S.A. in the state of Rio de Janeiro and in Distrito Federal, the licenses for the remaining period (15 years) for use of the radio frequencies required to provide the Personal Mobile Service (SMP) have expired and procedures to extend them have been put in activity. However, in order to obtain the license documents with an appropriate validity date for the extension (a right already recognized and granted by Act No. 54,324, of November 28, 2005), the Companies were faced with the requirement, in their view uncalled for, to pay a further Installation Inspection Fee (TFI) for all their mobile and fixed stations and radio links.

The demand for the TFI, totaling R\$148,888 for Vivo S.A. in the state of Rio de Janeiro and R\$37,133 for Vivo S.A. in Distrito Federal (R\$134,924 and R\$33,144 as of December 31, 2006, respectively), is due to ANATEL's interpretation that article 9, item III, of Resolution No. 255 applies in this case, so that the extension would constitute a taxable event for TFI. However, the Company does not consider this interpretation of the law correct, and have, therefore, filed an administrative challenge. A new requirement appeared on December 20, 2007 against Vivo S.A. in the state of Rio Grande do Sul, had, equally, to the renewal of its license of use of stations. For Vivo S.A. in the state of Rio Grande do Sul the value of the TFI requirement is R\$95,957, on December 31, 2007, which was object of administrative impugnation.

k) IRPJ and CSLL

Vivo S.A. in the state of Rio Grande do Sul was subject to a tax assessment relating to the collection of alleged IRPJ and CSLL debts of R\$283,911, of December 31, 2007 (R\$270,080 in 2006), for the allegedly undue amortization of the goodwill on acquisition of the interests of *Companhia Riograndense de Telecomunicações (CRT)* in fiscal years 1997 and 1998. Such requirement is pending of judgment in the administrative court.

20.2. Civil Claims

20.2.1. Probable and possible losses

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Several civil claims are included, and respective provisions were recorded as shown before, which were considered sufficient to meet probable losses on these cases.

a) Consumers

The Company and its subsidiary are a party to several lawsuits initiated by individual consumers or civil associations representing the right of consumers against non-performance of services and/or products sold by the Company. Individually, none of these lawsuits is considered significant.

At December 31, 2007, based on the opinion of our outside counsel, we recorded the amount of R\$135,072 (R\$123,156 in 2006), which is considered sufficient to meet potential losses on these proceedings.

On the same date, the amount involved in these lawsuits classified as "possible loss" is R\$346,136 (R\$263,964 in 2006).

b) ANATEL

The Company and its subsidiary are a party to several legal and administrative proceedings initiated by ANATEL referring to non-compliance with regulations concerning the Personal Mobile Service (SMP). On December 31, 2007 an amount of R\$18,614 (R\$12,693 in 2006) was recorded, which is considered sufficient for probable losses on these cases.

On the same date, the amount involved in these lawsuits classified as "possible loss" is R\$18,356.

c) Litigation related to tax credits

Vivo and the other new holding companies merged in connection with the privatization of the telecommunications companies, offset certain tax debts against the goodwill paid by their controlling shareholders. A claim was filed against all the new holding companies, including Vivo and Tele Centro Oeste Celular Participações S.A., seeking relief in the form of the annulment of the administrative acts that recognized these offsets. Although the Company believes that the restructuring was implemented in accordance with Brazilian law, the Company believes, based on the opinion of its outside counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible. The Company would be required to pay all the taxes that were offset against goodwill. The Company is unable to determine at this time the extent of any potential losses with respect to this claim.

d) Litigation related to ownership of Caller ID

Lune Projetos Especiais Telecomunicação Comércio e Indústria Ltda., a Brazilian company, filed lawsuits against 23 wireless telecommunications operators, including Telesp Celular Participações S.A. and its subsidiaries. The lawsuits allege that those operators violated patent No. 9202624-9, related to Caller ID (*Equipamento Controlador de Chamadas Entrantes e do Terminal do Usuário*), granted to Lune by the INPI (Brazilian Intellectual Property Agency) on September 30, 1997. Lune calls on the operators to cease to provide Caller ID services and seeks payment from them for the unauthorized use of the Caller ID system in an amount equivalent to the payment of fees received by such

operators for use of the Caller ID system. However, Lune's right to use patent No. 9202624-9 was suspended by a Federal judge in response to a lawsuit filed against Lune and INPI by Ericsson Telecomunicações S.A. Telesp Celular S.A. and Telerj Celular filed identical lawsuits against Lune and INPI and those lawsuits are still pending before the Courts. In this proceeding the *Ação de Oposição* was later presented, by which a

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third company, Sonintel, and its two partners reinvoked rights to a previous patent related to Caller ID, and to which the above-mentioned patent (No. 9202624-9) was linked. The Company believes, based on the opinion of its outside counsel, that the likelihood of an unfavorable outcome with respect to Lune's claim is possible. The Company is unable to determine at this time the extent of any potential liabilities with respect to this claim.

e) Litigation related to validity of prepaid plan minutes

Vivo and its subsidiary, together with other Brazilian wireless telecommunications operators, are defendants in various lawsuits brought by the public prosecutor's office and consumer protection associations challenging the imposition of a deadline for the use of purchased prepaid minutes. The plaintiffs allege that purchased prepaid minutes should not expire after any specified deadline. Conflicting decisions have been issued by the Courts reviewing this matter. Although the Company believes that its criteria for imposing the deadline is in compliance with ANATEL's rules, the Company believes, based on the opinion of its outside counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible. The Company is unable to determine at this time the extent of any potential liabilities with respect to this claim.

f) VU-M (Inteconnection costs wireless x wireline)

Global Village Telecom (GVT), a Brazilian telecommunications operator, filed a lawsuit against ANATEL and wireless telecommunications operators, including Vivo.

In the lawsuit, GVT claimed that the VU-M are fixed at an abusive value and also pointed to the employment of anticompetitive practices like price squeezing which are causing financial hardships to the company. Thus, GVT requested a preliminary injunction in order to reduce VU-M and a justice-appointed expert's appreciation of the value of VU-M on a cost-based model. GVT also seeks indemnification from the wireless operators on the amount of the difference between the value currently charged by the wireless operators and the value to be declared at the final judgment. At first the preliminary order was denied, but after a renewal requested by the plaintiff, a preliminary order was granted to GVT to make judicial deposits of the difference between R\$0.2899, which must still be paid to wireless operators, and the values currently charged. ANATEL and some wireless operators, including Vivo, appealed the preliminary order to the Federal Court and a final decision is awaited.

Based on the opinion of our counsel, we believe that the likelihood of an unfavorable outcome with respect to this claim is possible. The Company is unable to determine at this time the extent of any potential liabilities with respect to this claim.

g) Others

These refer to lawsuits of other nature, all related to the normal course of business, including contractual discussions with supplier. At December 31, 2007, based on the opinion of its outside lawyers, an amount of R\$37,028 was recorded (R\$7,738 in 2006), which is considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss were R\$79,251 (R\$3,183 in 2006).

20.3. Labor Claims

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The Company is party to numerous labor claims involving disputes with former employees. Management, assisted by its Legal Counsel, has recorded provision for the contingencies, which are assessed as probable losses and where probable and reasonable estimated. The amount of this provision as of December 31, 2007 is R\$41,909 (R\$41,140 in 2006), as shown on the table above.

During the year ended December 31, 2007 no significant labor claims classified as "probable loss" were initiated. No significant changes have occurred in the proceedings reported since last fiscal year.

With respect to labor claims in which the possibility of loss is classified as "possible", the amount is R\$133,040 as of December 31, 2007 (R\$93,053 in 2006).

20.4. Guarantees

The Company has granted collaterals to some lawsuits of civil, labor and tax nature, as follows:

| Process | Real state and equipment | Escrow judicial deposits and on-line pledge | Collateral letter | Total |
|------------------|--------------------------|---------------------------------------------|-------------------|---------|
| Tax | 98,614 | 142,448 | 169,725 | 410,787 |
| Civil and labors | 10,544 | 99,688 | 7,072 | 117,304 |
| | 109,158 | 242,136 | 176,797 | 528,091 |

20.5. Tax Audits

In accordance with the current legislation in Brazil, federal, state and municipal taxes and social contribution and payroll charges are subject to examination by respective authorities, for periods that vary from 5 to 30 years, which means from privatization in 1997 to 2007.

21. OTHER LIABILITIES

| | As of December 31, | |
|--------------------------------------------|--------------------|---------|
| | 2007 | 2006 |
| Deferred revenue | 336,320 | 177,917 |
| Provision for customer loyalty program (a) | 76,337 | 65,004 |
| Payables to related parties | 847 | 2,099 |

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| | | |
|-----------------------------------------------|----------------|----------------|
| Provision for pension plans | 3,960 | 17,447 |
| Reverse stock split (b) | 116,807 | 117,945 |
| Provision for asset retirement obligation (c) | 145,947 | 129,907 |
| Other | 62,104 | 9,530 |
| Total | 742,322 | 519,849 |
| Current | 546,169 | 386,422 |
| Non-current | 196,153 | 133,427 |

(a) The subsidiary has implemented customer loyalty programs, under which usage of wireless services by customers are transferred into points that entitle the user for future exchange of their handsets. A

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provision is recorded for accumulated points, net of redemptions, considering the past history of redemptions, points generated and average cost per point.

(b) Refers to the credit made available to the holders of remaining shares, resulting from the reverse stock split of the Company's capital stock and its subsidiary.

(c) Refers to the costs to be incurred into the eventual obligation on returning leased sites to the lessor (sites used to installations of towers - subsidiary's ERBs) in the same conditions as they were found when the signature of the initial contract of their location.

22. SHAREHOLDERS' EQUITY

a) Capital Stock

An Ordinary and Extraordinary General Shareholders' Meeting held on February 22, 2006 approved the reduction of the Company's capital through the absorption of accumulated losses of R\$3,147,782. The same Meeting approved the capital increase of R\$1,068,839, due to the merger of TCO shares, and of R\$1,562,298, due to the merger of TSD, TLE and CRT Participações (Note 1). The capital decreased from R\$6,670,152 to R\$6,153,507 and comprises 1,426,412,217 shares, of which 509,226,137 are common shares and 917,186,080 are preferred shares, all book-entry shares without par value, and including 4,494,900 preferred shares held in treasury.

An Extraordinary Shareholders' Meeting of the Board of Directors held on June 8, 2006 approved a capital increase of R\$194,277, of which R\$193,837 is from capitalization of the part of the special goodwill reserve corresponding to the fiscal benefit generated in 2005, as a result of the processes of corporate restructuring involving the Company and its merged, subsidiaries and parent companies, and R\$440 corresponding to balances remaining from previous years. The Company's capital stock increased from R\$6,153,507 to R\$6,347,784 consisting of 1,442,117,745 shares of which 524,931,665 are common shares and 917,186,080 are preferred shares, all book-entry nominal shares without par value.

The capital as of December 31, 2007 and 2006 comprises shares without par value, as follows:

| | Thousands of shares |
|------------------------------------------------------------------------|------------------------|
| 524,931,665 issued and outstanding common shares, without par value | 524,932 |
| 912,691,180 issued and outstanding preferred shares, without par value | 912,691 |
| | |
| Total, excluding treasury shares | 1,437,623 |

The Company does have authorized shares.

b) Dividends and Interest on Shareholders' Equity

Preferred shares do not have voting rights, except in the cases stipulated in articles 9 and 10 of the bylaws. They are assured of priority in the redemption of capital, without premium, the right to participate in the dividend to be distributed, corresponding to a minimum of 25% of net income for the fiscal year, calculated in accordance with article 202 of Law No. 6.404/76 (corporate law), and priority in receiving minimum noncumulative dividends equivalent to the higher of the following amounts:

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

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b.2) 3% per year on the amount resulting from division of the shareholders' equity by the total number of Company's shares, and also the right to participate in distributed income under equal conditions to the common shares, after the common shares have been assured of a dividend equal to the minimum priority dividend established for the outstanding preferred shares.

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

In the Ordinary General meeting, carried through as of March 15, 2007, the payment of dividends based on the year-end income of 2006 to the holders of preferred shares was approved. However the approved value was inferior to the minimum statutory value, necessary to remove the right to vote of the preferred shares. The right to vote of the preferred shares is a right established on the article 111, paragraph 1, of Law 6,404/76. Consequently, as from the Annual Shareholders' Meeting held on March 27, 2004, the Company's preferred shares began to have full voting rights, since minimum dividends have not been paid on preferred shares during the last three consecutive years.

b.3) Dividends and interest on shareholders' equity, not claimed by the shareholders, are prescribed in 3 (three) years, counted from the date of the beginning of payment, as art. 287, subparagraph II, item a), of Law 6.404/76.

The dividends due were calculated as follows in 2006:

| | 2006 |
|----------------------------------------------------------|-------------|
| Consolidated net income for the year | 16,347 |
| Consolidation adjustments: | |
| Tax incentives | 24,162 |
| Donations received by subsidiary | 19,254 |
| Unclaimed dividends and interest on shareholders' equity | 11,010 |
| Unconsolidated net income for the year | 70,773 |
| Appropriation to the legal reserve | (3,539) |
| Adjusted net income | 67,234 |
| Dividends | 16,808 |
| Number of preferred shares, excluding treasury shares | 912,691,180 |
| Dividends proposed per share (Brazilian <i>reais</i>) | 0.018416532 |

For the year ended December 31, 2007, there are no dividends proposed.

c) Capital Reserves

c.1) Goodwill Reserve

This reserve represents the excess of amount paid in the issuance or capitalization of shares, in relation to the basic value of the shares at issuance date.

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(In thousands of Brazilian reais, unless otherwise indicated)c.2) Special Goodwill Reserve

This reserve was set up as a result of the corporate restructuring process as described in the note 30.1, due to the net carrying amount merged and represents the future tax benefit to be obtained through the amortization of the goodwill incorporated. The portion of the special goodwill reserve corresponding to the tax benefit obtained may be capitalized at the end of each fiscal year for the benefit of the controlling shareholder, with new issuance of shares. The respective capital increase will be subject to preemptive rights of the minority shareholders, in proportion to their participation, by type and class, at the time of new issuance, and the amounts payable during the year in connection with this right must be paid directly to the controlling shareholder, in accordance with Instruction No. 319/99 of the Brazilian Securities Commission (CVM).

c.3) Tax incentives

Represents the amount invested in tax incentives as allowed by Brazilian Tax Legislation.

d) Income Reservesd.1) Legal Reserve

In accordance with provisions of article 193 of Corporate Law 6.404/76, Brazilian companies are required to appropriate 5% of their annual net income to a legal reserve until that reserve equals 20% of paid-up share capital. Additionally, the Company is not required to make an appropriation to the legal reserve if the aggregate of the legal reserve and the capital reserves exceeds 30% of the paid-up capital. This reserve can only be used to increase capital or offset accumulated losses.

d.2) Expansion Reserve

The reserve for expansion is intended to fund investment and network expansion projects, through destination up to 100% of the remaining net profits, after the legal determination and the retained earnings balance for the year ended December 31, 2007. This reserve is supported by capital budget, which is approved in Shareholders Meeting.

d.3) Contingencies Reserve and Shares held on Treasury

The amounts recorded as of December 31, 2007 are related to the split process of *Companhia Riograndense de Telecomunicações - CRT*, which purpose is to preserve the Company against eventual judicial decision on lawsuits related to capitalizations of capital occurred in CRT during years of 1996 and 1997.

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23. NET OPERATING REVENUE

| | Years ended December 31, | | | Combined |
|---------------------------------------------------------------------|--------------------------|-------------------|------------------|-------------------|
| | 2007 | 2006 | 2005 | 2005 |
| Subscription and use | 7,863,652 | 7,190,811 | 4,598,175 | 7,349,324 |
| Interconnection | 5,109,277 | 4,338,094 | 2,960,179 | 4,304,351 |
| Data and value-added services | 1,330,552 | 970,352 | 587,651 | 881,214 |
| Other services | 235,110 | 212,771 | 123,357 | 173,583 |
| Gross revenue from service | 14,538,591 | 12,712,028 | 8,269,362 | 12,708,472 |
| Value-added tax on services (ICMS) | (2,447,298) | (2,240,008) | (1,352,615) | (2,251,639) |
| PIS and COFINS | (521,963) | (457,026) | (297,095) | (459,412) |
| Service tax (ISS) | (5,893) | (3,124) | (2,695) | (4,601) |
| Discounts granted | (474,139) | (451,657) | (256,004) | (380,234) |
| Net operating revenues from services | 11,089,298 | 9,560,213 | 6,360,953 | 9,612,586 |
| Gross revenues from handsets and accessories | 3,105,703 | 2,742,645 | 1,985,514 | 3,051,789 |
| Value-added tax on services (ICMS) | (242,994) | (230,197) | (161,009) | (249,232) |
| PIS and COFINS | (167,791) | (163,769) | (129,768) | (192,695) |
| Discounts granted | (1,144,698) | (832,193) | (496,043) | (821,292) |
| Returns of goods | (147,024) | (139,985) | (86,581) | (147,322) |
| Net operating revenues from sale of handsets and accessories | 1,403,196 | 1,376,501 | 1,112,113 | 1,641,248 |
| Total net operating revenue | 12,492,494 | 10,936,714 | 7,473,066 | 11,253,834 |

There are no client accounts more than 10% of gross operating revenues during the years ended December 31, 2007, 2006 and 2005, with the exception of *Telecomunicações de São Paulo S.A. - TELESP*, a fixed telephone operating company in the state of *São Paulo* that accounted for approximately 10.5% and 15% during years ended December 31,

2006 and 2005, and Brasil Telecom S.A. - BrT, a fixed line service provider, which contributed approximately of 10% during 2005. The said amounts refer mainly to interconnection.

The services provided to Telesp are billed using similar terms to those with third parties.

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24. COST OF SERVICES AND GOODS SOLD

| | Years ended December 31, | | | Combined |
|--------------------------------------|--------------------------|-------------|-------------|-------------|
| | 2007 | 2006 | 2005 | 2005 |
| Personnel | (102,941) | (88,709) | (63,242) | (98,206) |
| Materials | (5,227) | (11,592) | (7,447) | (8,678) |
| Outsourced services | (425,753) | (369,953) | (198,598) | (312,884) |
| Leased lines | (226,190) | (222,542) | (133,984) | (259,488) |
| Rent, insurance and condominium fees | (209,923) | (206,788) | (96,981) | (178,734) |
| Interconnection | (1,618,216) | (784,992) | (158,673) | (242,710) |
| Taxes and contributions | (498,801) | (517,490) | (334,176) | (493,723) |
| Depreciation and amortization | (1,378,923) | (1,327,454) | (776,397) | (1,240,350) |
| Other | (60,482) | (136,338) | (56,070) | (77,838) |
| Cost of services rendered | (4,526,456) | (3,665,858) | (1,825,568) | (2,912,611) |
| Cost of goods sold | (2,096,834) | (1,898,310) | (1,587,028) | (2,424,728) |
| Total | (6,623,290) | (5,564,168) | (3,412,596) | (5,337,339) |

25. SELLING EXPENSES

| | Years ended December 31, | | | Combined |
|--------------------------------------|--------------------------|-------------|-------------|-------------|
| | 2007 | 2006 | 2005 | 2005 |
| Personnel | (302,310) | (302,229) | (205,543) | (298,523) |
| Materials | (43,743) | (39,200) | (34,565) | (53,443) |
| Outsourced services | (1,635,977) | (1,614,256) | (1,034,057) | (1,596,010) |
| Advertising | (323,660) | (320,186) | (268,713) | (389,163) |
| Customer loyalty | (310,856) | (220,360) | (104,998) | (164,863) |
| Rent, insurance and condominium fees | (66,439) | (60,772) | (42,287) | (62,690) |
| Taxes and contributions | (2,320) | (2,669) | (1,470) | (2,059) |
| Depreciation and amortization | (457,166) | (410,314) | (203,036) | (356,043) |
| Allowance for doubtful accounts | (365,740) | (720,496) | (514,756) | (647,015) |
| Other | (24,572) | (60,588) | (74,255) | (45,086) |

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| | | | | |
|-------|-------------|-------------|-------------|-------------|
| Total | (3,532,783) | (3,751,070) | (2,483,680) | (3,614,895) |
|-------|-------------|-------------|-------------|-------------|

26. GENERAL AND ADMINISTRATIVE EXPENSES

| | Years ended December 31, | | | Combined |
|--------------------------------------|--------------------------|-------------|-----------|-------------|
| | 2007 | 2006 | 2005 | 2005 |
| Personnel | (266,462) | (255,719) | (139,506) | (221,697) |
| Materials | (6,377) | (13,769) | (7,924) | (14,540) |
| Outsourced services | (529,091) | (425,211) | (289,319) | (463,986) |
| Rent, insurance and condominium fees | (79,510) | (92,195) | (47,454) | (77,631) |
| Taxes and contributions | (3,519) | (4,627) | (5,392) | (7,276) |
| Depreciation and amortization | (291,328) | (297,011) | (147,617) | (222,222) |
| Other | (13,704) | (11,216) | (20,243) | (24,116) |
| Total | (1,189,991) | (1,099,748) | (657,455) | (1,031,468) |

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27. OTHER OPERATING EXPENSES, NET

| | Years ended December 31, | | | Combined 2005 |
|-------------------------------------------------|--------------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2005 | |
| Income: | | | | |
| Fines | 67,559 | 88,842 | 68,683 | 92,424 |
| Recovered expenses | 180,682 | 293,206 | 67,016 | 98,592 |
| Reversal of provisions | 12,211 | 29,065 | 15,847 | 21,270 |
| Shared infrastructure | 52,764 | 58,119 | 24,538 | 42,412 |
| Others | 10,804 | 23,830 | 16,445 | 22,142 |
| Total | 324,020 | 493,062 | 192,529 | 276,840 |
| Expenses: | | | | |
| FUST | (60,682) | (53,549) | (33,553) | (53,204) |
| FUNTTEL | (30,376) | (26,818) | (16,776) | (26,620) |
| ICMS on other expenses | (60,387) | (71,820) | (31,615) | (48,632) |
| CIDE | (17,025) | (8,689) | (3,939) | (3,939) |
| PIS and COFINS on other revenue | (51,979) | (43,947) | (34,561) | (47,076) |
| Other taxes, fees and mandatory contributions | (15,945) | (14,924) | (16,761) | (23,170) |
| Provision for contingencies | (196,805) | (138,615) | (45,891) | (99,265) |
| Amortization of deferred charges | (46,860) | (47,619) | (47,549) | (48,592) |
| Amortization of goodwill | (380,746) | (381,061) | (446,960) | (446,960) |
| Realization of provision for investments losses | 69,070 | 69,074 | 69,074 | 69,074 |
| Others | (31,906) | (94,564) | (16,697) | (40,020) |
| Total | (823,641) | (812,532) | (625,228) | (768,404) |
| Other operating expense, net | (499,621) | (319,470) | 432,699 | 491,564 |

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28. NET FINANCIAL EXPENSES

| | Years ended December 31, | | | Combined |
|------------------------------------------|--------------------------|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2005 | 2005 |
| Financial income: | | | | |
| Income from financial transactions | 208,670 | 286,805 | 281,055 | 462,598 |
| PIS and COFINS on financial income (a) | (22,848) | (51) | (19,949) | (22,906) |
| Total | 185,822 | 286,754 | 261,106 | 439,692 |
| Financial expenses: | | | | |
| Derivative transactions | (222,437) | (427,385) | (521,009) | (624,557) |
| Loans | (305,407) | (397,164) | (472,304) | (498,426) |
| Other financial transactions | (136,852) | (196,306) | (143,180) | (200,703) |
| Total | (664,696) | (1,020,855) | (1,136,493) | (1,323,686) |
| Monetary and exchange variations: | | | | |
| In assets | | | | |
| Derivative transactions | 11,626 | (49,640) | (46,375) | (103,047) |
| In liabilities | | | | |
| Derivative transactions | (298,604) | (287,239) | (373,758) | (392,389) |
| Loans | 296,138 | 334,978 | 380,782 | 460,130 |
| Other transactions | 1,375 | (11,983) | (2,876) | 6,158 |
| Total | 10,535 | (13,884) | (42,227) | (29,148) |
| Net financial expenses | (468,339) | (747,985) | (917,614) | (913,142) |

(a) The amount 2007 is related to PIS and COFINS charged on interest on shareholders' equity of R\$247,000 received from the subsidiary (Vivo S.A.).

29. NET NONOPERATING EXPENSES

| | Years ended December 31, | | | Combined |
|--------------------------------------------------------------|--------------------------|-----------|----------|----------|
| | 2007 | 2006 | 2005 | 2005 |
| Net gain (loss) on disposal of property, plant and equipment | (20,528) | 1,220 | 1,922 | (27,605) |
| Provision for losses on assets | - | (277,987) | (36,403) | (36,403) |
| Provision for losses on investments | - | (671) | (15,830) | (17,328) |
| Restructuring costs | - | - | (23,987) | (23,987) |
| Other | (282) | (11,532) | 8,980 | 8,834 |
| Net non-operating expenses | (20,810) | (288,970) | (65,318) | (96,489) |

30. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiary record provisions for income and social contribution taxes monthly on the accrual basis, paying the taxes based on the monthly estimate. Deferred taxes are recognized on temporary differences and tax loss carryforwards were calculated based on the 34% rate.

a) Components of income taxes

The composition of expenses on income and social contribution taxes is shown below:

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| | Years ended December 31, | | | Combined |
|----------------------------------|--------------------------|----------------|------------------|------------------|
| | 2007 | 2006 | 2005 | 2005 |
| Income tax | (13,355) | (373,873) | (250,815) | (400,378) |
| Social contribution tax | (4,819) | (134,593) | (90,963) | (145,424) |
| Deferred income tax | (175,647) | 1,005,183 | 70,321 | 134,174 |
| Deferred social contribution tax | (63,230) | 362,295 | 25,391 | 48,673 |
| Total | (257,051) | 859,012 | (246,066) | (362,955) |

b) Reconciliation of effective tax rate

The following provides a reconciliation of the expense with income taxes disclosed, by eliminating the effects of the goodwill tax benefit, and the amounts calculated by applying combined statutory rates at 34%:

| | Years ended December 31, | | | Combined |
|------------------------------------------------------------------|--------------------------|-----------|-----------|-----------|
| | 2007 | 2006 | 2005 | 2005 |
| Net income (loss) before income and social contribution taxes | 157,660 | (834,697) | (496,296) | (231,063) |
| Tax credit at combined statutory rate (34%) | (53,604) | 283,797 | 168,741 | 78,561 |
| Permanent additions: | | | | |
| Nondeductible expenses - goodwill amortization | (105,970) | (106,076) | (131,346) | (131,346) |
| Other nondeductible expenses | (104,575) | (73,226) | (35,879) | (48,061) |
| Nondeductible losses on accounts receivable | - | (60,849) | - | - |
| Other additions | (1,870) | (25,709) | - | (1,444) |
| Permanent exclusions: | | | | |
| Interest on shareholder's equity credited subsidiary | - | - | 8,255 | 26,421 |
| Other exclusions | 11,843 | 34,604 | 14,691 | 15,599 |
| Unrecognized tax loss and temporary differences | (2,875) | (108,612) | (270,528) | (306,130) |
| Tax loss and temporary differences not recognized in prior years | - | (*) | - | 3,445 |

| | | | | |
|----------------------|-----------|---------|-----------|-----------|
| Tax income (expense) | (257,051) | 859,012 | (246,066) | (362,955) |
|----------------------|-----------|---------|-----------|-----------|

(*) As a result of the corporate restructuring described in note 1 since profitable subsidiaries were merged into a subsidiary with significant unrecorded tax losses carryforwards.

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c) Composition of deferred income tax assets

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

| | As of December 31, | |
|---------------------------------------------------------|--------------------|-----------|
| | 2007 | 2006 |
| Tax credit recorded on corporate restructuring | 634,405 | 922,140 |
| Tax credits on temporary differences | | |
| Provision for obsolescence | 12,857 | 15,009 |
| Provision for contingencies | 120,374 | 117,478 |
| Allowance for doubtful accounts | 117,198 | 120,124 |
| Provision for customer loyalty program | 25,954 | 22,102 |
| Provision for employee profit sharing | 33,989 | 26,186 |
| Provision for suppliers | 125,801 | 125,799 |
| Derivative contracts | 107,254 | 70,029 |
| Accelerated depreciation | 134,067 | 99,998 |
| Valuation allowance fixed assets | 102,047 | 119,487 |
| Other | 40,740 | 50,588 |
| Income and social contribution taxes loss carryforwards | 1,116,252 | 1,120,875 |
| Total deferred taxes | 2,570,938 | 2,809,815 |
| | | |
| Current | 906,906 | 878,397 |
| Non-current | 1,664,032 | 1,931,418 |

The portion classified in the current assets refers to the reversion of temporary differences and amortization of goodwill foreseen for 2008.

The deferred taxes were set up assuming its future realization as follows:

- a) Income and social contribution taxes loss carryforwards: To be offset up to 30% of the taxable income in subsequent years.
- b) Tax credit on corporate restructuring: Represented by the net balance of goodwill and the provision for maintaining the integrity of equity (Note 30.1). Its conversion occurs proportionately to the amortization of the goodwill in its subsidiary, over a period of 5 to 10 years. Studies by outside consultants used in the Corporate Restructuring process support the recoverability of this amount within this period.

- c) Temporary differences: Realization will occur upon payment of the provisions, actual loss on doubtful accounts or sale of inventories, as well as for the reversion of other provisions.

30.1 Tax benefits Corporate Restructuring

The goodwill paid when Company went private and when its subsidiaries were acquired was transferred by the acquiring to the acquired companies, as Instructions CVM 319 as of December 03, 1999 and 349 as of March 6, 2001.

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Prior to these transfers, provisions were recorded for the maintenance of the subsidiary's net equity and, consequently, the net assets merged to represent essentially the tax benefit resulting from the deduction of the goodwill merged.

Company and its subsidiary's accounting records for corporate and tax purposes include specific accounts related to merged goodwill and provision and respective amortization, reversal and tax credit, which are as follows:

| | | As of December 31, | | | |
|------------------------|-----------|--------------------|---------|---------|--|
| | | 2007 | | 2006 | |
| Restructuring | Goodwill | Provision | Net | Net | |
| TCO first acquisition | 425,883 | (281,083) | 144,800 | 247,012 | |
| TCO second acquisition | 206,106 | (136,029) | 70,077 | 97,202 | |
| TC - Privatization | 611,941 | (403,881) | 208,060 | 316,613 | |
| TLE Privatization | 91,025 | (60,077) | 30,948 | 41,885 | |
| GT Acquisition | 530,939 | (350,419) | 180,520 | 219,428 | |
| Total | 1,865,894 | (1,231,489) | 634,405 | 922,140 | |

The changes during the year ended December 31 are as follows:

| | | Years ended December 31, | |
|--------------------------|--|--------------------------|-----------|
| | | 2007 | 2006 |
| Results: | | | |
| Amortization of goodwill | | (881,048) | (881,048) |
| Reversal of Provision | | 593,313 | 590,820 |
| Tax credit | | 287,735 | 290,228 |
| Effect on results | | - | - |

Proportionately to the effective realization of tax benefits, relevant amount will be absorbed by capital in favor of controlling shareholders, while the other shareholders will be assured of the right of first refusal. The resources originating from the exercise of this right will be paid to controlling shareholders.

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As of December 31, 2006, the amount of R\$305,531 was capitalized in respect of benefits recorded up to December 31, 2005. Of this amount, R\$194,277 corresponds to a share issue by Vivo Participações S.A., and R\$111,254 corresponds to *Tele Centro Oeste Celular Participações S.A.*, without a share issue.

The tax benefits for the years ended 2006 and 2007 will be capitalized during the year ending 2008, considering the preemptive right in the capital increase in accordance with Brazilian Corporate Law.

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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONSOLIDATED)

a) Considerations on Risks

The main market risks that the Company and its subsidiary are exposed to:

Credit Risk: Deriving from possible difficulties in collecting the amounts related to telecommunications services rendered to the Company and its subsidiary's clients and to sales of handsets to dealers, as well as the risk related to short-term investments and amounts receivable from swap transactions.

Interest Rate Risk: Deriving from a portion of the debt and from liability positions in derivatives contracted at floating rates, and involving the risk of an increase in financial expenses due to an unfavorable change in interest rates (mainly LIBOR, TJLP and CDI).

Exchange Rate Risk: The likelihood that Company and its subsidiary incur losses as a result of exchange rate variations that may increase the liability balances of foreign currency loans and financing.

The Company and its subsidiary adopt an active position concerning the management of the various risks to which they are exposed, by means of a set of comprehensive initiatives, procedures and operating policies, thus mitigating the risks inherent to their activities.

Credit Risk

The credit risk involved in the rendering of telecommunications services is minimized by a strict control of the client base and active administration of customers' default, through clear policies regarding the sale of post-paid telephones and disabling telephone lines of defaulting subscribers. The subsidiary customer base has predominantly a prepaid system, which requires the prior loading and consequently entails no credit risk.

The credit risk in the sale of handsets is managed by a conservative credit policy, by means of modern management methods, including the application of "credit scoring" techniques, analysis of financial statements and information, and consultation to commercial data bases, as well as the automatic control of sales release integrated with the distribution module of SAP's ERP software.

The Company and its subsidiary are also subject to credit risk originating from its financial investments and amounts receivable from swap transactions. The Company and its subsidiary act in a manner so as to diversify this exposure among various world-class financial institutions.

Interest Rate Risk

The Company and its subsidiary are exposed to the risk of increased interest rates, especially those associated with the cost of the Interbank Deposit Certificates (CDI), in connection with payables related to derivative transactions (currency hedge) and by loans denominated in Reais. As a way to minimize this exposure, the Company contracted swap transactions in Reais, from CDI to fixed-interest rates, in a total reference amount of R\$1,214 million. The

balance of financial investments, indexed to the CDI, also neutralizes this effect partially.

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Furthermore, the Company and its subsidiary are also exposed to the risk of fluctuation of the long-term interest rate (TJLP), in connection with the loans obtained from BNDES. These transactions amounted R\$675,192 as of December 31, 2007. The Company and its subsidiary have no transactions with derivatives contracted to cover the TJLP risk.

On December 31, 2007, the subsidiary had US\$52,480 referring to the loans and financings involving floating foreign interest rates (LIBOR), that are protected against fluctuation in interest rates (LIBOR) by means of derivatives (interest rate swap).

Exchange Rate Risk

The Company and its subsidiary contracted financial transactions with derivatives so as to protect themselves against exchange rate fluctuations affecting their loans and other liabilities in foreign currencies. The instruments generally used are swap and forward contracts.

The Company and its subsidiary's net exposure to currency risk as of December 31, 2007 and 2006 are shown in the table below:

In thousands - 2007

| | US\$ | | ¥ |
|--------------------------------------|-----------------|-----------------|--------------|
| Loans and financing | (408,540) | (15,265) | (66,997,370) |
| Loans and financing - UMBNDES (a) | (5,666) | - | - |
| Derivative instruments | 413,420 | 15,265 | 66,997,370 |
| Other liabilities | (43,404) | (35,502) | - |
| Total (insufficient coverage) | (44,190) | (35,502) | - |

In thousands - 2006

| | US\$ | | ¥ |
|------------------------------------|----------------|----------------|--------------|
| Loans and financing | (799,470) | - | (50,892,759) |
| Loans and financing - UMBNDES (a) | (13,191) | - | - |
| Derivative instruments | 837,703 | 1,871 | 50,892,759 |
| Other liabilities | (29,272) | (5,982) | - |
| Total insufficient coverage | (4,230) | (4,111) | - |

(a) UMBNDES is a monetary unit conceived by BNDES, composed of a basket of foreign currencies, being the main currency the US dollar, and for this reason the Company and its subsidiary consider it in their analysis of the risk coverage against exchange rate fluctuations.

b) Derivative Contracts

As of December 31, 2007, the Company and its subsidiary had exchange derivative contracts in the amount of US\$413,420 thousand, ¥66,997,370 thousand and 15,265 thousand (US\$837,703 thousand, ¥50,892,759 thousand and 1,871 thousand as of December 31, 2006), to protect against foreign currency exchange rate variation on all their foreign exchange liabilities. Furthermore, the Company had swap transactions (CDI x Pre), to partially cover fluctuations in domestic interest rates. The operations that are covered mature in January 2008 and 2009, and amount to R\$1,214 thousand.

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At December 31, 2007, the Company and its subsidiary recorded an accumulated loss of R\$448,392 (R\$500,514 as of December 31, 2006) from these currency hedge and CDI x Pre swap transactions.

The table below shows the net position of these transactions, recorded in the Company's balance sheet:

| Description | As of December 31, | |
|--------------------------|--------------------|------------------|
| | 2007 | 2006 |
| Current assets | 916 | 1,298 |
| Non-current assets | 3,835 | 135 |
| Total assets | 4,751 | 1,433 |
| Current Liabilities | (429,661) | (372,229) |
| Non-current liabilities | (23,482) | (129,718) |
| Total liabilities | (453,143) | (501,947) |
| Accumulated loss | (448,392) | (500,514) |

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

The table below shows an estimate of the book value and the market value of the loans and financing, as well as of the transactions with derivatives, as of December 31, 2007:

| | Book value | Market value | Unrealized gain |
|------------------------|--------------------|--------------------|-----------------|
| Loans and financing | (4,381,440) | (4,366,396) | 15,044 |
| Derivative instruments | (448,392) | (436,283) | 12,109 |
| Other liabilities | (78,906) | (78,906) | - |
| Total | (4,908,738) | (4,881,585) | 27,153 |

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The positions of the Company's and its subsidiary derivative contracts are summarized as follows (amounts in thousands):

| Derivative contracts | 2008 | 2009 | 2010 | 2011 - 2014 |
|------------------------------------------|-----------------|----------------|----------------|----------------|
| Swap contracts - Euro/R\$ | | | | |
| 1.a) Principal - Euros | 15,234 | - | - | - |
| 1.b) Asset rate | 5.15% | - | - | - |
| 1.c) Liability rate | 103.2% of CDI | - | - | - |
| Swap contracts - US\$/R\$ | | | | |
| 1.a) Principal - US\$ | 266,691 | 1,469 | 732 | 100,367 |
| | 1.00% to | | | |
| 1.b) Asset rate | 19.45% | 4.47% to 7.00% | 4.47% to 7.80% | 4.47% to 8.09% |
| | 92.8% to 107.6% | 95.50% to | 95.50% to | 95.50% to |
| | of | 100.00% | 100.00% | 100.00% |
| 1.c) Liability rate | CDI | of CDI | of CDI | of CDI |
| Swap contracts - US\$/US\$ | | | | |
| 1.a) Principal - US\$ | 52,480 | - | - | - |
| | Libor 3m + | | | |
| 1.b) Asset rate | 1.25% | - | - | - |
| 1.c) Liability rate | 6.80% | - | - | - |
| Swap contracts - Japanese yen/R\$ | | | | |
| 1.a) Principal - Japanese yen | 48,941,680 | 17,123,604 | - | - |
| 1.b) Asset rate | 0% to 27.50% | 1.0% to 5.78% | - | - |
| | 103.8% to | 103.4% to | | |
| | 107.0% | 106.0% | | |
| 1.c) Liability rate | of CDI | of CDI | - | - |
| Swap contracts - R\$/R\$ | | | | |
| 1.a) Principal - Brazilian reais | 997,596 | 100,000 | - | - |
| 1.b) Asset rate | 100% of CDI | 100% of CDI | - | - |
| | 11.30% to | 10.49% to | | |
| 1.c) Liability rate | 12.63% | 10.84% | - | - |
| Swap contracts - IGP-M/CDI | | | | |
| 1.a) Principal - Brazilian reais | - | - | 110,000 | - |
| 1.b) Asset rate | - | - | 9.45% | - |
| 1.c) Liability rate | - | - | 107.0% of CDI | - |

c) Market Value of Financial Instruments

The market value of loans, financing and debentures, as well as of swap contracts, was set up on the basis of discounted cash flow, by using projections of interest rates available.

Market values are calculated at a specific time based on available information and own evaluation methodology. Consequently, the indicated estimates do not necessarily represent market realizable values. Use of different assumptions may significantly affect estimates.

32. POST-EMPLOYMENT BENEFIT PLANS

The Company and its subsidiary, together with other companies belonging to the former Telebras System, sponsor private pension plans and medical assistance plans for retired employees, administered by the Sistel Social Security Foundation - SISTEL, as follows:

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- a) PBS-A: Multi-sponsored defined benefit plan, designed for participants already assisted as of January 31, 2000.
- b) PBS-Telesp Celular, PBS-TCO, PBS Tele Sudeste and PBS Tele Leste Celular: defined retirement benefit plans sponsored individually by the Company and its subsidiary.

The contributions to the PBS plans are determined on the basis of actuarial studies prepared by independent actuaries, in accordance with standards in force in Brazil. The costing determination system is that capitalization and contribution due by sponsors is 13.5% on their participating employees' salaries, of which 12% are designated for the costing of the PBS plans and 1.5% to the PAMA plan. In the year ended December 31, 2007, contributions to these plans amounted to R\$10 (R\$24 in 2006).

- c) PAMA: Multi-sponsored health care plan for retired employees and their dependents, at shared cost.

d) TCP Prev and TCO Prev Plans: Individual plans - defined contribution and variable contribution - instituted by SISTEL in August 2000. In both plan types the Company supports participants' death or disability risk amounts, while in the TCO Prev plan some participants originally enrolled with the PBS-TCO plan are entitled to lifelong retirement benefits (paid-up benefit), besides the benefits of defined contribution. The contributions of the Company and its subsidiary to the TCP Prev and TCO Prev plans are equal to those of participants, ranging between 1% and 8% of the contribution salary, according to percentage chosen by participant. In the year ended December 31, 2007, contributions to these plans amounted to R\$1,540 (R\$1,446 in 2006).

In civil suit No. 04/081.668 -0, brought by ASTEL against the SISTEL Social Security Foundation, in which besides SISTEL also Telefonica and Telesp Celular are summoned, various claims are made, which we summarize as follows:

- i) that Sistel be prohibited from charging retired employees and other participants any contributions to PAMA - Medical Assistance Plan for Retirees, the same being subject only to a "small participation in actual use"; such participation is limited to 1% of the assisted person's monthly income; ii) that SISTEL enroll again with PAMA, without any restrictions, the retirees and assisted persons who had their enrollment suspended due to non-payment, as well as those who did not stand the pressure and requested cancellation of their enrolment with PAMA or enrolled with the PCE (Special Coverage Plan), as they wish, also without any restriction; iii) that SISTEL reassess the economic needs of PAMA, including the amounts of sponsors Telefonica's and Telesp Celular's monthly contributions; iv) that sponsors' contributions be calculated on the basis of the payroll of all their employees, as per previous bylaws provision, and not on the basis of the percentage on the payroll of active participants in PBS; v) that Sistel re-establishes the accreditation of all hospitals, clinics and laboratories that were canceled; vi) that a review be carried out of the accounting distribution of equity, so as to attribute to PAMA the amounts corresponding to the reducing factor of the supplementary contributions, as described above, while Sistel is prohibited, as long as this review is not carried out, to perform any splitting of the net equity of PBS-A plan or any other plan administered by the entity; vii) that Sistel and sponsors refund the "transfer of equity of the main substrate designed for guaranteeing PBS-2 and PAMA, illegally transferred to Visão Telesp and Visão Prev Plans of Telesp Celular"; viii) granting of advance relief in relation to items "i", "ii" and "v".

Through its actuarial advisors, the subsidiary made a study of the impacts described above, and concluded that the change in costing, as claimed by ASTEL, would represent an increase in subsidiary's provisions in the amount of R\$1,301, on December 31, 2007 (R\$1,234 in 2006).

Based on their legal advisors' and tax consultants' opinions, management believes that, at this moment, there is no risk to be paid, and as of December 31, 2007 and the likelihood of loss is classified as "possible".

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e) Benefit Plans Visão Celular- Celular CRT, Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular: Defined contribution individual plans, established by Sistel in August, 2000. Company and its subsidiary's contributions to Visão Celular plans are equal to those of participants, ranging between 0% and 9% of contribution salary, according to participant's choice. In the year ended December 31, 2007, contributions to these plans amounted to R\$659 (R\$790 in 2006).

f) Defined Benefit Plan: CRT Companhia Rio Grandense de Telecomunicações sponsored defined benefit pension plans (founding member benefit plan and alternative benefit plan), which were managed by *Fundação dos Empregados da Companhia Riograndense de Telecomunicações FCRT* (pension plan of CRT).

On December 21, 2001, CRT and *Brasil Telecom S.A.*, sponsors of FCRT, signed a statement of commitment with a view to completely cancelling any link between the sponsors, by the withdrawal of "CRT" as a sponsor, with the guarantee that this withdrawal be made strictly in accordance with applicable legislation and respecting participants' rights, which was approved by the Supplementary Pension Department at December 30, 2003.

In spite of that existing legislation allows the contributions of sponsors and participants be discontinued, "CRT" continued paying its contributions from January 2002 to December 2003 in order to safeguard and preserve participants' rights, until CRT's actual withdrawal from FCRT.

For the actuarial evaluation of the plans, the methodology for withdrawal of sponsor was used, established by Resolution MPAS CPC No. 06/88.

Reserves were individually evaluated on the basis of the methodology determined by said Resolution for each category (assisted persons and retirees, imminent active risks and non-imminent active risks).

As of October 2004, "CRT" has been passing on to Sistel, as agreed with FCRT. On July 31, 2007, "CRT" repassed R\$20,001 to the FCRT, finishing its participation to this plan of benefits, disentailing thus of any obligations and future contingencies.

On February 02, 2007, the process of transferring the administration of *SISTEL Fundação de Seguridade Social* plans to *Visão Prev - Sociedade de Previdência Complementar* pension plan was approved, as follows: PBS Telesp Celular, TCPPrev, PBS Tele Centro Oeste Celular, TCOPrev, PBS Telesudeste Celular, Visão Telerj Celular, Visão Telest Celular, PBS Teleleste Celular, Visão Telebahia Celular, Visão Telergipe Celular and Visão Celular CRT.

The eleven plans sponsored by the subsidiary were steadily transferred to *Visão Prev* up to December 31, 2007, taking in consideration that the transfer plan assets occurred on May 2, 2007.

On August 21, 2007, *Vivo Prev* bylaws plan was approved, being an individual plan of defined contribution, which has already been managed by *Visão Prev Sociedade de Previdência Complementar pension plan*. The contributions of the Company and its subsidiary to *Vivo Prev* plan are equal to the ones of the participants, varying from 0% to 8% of the participation wage, based of the percentage chosen by the participant.

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We show below the balances for the defined-benefit retirement plans and health care plan for retired employees as of December 31, 2007 and 2006, as well as the additional information required by CVM Resolution No. 371/02 on these plans:

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| Plan | 2007 | 2006 |
|--------------|--------------|--------------|
| PAMA | 3,308 | 2,509 |
| Vivo Prev | 652 | - |
| Total | 3,960 | 2,509 |

1) Reconciliation of assets and liabilities

| | 2007 | | | | | | |
|---------------------------------|------------|--------------|----------------|-----------------|----------------|-----------------|-----------------|
| | Vivo Prev | PAMA (i) | PBS (ii) | PBS-A (i) (ii) | TCP Prev (ii) | TCO Prev (ii) | Visão (ii) |
| Total actuarial liabilities | 652 | 6,100 | 23,779 | 25,780 | 3,220 | 42,599 | 5,138 |
| Fair value of plan assets | - | (2,792) | (33,648) | (41,812) | (7,847) | (59,623) | (24,075) |
| Net liabilities (assets) | 652 | 3,308 | (9,869) | (16,032) | (4,627) | (17,024) | (18,937) |

| | 2006 | | | | | |
|---------------------------------|--------------|----------------|-----------------|----------------|-----------------|-----------------|
| | PAMA (i) | PBS (ii) | PBS-A (i) (ii) | TCP Prev (ii) | TCO Prev (ii) | Visão (ii) |
| Total actuarial liabilities | 5,401 | 22,545 | 24,915 | 3,632 | 43,006 | 5,912 |
| Fair value of plan assets | (2,892) | (30,304) | (36,858) | (9,094) | (60,095) | (23,128) |
| Net liabilities (assets) | 2,509 | (7,759) | (11,943) | (5,462) | (17,089) | (17,216) |

(i) Refers to the proportional interest of the Company in the assets and liabilities of the multi-sponsored plans - PAMA and PBS-A.

(ii) Although PBS, PBS-A, TCP Prev, TCO Prev and Visão report surpluses as of December 31, 2007, no assets have been recognized by the sponsor, due to the absence of prospects for taking advantage of the surplus.

2) Changes in net actuarial liabilities (assets)

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| | Vivo Prev | PAMA | PBS | PBS-A (i) | TCP Prev | TCO Prev | Visão |
|-----------------------------------------------|--------------|-------|---------|--------------|-------------|-------------|----------|
| Net (asset) liability as of December 31, 2006 | - | 2,509 | (7,759) | (11,943) | (5,462) | (17,089) | (17,216) |
| Net periodic pension cost | - | 263 | (1,447) | (2,280) | (248) | (1,601) | (1,511) |
| Sponsor's contribution | - | (2) | (10) | - | - | (1,540) | (659) |
| Actuarial (gains) losses for the year | 652 | 538 | (654) | (1,809) | 1,083 | 3,206 | 452 |
| Net (asset) liability as of December 31, 2007 | 652 | 3,308 | (9,870) | (16,032) | (4,627) | (17,024) | (18,934) |

3) Changes in actuarial liabilities

| | Vivo Prev | PAMA | PBS | PBS-A | TCP Prev | TCO Prev | Visão |
|-----------------------------------------------|--------------|-------|---------|---------|-------------|----------|---------|
| Actuarial liabilities as of December 31, 2006 | - | 5,401 | 22,545 | 24,915 | 3,632 | 43,006 | 5,912 |
| Cost of current service | - | 18 | 25 | - | 501 | 836 | 941 |
| Interest on actuarial liabilities | - | 542 | 2,222 | 2,455 | 345 | 4,338 | 567 |
| Benefits paid | - | (311) | (2,317) | (1,945) | - | (1,008) | (240) |
| Actuarial (gains) losses | 652 | 450 | 1,303 | 355 | (1,258) | (4,573) | (2,041) |
| Actuarial liabilities as of December 31, 2007 | 652 | 6,100 | 23,778 | 25,780 | 3,220 | 42,599 | 5,139 |

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4) Changes in plan assets

| | PAMA | PBS | PBS-A | TCP Prev | TCO Prev | Visão |
|---------------------------------------------------|---------|----------|----------|-------------|-------------|----------|
| Fair value of plan assets as of December 31, 2006 | (2,892) | (30,304) | (36,858) | (9,094) | (60,095) | (23,128) |
| Benefits paid | 311 | 2,317 | 1,945 | - | 1,008 | 240 |
| Sponsor s and employees contributions | (2) | (231) | (7) | - | (1,572) | (679) |
| Return on plan assets | (297) | (3,685) | (4,735) | (1,094) | (6,775) | (2,897) |
| Gains (losses) on assets | 88 | (1,745) | (2,157) | 2,341 | 7,811 | 2,391 |
| Fair value of plan assets as of December 31, 2007 | (2,792) | (33,648) | (41,812) | (7,847) | (59,623) | (24,073) |

5) Expenses (income) for 2007

| | PAMA | PBS | PBS-A | TCP Prev | TCO Prev | Visão |
|-------------------------------------------|-------|---------|---------|-------------|-------------|---------|
| Cost of service | 18 | 25 | - | 501 | 836 | 941 |
| Cost of interest on actuarial obligations | 542 | 2,222 | 2,455 | 345 | 4,338 | 567 |
| Expected return on assets | (297) | (3,685) | (4,735) | (1,094) | (6,775) | (2,897) |
| Employees contributions | - | (9) | - | - | - | (122) |
| Total | 263 | (1,447) | (2,280) | (248) | (1,601) | (1,511) |

6) Estimated expenses (income) for 2008

| | Vivo Prev | PAMA | PBS | PBS-A | TCP Prev | TCO Prev | Visão |
|-------------------------------------------|--------------|------|-------|-------|-------------|-------------|-------|
| Cost of service | 135 | 20 | 24 | - | 425 | 692 | 684 |
| Cost of interest on actuarial obligations | 65 | 644 | 2,467 | 2,672 | 322 | 4,510 | 519 |

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| | | | | | | | |
|---------------------------|------------|------------|----------------|----------------|--------------|----------------|----------------|
| Expected return on assets | - | (257) | (3.602) | (4.460) | (859) | (6.529) | (2.646) |
| Employees contributions | - | - | (9) | - | - | (28) | (15) |
| Total | 200 | 407 | (1.120) | (1.788) | (112) | (1.355) | (1.458) |

7) Actuarial assumptions

| | Vivo Prev | PAMA | PBS | PBS-A | TCP Prev | TCO Prev | Visão |
|--------------------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Discount rate used at current value of actuarial liabilities | 10.77% | 10.77% | 10.77% | 10.77% | 10.77% | 10.77% | 10.77% |
| Estimate return rate on plan assets | 11.00% | 9.61% | 10.99% e 11.00 % | 10.92% | 11.00% | 11.00% | 10.99% e 11.00 % |
| Future compensation growth rate | 6.59% | N/A | 6.59% | N/A | 6.59% | 6.59% | 6.59% |
| Medical costs growth rate | N/A | 7.64% | N/A | N/A | N/A | N/A | N/A |
| Benefits growth rate | 4.5% | N/A | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Mortality table | AT83 | AT83 | AT83 | AT83 | AT83 | AT83 | AT83 |
| Disability table | segregated by gender Mercer | segregated by gender Mercer | segregated by gender Mercer | segregated by gender | segregated by gender Mercer | segregated by gender Mercer | segregated by gender Mercer |
| Disabled mortality table | Disability IAPB-57 | Disability IAPB-57 | Disability IAPB-57 | N/A IAPB-57 | Disability IAPB-57 | Disability IAPB-57 | Disability IAPB-57 |

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33 TRANSACTIONS WITH RELATED PARTIES

The main transactions with related, non-consolidated parties are:

- a) Communication via local cellular phone and long distance and use of network: These transactions involve companies belonging to the same controlling group: *Telecomunicações de São Paulo S/A - TELESP* and subsidiaries. A portion of these transactions was established on the basis of contracts signed by *TELEBRAS* with the operators who had concessions, prior to the privatization, under conditions regulated by *ANATEL*. This includes customer service to *Telecomunicações Móveis Nacionais -TMN* in roaming on the subsidiary's network.
- b) Technical Assistance: This refers to business consultant services provided by PT SGPS and technical assistance by Telefonica S/A and Telefonica International S/A, calculated on the basis of a formula set up in the contracts, which includes the variation of the *LAIR Lucro Antes do Imposto de Renda* (Pretax income) and the market fluctuation of the preferred and common shares. The coefficient resulting of said assumptions is multiplied by service revenues. For the branch in the state of Rio Grande Do Sul, the contract set up only 1% over service revenues.
- c) Corporate services: These were passed on to subsidiary at cost effectively incurred.
- d) Telephone customer service: Provided by Atento Brasil S.A, and Mobitel S.A-Dedic to the subsidiary's customers, which were contracted by 12 months, and subject to renewal for an equal period.
- e) System development and maintenance services: Rendered by *Portugal Telecom Inovação Brasil S.A.* and *Telefonica Pesquisa e Desenvolvimento do Brasil Ltda.*
- f) Service of operating logistic and financial and accounting services: Rendered by *Telefonica Serviços Empresariais do Brasil Ltda.*
- g) Voice portal services: Rendered by *Terra Networks Brasil S.A.*
- h) International Roaming services: Provided by *Telefonica Móviles Espanã S.A.* and *Telecomunicações Móveis Nacionais - TMN*.

We summarize below balances and transactions with related, non-consolidated parties:

| | As of December 31, | |
|--------------------------|--------------------|---------|
| | 2007 | 2006 |
| Assets | | |
| Accounts receivable, net | 189,011 | 180,228 |
| Intercompany credits | 10,661 | 4,167 |

Liabilities:

| | | |
|--------------------------------|---------|---------|
| Suppliers and accounts payable | 263,860 | 215,737 |
| Technical assistance | 189,696 | 84,252 |
| Payables to related parties | 847 | 2,099 |

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| Statement of operations | Years ended December 31, | | | Combined 2005 |
|-------------------------------------------------|--------------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2005 | |
| Revenue from telecommunications services | | | | |
| Telecomunicações de São Paulo S.A. - | | | | |
| Telesp | 1,684,492 | 1,610,763 | 1,631,402 | 1,734,512 |
| Telefonica S.A | 1,424 | - | - | - |
| Telecomunicações Móveis Nacionais | | | | |
| TMN | 225 | - | - | - |
| Telefônica Comunicaciones Personales S.A. | | | | |
| - UNIFON | - | - | - | 262 |
| Telefónica Móviles Chile S.A. | - | - | - | 6 |
| Telefónica Móviles Peru S.A. | - | - | - | 23 |
| Telefonica Publicidade e Informação Ltda | - | - | 2 | 2 |
| Total | 1,686,141 | 1,610,763 | 1,631,404 | 1,734,805 |
| Expenses: | | | | |
| Cost of services: | | | | |
| Telecomunicações de São Paulo S.A. | | | | |
| Telesp | (121,930) | (134,154) | (221,756) | (221,756) |
| Telefonica Empresas Brasil S.A. | (5,361) | (3,863) | - | (12) |
| Telefonica Moviles Espana S.A. | (1,558) | (36) | - | - |
| Portugal Telecom Inovação Brasil Ltda | (982) | (1,995) | - | - |
| Primesys Soluções Empresariais S.A. | (188) | (397) | - | - |
| Terra Networks Brasil S.A. | - | (45) | - | - |
| Total | (130,019) | (140,490) | (221,756) | (221,768) |
| Other operating expenses | | | | |
| Atento Brasil S.A. | (242,767) | (253,563) | (112,969) | (208,497) |
| Mobitel S.A. Dedic | (221,298) | (249,566) | (183,511) | (248,067) |
| Telefonica Serviços Empresariais do Brasil | | | | |
| Ltda | (48,798) | (25,601) | (12,196) | (18,606) |
| Terra Networks Brasil S.A. | (1,957) | (597) | (236) | (647) |
| Portugal Telecom Inovação Brasil Ltda | (4,931) | (4,272) | (309) | (309) |
| T International Wholesale S.A. | (290) | (382) | - | - |
| | (40) | (70) | - | - |

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| | | | | |
|--------------------------------------------|-----------|-----------|-----------|-----------|
| Telecomunicações Móveis Nacionais | | | | |
| TMN | | | | |
| Telefonica Empresas S.A. | (4,479) | (9,671) | (5,980) | (11,686) |
| Telecomunicações de São Paulo S.A. | | | | |
| Telesp | (68,660) | (51,613) | | |
| Portugal Telecom SGPS S.A. | (71,647) | (21,085) | (39,431) | (39,431) |
| Telefonica S.A. | (59,912) | (24,611) | (29) | (34,272) |
| TBS Celular Participações Ltda | (11,644) | (10,141) | - | (10,521) |
| Telefonica Pesquisa e Desenvolvimento do | | | | |
| Brasil Ltda | (935) | (772) | - | - |
| Primesys Soluções Empresariais S.A. | (110) | (1,039) | (13,920) | (17,640) |
| Telefonica Comunicaciones Personales S.A. | | | | |
| - UNIFON | - | (168) | (168) | (168) |
| Telefonica Engenharia de Segurança do | | | | |
| Brasil Ltda | - | (2) | - | - |
| Telefonica Móbile Solutions do Brasil Ltda | - | - | (463) | (1,311) |
| Telefonica Soluciones de Informática Ltda | - | - | - | (374) |
| Total | (737,468) | (653,153) | (369,212) | (591,529) |

| | | | | |
|--------------------------------------------|--------|--------|-----|-------|
| Other operating income | | | | |
| Portugal Telecom SGPS S.A. | 9,457 | 11,879 | - | - |
| Telecomunicações de São Paulo S.A. | | | | |
| Telesp | 6,964 | 7,540 | - | - |
| Telefonica Empresas S.A. | 5,081 | 4,752 | 491 | - |
| Telefonica S.A. | 3,133 | 35,417 | - | - |
| Telefónica Móviles Espanha S.A. | - | - | - | 10 |
| Telefonica Serviços Empresariais do Brasil | | | | |
| Ltda | 691 | 30 | - | 10 |
| Primesys Soluções Empresariais S.A. | - | 2,280 | - | 2,288 |
| Telefonica Móviles Chile S.A. | - | 23 | - | - |
| Telefonica Móbile Solutions Brasil Ltda | - | - | - | 3 |
| Total | 25,326 | 61,921 | 491 | 2,311 |

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| | Years ended December 31, | | | Combined |
|----------------------------------------------------------|--------------------------|--------------|---------------|---------------|
| | 2007 | 2006 | 2005 | 2005 |
| Net financial income (expenses) | | | | |
| Portugal Telecom International Finance | | | | |
| BV | - | - | (78) | (78) |
| Telefonica S.A. | 5,745 | 1,198 | - | - |
| Telefonica International S.A. | 2,837 | 1,804 | - | 2,569 |
| Portugal Telecom SGPS S.A. | 1,460 | 396 | 14,184 | 14,184 |
| Primesys Soluções Empresariais S.A. | 169 | - | - | - |
| Telecomunicações Móveis Nacionais | | | | |
| TMN | - | 47 | - | - |
| Telefônica Serviços Empresariais do Brasil Ltda. | - | - | 2 | (26) |
| Atento Brasil S.A. | - | - | 5 | 13 |
| Telefônica Comunicaciones Personales S.A. UNIFON | - | - | - | 5 |
| Telefonica Móviles Espana S.A. | - | - | - | (7) |
| Telefonica Móviles Solutions Ltda. | - | - | - | 293 |
| Telefonica Móviles | - | - | - | 3,703 |
| Mobitel S.A. Dedic | - | - | 11 | 11 |
| Total | 10,211 | 3,445 | 14,124 | 20,667 |
| Nonoperating income | | | | |
| Telefonica Serviços Empresariais do Brasil Ltda | 50 | 29 | - | - |
| Primesys Soluções Empresariais S.A. | - | 33 | - | - |
| Total | 50 | 62 | - | - |
| Recovery of joint-venture apportionment expenses: | | | | |
| Celular CRT Participações S.A | - | - | 30,873 | - |
| Tele Leste Celular Participações S.A | - | - | 13,752 | - |
| Tele Sudeste Celular Participações S.A | - | - | 51,802 | - |
| Total | - | - | 96,427 | - |

| | | | | |
|----------------------------------------|---|---|----------|---|
| Joint-venture apportionment expenses: | | | | |
| Celular CRT Participações S.A | - | - | (7,726) | - |
| Tele Leste Celular Participações S.A | - | - | (5,972) | - |
| Tele Sudeste Celular Participações S.A | - | - | (50,867) | - |
| Total | - | - | (64,565) | - |

34. DIRECTORS FEES

In 2007 and 2006, directors fees totaled R\$6,173 and R\$8,557 were allocated as general and administrative expenses.

35. INSURANCE (CONSOLIDATED) (UNAUDITED)

The Company and its subsidiary maintain a policy of monitoring risks inherent to their activities. On account of this, as of December 31, 2007, the Company and its subsidiary had insurance contracts in force to cover operating risks, civil liability, health risks, etc. The Managements of the Company and of its subsidiary understand that insured amounts are sufficient to cover potential losses. The main assets, responsibilities or interests covered by insurance and respective amounts are shown below:

| Type of Insurance | Insured amounts |
|-------------------------|-----------------|
| Operating risks | R\$ 14,087,406 |
| General Civil Liability | R\$ 5,564 |

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| | |
|------------------------------------------|---------------------------------------------------------------|
| Automobile (fleet of executive vehicles) | 100% da Tabela Fipe, R\$220 for Corporal and Material Damages |
|------------------------------------------|---------------------------------------------------------------|

36. CHANGES IN PREPARATION AND DISCLOSURE OF FINANCIAL STATEMENTS

On December 28, 2007 Law N°11,638, was approved by the President of the Federative Republic of Brazil. This law modifies and revokes articles of the Law N°6,404, dated December 15, 1976 and of the Law N°6,385 date December 7, 1976.

The provisions of this Law apply to the financial statements for fiscal years beginning as of January 1, 2008, which contemplates the following applicable modifications to public companies in Brazil: (i) the journal entries posted to the financial statements exclusively to comply with accounting rules should not be taxed or deductible for income tax purposes; (ii) in some business combinations the assets and liabilities must be recorded based on fair value; (iii) periodic evaluation of recoverability for fixed assets and intangible assets; (iv) leasing contracts must be recorded as property, plant and equipment; (v) some financial assets must be recorded based on their fair value; (vi) some assets and liabilities will be recorded to their present value, especially long term; and (vii) interest on associated companies in which management has significant influence or interest is higher than 20% of voting capital (no longer total capital), in subsidiaries and other companies that are part of the same financial group or are under common control, must be evaluated by the equity method, amongst others.

At this time is not possible to anticipate the impacts introduced by Law No 11,638 on results of operations, and in the financial position of the Company and its subsidiary for the financial statements for the year ending December 31, 2008, or retrospectively, for the year ended December 31, 2007, when compared to the financial statements to be presented for the year ending December 31, 2008.

37. SUMMARY OF THE DIFFERENCES BETWEEN BRAZILIAN GAAP AND U.S. GAAP APPLICABLE TO THE COMPANY

The Company's accounting policies comply with accounting practices adopted in Brazil, as prescribed (Brazilian GAAP), which differ significantly from accounting principles generally accepted in the United States of America (U.S. GAAP) as described below:

a) Change in basis of presentation

As described in Note 1, on February 22, 2006, an Extraordinary General Shareholders Meeting approved the merger of Tele Sudeste Celular Participações S.A. (TSD), Tele Leste Celular Participações S.A. (TLE) and Celular CRT Participações S.A. (CRT) into the Company through exchange of shares. On the same date, the shareholders also approved the acquisition of the minority interest in Tele Centro Oeste Celular Participações S.A. (TCO) by exchanging shares of the Company for the shares held by minority shareholders of TCO, after which TCO became a wholly-owned subsidiary of the Company.

Since the Company was under common control with TSD, TLE and CRT for all periods presented prior to the above restructuring, combined financial information for these periods is presented under U.S. GAAP. In the combined financial information, all intercompany transactions have been eliminated. Under U.S. GAAP, the acquisition of the minority interests in TSD, TLE, CRT and TCO were accounted for on the date the share exchange occurred, being February 2006.

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b) Different criteria for capitalizing and amortizing capitalized interest

Until December 31, 1998, under Brazilian GAAP, as applied to companies in the telecommunications industry, interest attributable to construction-in-progress was capitalized at the rate of 12% per year of the balance of construction-in-progress. For the three-year period ended December 31, 2007, the subsidiary did not capitalize interest attributable to construction-in-progress at the rate of 12%; rather, the actual effective interest related to construction-in-progress was used to determine capitalized interest.

Under U.S. 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 U.S. GAAP, the amount of interest capitalized excludes monetary losses associated with local currency 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 are presented below:

| | Consolidated | | Combined |
|--------------------------------------------------|--------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Capitalized interest: | | | |
| U.S. GAAP capitalized interest | 35,038 | 19,277 | 40,357 |
| U.S. GAAP capitalized interest on disposals | (17,396) | (16,026) | (46,336) |
| Brazilian GAAP capitalized interest | (11,175) | (1,605) | (7,811) |
| Brazilian GAAP capitalized interest on disposals | 13,828 | 3,136 | 37,659 |
| U.S. GAAP difference | 20,295 | 4,782 | 23,869 |
| Amortization of capitalized interest: | | | |
| Amortization under Brazilian GAAP | 56,614 | 36,265 | 71,969 |
| Capitalized interest on disposals | (485) | (3,624) | (39,554) |
| Amortization under U.S. GAAP | (111,383) | (76,241) | (83,617) |
| Capitalized interest on disposals | 611 | 12,579 | 46,182 |
| U.S. GAAP difference | (54,643) | (31,021) | (5,020) |

c) Monetary restatement of 1996 and 1997

The amortization of the asset appreciation, which originated from the inflation accounting during 1996 and 1997, when Brazil was still considered as a high-inflationary economy for U.S. GAAP purposes, has been recognized in the reconciliation to U.S. GAAP. The loss related to monetary restatement on disposals of such assets is classified for U.S. GAAP purposes as a component of other operating expense. The resulting step-up is amortized over the remaining lives of the related assets.

d) Exchange of shares for minority interest

In January 2000, the Company exchanged 21,211,875,174 of its common shares and 61,087,072,187 of its preferred shares for all of the shares held by minority shareholders of Telesp Celular S.A. In 2002, TCO acquired the minority interest in its subsidiary, Telebrasília Celular S.A. (Telebrasília) by exchanging shares of TCO for the shares held by the minority shareholders of Telebrasília. The acquisition increased TCO s interest in Telebrasília from 88.25% to 100%. In 2004, TCO acquired the

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remaining minority interests in its other subsidiaries through an exchange offer. The exchange ratio for these share exchanges was based on the respective market value of the shares exchanged. Additionally, on November 29, 2000, TLE and TSD acquired minority interests from its subsidiaries Telebahia Celular, Telergipe Celular, Telerj Celular and Telest Celular through an exchange offer transaction.

Under Brazilian GAAP, the share exchanges were recorded at book value. An increase in capital was recorded based on the market value of the Company's shares and a capital reserve was recorded for the difference between the market price of the acquired company's shares and the book value of the shares.

Under U.S. GAAP, the exchange of shares for minority interests is accounted for using the purchase method of accounting. The purchase price of the shares is recorded based on the market price of the issuing Company's shares at the date of the exchange offer. The purchase price is allocated to the proportional assets and liabilities of the acquired minority interest based on their relative fair values. If the fair values of the net assets exceed the purchase price, the difference is recorded as a reduction to the proportional long-lived assets acquired.

Under U.S. GAAP, the purchase price for the shares of Telesp Celular S.A. was the market price of the Company's shares at the date of the offer. The total purchase price was R\$313,643. The fair value of the net assets of Telesp Celular S.A. exceeded the purchase price by R\$101,671. Under U.S. GAAP, this difference is recorded as a reduction to the acquired fixed assets of Telesp Celular S.A. The adjustment to reconcile to U.S. GAAP is therefore a reduction of capital reserve and fixed assets of R\$101,671 and a reduction of depreciation expense, plus the tax effect, due to the reduction in fixed assets.

Under U.S. GAAP, shares issued to purchase the minority interest in Telerj Celular S.A. and Telest Celular S.A. in 2000 were recorded at the fair value of R\$351,405 and R\$67,079, respectively. The step-up in the fair value of assets was allocated to fixed assets, subscriber base assets and concession intangibles in the amount of R\$31,522, R\$135,518 and R\$216,648, respectively. The step-up in the fair value of assets was fully amortized over remaining useful lives of the related fixed assets, subscriber base intangible asset, which was fully amortized over 48 months, representing the contractual relationship with subscribers and concession, which is being amortized based on the remaining concession period of the operating companies (until November 2005 for Telerj Celular S.A. and November 2008 for Telest Celular S.A.).

Under U.S. GAAP, shares issued to purchase the minority interest in Telebahia Celular and Telergipe Celular in 2000 were recorded at the fair value of R\$62,082. The step-up in the fair value of assets was allocated to fixed assets, subscriber base assets and concession intangibles in the amount of R\$7,215, R\$2,382 and R\$33,657, respectively. The step-up in the fair value of assets was fully amortized over remaining useful lives of the related fixed assets, subscriber base intangible asset, which was fully amortized over 48 months, representing the contractual relationship with subscribers and concession, which is being amortized based on the remaining concession period of the operating companies (until June 2008 for Telebahia Celular and December 2008 for Telergipe Celular).

Under U.S. GAAP, shares issued to purchase the minority interest in Telebrasil Celular in 2002, and the remaining minority interests in 2004 were recorded at the fair value of R\$64,799 and R\$48,542, respectively. The step-up in the fair value of assets was allocated to fixed assets and concession intangibles in the amount of R\$2,958 and R\$ 38,336, respectively, for Telebrasil Celular in 2002 and concession intangibles in the amount of R\$30,285 for the remaining

minority interests acquired in 2004. The step-up in the fair value of assets is being amortized over 19 to 20 years for concession intangibles and 8 years for fixed assets.

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Following are the components of the U.S. GAAP adjustment in shareholders' equity related to exchanges of shares for minority interest as of December 31, 2007 and 2006

| | Consolidated | |
|---------------------------------------------------------------------------------------|--------------|-----------|
| | 2007 | 2006 |
| Telesp Celular: | | |
| Reduction of property, plant and equipment | (101,671) | (101,671) |
| Depreciation for the property, plant and equipment | 98,331 | 88,286 |
| Telerj Celular and Telest Celular: | | |
| Property, plant and equipment fair value adjustment | 31,522 | 31,522 |
| Depreciation of fair value of property, plant and equipment | (31,522) | (31,522) |
| Customer list intangible asset recorded in U.S. GAAP | 135,518 | 135,518 |
| Amortization of customer list | (135,518) | (135,518) |
| Intangible asset related to concession recorded in U.S. GAAP | 216,648 | 216,648 |
| Amortization of intangible asset related to concession | (212,000) | (206,931) |
| Telebahia Celular and Telergipe Celular: | | |
| Property, plant and equipment fair value adjustment | 7,215 | 7,215 |
| Depreciation of fair value of property, plant and equipment | (7,215) | (7,215) |
| Customer list intangible asset recorded in U.S. GAAP | 2,382 | 2,382 |
| Amortization of customer list | (2,382) | (2,382) |
| Intangible asset related to concession recorded in U.S. GAAP | 33,657 | 33,657 |
| Amortization of intangible asset related to concession | (31,450) | (27,010) |
| Telebrasília Celular: | | |
| Property, plant and equipment fair value adjustment | 2,958 | 2,958 |
| Depreciation of fair value of property, plant and equipment | (1,824) | (1,506) |
| Intangible asset related to concession recorded in U.S. GAAP | 68,621 | 68,621 |
| Amortization of intangible asset related to concession | (16,428) | (12,948) |
| Total of the U.S. GAAP adjustments related to exchange of shares of minority interest | 56,842 | 60,104 |

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e) Acquisitions

Under Brazilian GAAP, purchases of an equity interest of another company are recorded at book value. The difference between the purchased company's proportional net assets and the purchase price is recorded as goodwill. The goodwill is first attributed to any appreciation in the values of the property, plant and equipment acquired and amortized based on the useful lives of the underlying property, plant and equipment. Excess goodwill is generally amortized over ten years on a straight-line basis, based on estimated 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. Under U.S. GAAP, goodwill is not subject to amortization over its estimated useful life, but, rather, it is subject to at least an annual assessment for impairment by applying a fair-value-based test.

The differences between Brazilian GAAP and U.S. GAAP relate to: (i) the acquisition of an equity interest in Daini do Brasil S.A. (Daini), Globaltelcom Telecomunicações S.A. (Globaltelcom) and GTPS S.A. Participações em Investimentos de Telecomunicações (GTPS) (formerly Inepar S.A. Participação em Investimentos de Telecomunicações), the holding companies which controlled Global Telecom S.A. (collectively, the Holdings) on February 6, 2001; (ii) the acquisition of the remaining interest in the Holdings on December 27, 2002; (iii) the acquisition of TCO on April 25, 2003 and the tender offers to purchase additional shares of TCO in November 2003 and October 2004; and (iv) merger of Tele Sudeste Celular Participações S.A. (TSD), Tele Leste Celular Participações S.A. (TLE), Celular CRT Participações S.A. (CRT) and Tele Centro Oeste Celular Participações S.A. (TCO) into the Company through exchange of shares.

Acquisition of Global Telecom S.A. (GT) and Holdings

On February 6, 2001, the Company acquired 49% of the outstanding voting shares and 100% of the outstanding nonvoting preferred shares of each of the Holdings that collectively held 95% of the voting shares and 100% of the nonvoting shares of GT for a total purchase price of R\$914,964. The remaining 5% of the voting shares of GT were held by another investor who subsequently sold them to the three holding companies upon authorization by ANATEL in July 2001. This purchase was funded by an additional capital contribution by the Company to the Holdings in the amount of R\$17,400. The Company's investment in the Holdings represented an 83% aggregate indirect economic interest of the total equity of GT at December 31, 2001. The balance of the economic interest was held by the Holdings.

During 2002, TCP and TC made an intercompany loan to GT amounting to R\$3,161,709. 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 (representing an economic interest of 17%), for cash of R\$290,282, and began to consolidate the Holdings. The total purchase price, considered for U.S. GAAP purposes, amounted to R\$827,772, representing the cash paid plus the minority interest in the intercompany loans held by Holdings immediately prior to the date of acquisition. Considering TCP's direct and indirect interests, TCP owned 100% of the capital of GT. On December 30, 2002, R\$2,310,878 of the intercompany loan was capitalized, in exchange for additional shares of GT capital stock. The acquisition of GT was completed to increase market presence in the south of Brazil and to enable

TC and GT to benefit from synergies to be derived from their operations and sales of handsets.

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The excess purchase price was allocated to the following fair value adjustments: (i) property, plant and equipment which was amortized over approximately 11 years, representing the average remaining useful lives of the relating assets; (ii) customer list which is being amortized over two years, representing the average customer life; and (iii) debt which is being amortized by the effective interest method over the remaining maturities of the underlying GT debt obligations, and concession intangible which is being amortized on a straight-line basis over a 12-year period, representing the remaining term of the license.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to GT as of December 31, 2007 and 2006:

| | 2007 | 2006 |
|----------------------------------------------------------------------------------------|------------------|------------------|
| Purchase accounting on acquisition of the Holdings: | | |
| Reversal of goodwill recorded under Brazilian GAAP | (441,171) | (541,825) |
| Intangible related to concession recorded in U.S. GAAP | 1,176,727 | 1,176,727 |
| Amortization of intangible related to concession | (560,884) | (532,409) |
| Impairment recorded under U.S. GAAP | (89,533) | (89,533) |
| Reversal of valuation allowance against intangible asset related to the concession (*) | (383,939) | (383,939) |
| Property, plant and equipment fair value adjustment | (121,661) | (121,661) |
| Depreciation of fair value of property, plant and equipment adjustment | 92,539 | 79,302 |
| Customer list intangible asset recorded in U.S. GAAP | 140,035 | 140,035 |
| Amortization of customer list | (140,035) | (140,035) |
| Debt fair value adjustment | 25,800 | 25,800 |
| Amortization of debt fair value adjustment | (25,800) | (25,163) |
| Total of the U.S. GAAP adjustments related to acquisition Holdings | (327,922) | (412,701) |

(*) Under Brazilian GAAP, if a deferred tax asset of the acquiree which was not recognized at the time of the combination is subsequently recognized, the resulting credit is recorded in income for the period.

Under U.S. GAAP, pursuant to Emerging Issues Task Force (EITF) No. 93-7, "Uncertainties Related to Income Tax in a Purchase Business Combination", if a deferred tax asset of the acquiree which was not recognized at the time of the combination is subsequently recognized, the subsequent elimination of a valuation allowance recognized at the acquisition date for deferred tax assets would be applied first to eliminate any goodwill related to the acquisition, second to eliminate any non-current intangible assets to the acquisitions, and third to reduce income tax expense.

For U.S. GAAP purposes, the elimination of valuation allowance recorded by the Company in 2006, in the amount of R\$383,939, was recorded as a reduction of the intangible asset related to concession allocated at the acquisition of GT and the remaining was recorded as a credit in income tax expense for the period.

Acquisition of TCO

On April 25, 2003, the Company acquired 64.03% of the voting capital of TCO for approximately R\$1,505.6 million, and in November 2003 and October 2004, the Company completed public tender offers to acquire 26.70% of the voting capital and 32.76% of the preferred shares of TCO for R\$538.8 million and R\$901.5 million, respectively. After these acquisitions, TCP became the holder of 90.73% of

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the voting capital of TCO (51.42% of total capital). Additionally, the Company acquired a portion of the remaining balance of the special goodwill reserve of TCO, which was partially capitalized in the amount of R\$63,893 on July 29, 2005 in its favor, increasing its interest in TCO to 52.47% of total capital.

The excess purchase price was allocated to the following fair value adjustments: (i) the difference being amortized over approximately three years, representing the weighted-average remaining useful lives of the relating assets; (ii) the difference amortized over two years, representing the average customer life; (iii) the adjustment to long-term debt is being amortized by the effective interest method over the remaining maturities of the underlying TCO debt obligations; (iv) the intangible asset related to the concession is being amortized on a straight-line basis over approximately a period of 18 years, representing the remaining term of the license of Area 8 and the remaining term of the license of Area 7 which expire in 2008, plus one extension of 15 years; (v) the goodwill recorded for U.S. GAAP purposes represents the amount paid in excess of the fair value of TCO. Under Brazilian GAAP, TCP recorded goodwill amounting to R\$2,134,824.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to such acquisitions as of December 31, 2007 and 2006:

| | 2007 | 2006 |
|-------------------------------------------------------------------------|----------------|----------------|
| Purchase accounting on acquisition of TCO: | | |
| Reversal of goodwill recorded under Brazilian GAAP | (613,194) | (993,149) |
| Intangible related to concession recorded in U.S. GAAP | 1,407,876 | 1,407,876 |
| Amortization of intangible related to concession | (425,243) | (348,628) |
| Property, plant and equipment fair value adjustment | 69,895 | 69,895 |
| Depreciation of fair value of property, plant and equipment adjustment | (54,869) | (48,901) |
| Customer list intangible asset recorded in U.S. GAAP | 321,995 | 321,995 |
| Amortization of customer list | (321,995) | (321,995) |
| Debt fair value adjustment | 5,125 | 5,125 |
| Amortization of debt fair value adjustment | (5,088) | (4,679) |
| Goodwill recorded under U.S. GAAP | 579,246 | 648,460 |
| Deferred income tax | (252,455) | (158,719) |
| Total of the U.S. GAAP adjustments related to acquisition of TCO | 711,293 | 577,280 |

f) Merger of Tele Sudeste Celular Participações S.A. (TSD), Tele Leste Celular Participações S.A. (TLE), Celular CRT Participações S.A. (CRT) and Tele Centro Oeste Celular Participações S.A. (TCO) into Vivo Participações S.A. (former Telesp Celular Participações S.A.) through exchange of shares.

As described above, in February 2006, the Company was merged with TSD, TLE and CRT, and acquired the remaining minority interest in TCO through share exchange transactions.

Under U.S. GAAP, the exchange of shares for minority interests is accounted for using the purchase method of accounting. The purchase price of the shares is recorded based on the market price of the issuing Company's shares at the date of the exchange offer. The purchase price is allocated to the proportional assets and liabilities of the acquired minority interest based on their relative fair values. If the fair values of the net assets exceed the purchase price, the difference is recorded as a reduction to the proportional long-lived assets acquired. For U.S. purposes, the purchase price of such exchanges of shares was allocated as follows:

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Date of
exchange of shares

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Amounts representing 8.97%, 49.33%, 31.23% and 47.53% of the historical net assets of TSD, TLE, CRT and TCO, respectively, under U.S. GAAP | 1,708,795 |
| Fair value adjustments: | |
| Property, plant and equipment (a) | 215,217 |
| Intangible assets - customer list (b) | 607,606 |
| Intangible related to concession (c) | 11,867 |
| Goodwill | 283,795 |
| Deferred income tax | (283,795) |
| Purchase price (d) | 2,543,485 |

(a) Difference being amortized over approximately 2.33 years, representing the weighted-average remaining useful lives of the relating assets.

(b) Difference being amortized over two years, representing the average customer life.

(c) The intangible asset related to the concession is being amortized on a straight-line basis over a period of approximately 17 years.

(d) The purchase was determined using the average market prices of the acquired companies' shares two days before and two days after the terms of the acquisition are agreed to and announced.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to such acquisitions as of December 31, 2007 and 2006:

| Purchase accounting on merger of TSD, TLE and CRT and the acquisition of minority interest in TCO: | 2007 | 2006 |
|----------------------------------------------------------------------------------------------------|-----------|-----------|
| Property, plant and equipment fair value adjustment | 215,217 | 215,217 |
| Depreciation of fair value of property, plant and equipment adjustment | (174,922) | (89,950) |
| Customer list intangible asset recorded | 607,606 | 607,606 |
| Amortization of customer list | (582,289) | (278,486) |
| Intangible related to concession recorded | 11,867 | 11,867 |
| Amortization of intangible related to concession | (1,345) | (643) |
| Goodwill | 283,795 | 283,795 |
| Deferred income tax | (25,886) | (158,308) |
| | 334,043 | 591,098 |

Total of the U.S. GAAP adjustments related to merger of TSD, TLL,CRT and the acquisition of minority interest in TCO

g) Pension and other post-retirement benefits

The Company and its subsidiary participate in two multiemployer benefit plans (PBS-A and PAMA) for its retired employees that are operated and administered by SISTEL and provide for the costs of pension and other post-retirement benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. For purposes of U.S. GAAP, the Company is only required to disclose its annual contributions to multiemployer plans. The Company and its subsidiary also sponsor a single-employer defined pension benefit plan (PBS) and single-employer defined contribution pension plans (Prev and Visão). Under Prev and Visão Plans, besides the contributions to the plans, the Company is responsible for funding the risks of death and disability of the participants, and for some participants of the TCO Prev who have migrated from PBS-TCO are also granted some defined pension benefits. The provisions of SFAS No. 87, Employers Accounting for Pensions, were applied for the multiemployer plan and the single employer plans were applied with effect from January 1, 1992, because it was not feasible to apply them from the effective date specified in the standard.

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Under Brazilian GAAP, if there is sufficient information available, multiemployer defined benefit pension plans and other postretirement benefits should be accounted as if they were single employer plans. As such, under BR GAAP the Company recognized actuarial liabilities corresponding to its share in multiemployer plans, while under U.S. GAAP, the Company recognizes contributions due to the plan each year. See additional disclosures in Note 38.

A summary of the difference between Brazilian GAAP and U.S. GAAP in accrued pension and other post-retirement plans liabilities is as follows:

| | Consolidated | | | | | |
|-----------------------------------------|-------------------------|-------------------|---------------------------|-------------------------|-------------------|---------------------------|
| | As of December 31, 2007 | | | As of December 31, 2006 | | |
| | U.S. GAAP | Brazilian GAAP | Accumulated difference | U.S. GAAP | Brazilian GAAP | Accumulated difference |
| Visão | (18,937) | - | (18,937) | (17,216) | 93 | (17,309) |
| PBS | (9,869) | - | (9,869) | (7,759) | - | (7,759) |
| Prev | (20,999) | 652 | (21,651) | (22,550) | - | (22,550) |
| PAMA | - | 3,308 | (3,308) | - | 2,509 | (2,509) |
| Accrued pension post-retirement benefit | (49,805) | 3,960 | (53,765) | (47,525) | 2,602 | (50,127) |

On December 31, 2006, the Company and its subsidiary adopted the SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans*, provisions related to recognition and disclosures, which requires an employer to recognize the over or unfunded status of a defined-benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The impact of the adoption of SFAS No. 158 was as a gain of R\$29,645, net of income taxes, which was recorded directly in accumulated other comprehensive income at year end.

Reconciliation of pension and other post-retirement benefit plans adjustment:

| Year ended December 31, | | |
|-------------------------|------|----------|
| Consolidated | | Combined |
| 2007 | 2006 | 2005 |

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| | | | |
|-------------------------------------------|---------|---------|-------|
| U.S. GAAP: | | | |
| Net periodic pension cost under U.S. GAAP | 8,521 | 7,058 | 1,861 |
| Pension cost under Brazilian GAAP | (1,359) | (1,117) | (8) |
| Net reconciliation effect | 9,880 | 8,175 | 1,869 |

The incremental effect of applying SFAS 158 on individual line items in the statement of financial position as of December 31, 2006 (inception date), is as follows:

| | Before application of SFAS 158 | Adjustments | After the application of SFAS 158 |
|----------------------------------------|--------------------------------------|-------------|-----------------------------------------|
| Pre paid assets for pension benefits | - | 44,917 | 44,917 |
| Deferred income taxes | 2,493,421 | (15,272) | 2,478,149 |
| Accumulated other comprehensive income | - | 29,645 | 29,645 |
| Total shareholders' equity | 9,096,550 | 29,645 | 9,126,195 |

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h) Escrow deposits

Under Brazilian GAAP, the amounts of the escrow deposits linked to the reserve for contingencies are shown as deductions from the recorded liabilities. As shown in notes 18 and 20 escrow deposits amounting to R\$131,756 and R\$120,396 as of December 31, 2007 and 2006, respectively. Under U.S. GAAP it should be presented as separated in current or non-current assets instead of contra provision.

i) Income taxes

The Company and its subsidiary fully accrue for deferred income taxes on temporary differences between tax and accounting records. The existing policies for providing for deferred taxes are consistent with SFAS No. 109,

Accounting for Income Taxes, except that under Brazilian GAAP deferred tax assets are recorded by the amounts expected to be realized, whereas SFAS No. 109 requires deferred tax assets to be recognized in full, but reduced by a valuation allowance to an amount that is more likely than not to be realized.

Under Brazilian GAAP, the subsidiary TCO IP did not recognize deferred income tax and social contribution assets of R\$3.9 million and R\$3.8 million as of December 31, 2007 and 2006, respectively, due to the uncertainties involving their realization. Also under Brazilian GAAP, the Company (Vivo Participações S.A.) did not recognize deferred income tax and social contribution assets of R\$945.7 million and R\$947.4 million as of December 31, 2007 and 2006, respectively, due to the uncertainties involving their realization. For U.S. GAAP purposes, the amounts not recognized represent the valuation allowances that were recorded under U.S. GAAP.

Effective January 1, 2007, the Company and its subsidiary adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The Interpretation prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. For each tax position, the enterprise must determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is then measured to determine the amount of benefit to recognize within the financial statements. No benefits may be recognized for tax positions that do not meet the more likely than not threshold. The benefit to be recognized is the largest amount that is more likely than not to be realized upon ultimate settlement.

As a result of implementing Interpretation 48, the Company has no uncertain tax positions for which it has recorded unrecognized income tax benefits; accordingly, there was no impact on the Company's results of operations from the adoption of this interpretation. In addition, as of the date of the adoption of FIN 48, the Company did not have any accrued interest and penalties related to unrecognized tax benefits. The Company and its subsidiary will recognize interest and penalties related to unrecognized tax benefits in financial expense and other operating expense, respectively.

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The Company and its subsidiary file, separately, income tax returns in the Brazilian federal jurisdiction and are generally no longer subject to federal income tax examinations by tax authorities for years before

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2002. The Brazilian Internal Revenue Service (Brazilian IRS) is currently examining our subsidiary Vivo S.A. s (former Global Telecom) income tax returns for years 2003 to 2006. As a large tax payer, the Company is under continuous examination by the Brazilian federal tax authorities.

Management does not believe there will be any material changes related to uncertain tax positions over the next 12 months.

j) Loss per share

Under Brazilian GAAP, net loss per share is calculated based on the number of shares outstanding at the balance sheet date.

Under US GAAP the Company applies the Financial Accounting Standards Board - FASB issued SFAS No. 128, Earnings per Share .

Since the preferred and common shareholders have different dividend, voting and liquidation rights, basic and diluted earnings per share have been calculated using the two-class method. The two-class method is an earning allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by the Company s bylaws and participation rights in undistributed earnings.

Basic earnings per common share is computed by reducing net income by distributable and undistributable net income available to preferred shareholders and dividing net income available to common shareholders by the number of common shares outstanding. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Net income available to preferred shareholders is the sum of the preferred stock dividends and the preferred shareholders portion of undistributed net income. Undistributed net income is computed by deducting total dividends (the sum of preferred and common stock dividends) from net income. Undistributed net income is shared equally by the preferred and common shareholders on a pro rata basis. As of December 31, 2007, 2006 and 2005, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit realized relating to the corporate restructuring described in Note 1. The number of shares issuable was computed considering the balance of the special goodwill reserve (R\$ 552,638 in 2007, R\$552,638 in 2006 and R\$693,678 in 2005). However, the potentially dilutive shares, consisting solely of the estimate of common shares issuable mentioned above, have been excluded from the computation for the periods presented as their effect would have been anti-dilutive.

For the periods presented below, the weighted-average number of shares outstanding reflect the effect of the reverse stock split described in Note 22. The computation of basic and diluted loss per share is as follows:

| | Consolidated | Combined |
|--|-----------------------------------------|-----------------------------------------|
| | For the year ended December 31, 2007 | For the year ended December 31, 2006 |
| | | For the year ended December 31, 2005 |

(in thousands, except per share data and percentages)

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| | Common | Preferred | Common | Preferred | Common | Preferred |
|---------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Basic and diluted numerator: | | | | | | |
| Actual dividends paid | - | - | - | 16,808 | 24,960 | 32,608 |
| Allocated undistributed earnings | (109,625) | - | (477,328) | - | (551,808) | - |
| Allocated net income available for common and preferred shareholders | (109,625) | - | (477,328) | 16,808 | (526,848) | 32,608 |
| Basic and diluted denominator: Weighted-average shares outstanding | | | | | | |
| | 524,931,665 | 912,691,180 | 481,267,468 | 841,340,834 | 443,996,716 | 637,776,690 |
| Earnings (loss) per share - basic and diluted | (0.21) | - | (0.99) | 0.02 | (1.19) | 0.05 |

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The Company's preferred shares are nonvoting, except under certain limited circumstances, and are entitled to a preferential and noncumulative dividend and to priority over the common shares in the event of liquidation of the Company.

k) Presentation in statements of operations

Disposals of property, plant and equipment

Under Brazilian GAAP, gains and losses on disposals of property, plant and equipment are classified as nonoperating results. Under U.S. GAAP, these items are recorded in operating results.

Interest income (expense)

Brazilian GAAP requires that interest be shown as part of operating income. Under U.S. GAAP interest expense would be shown after operating income and accrued interest would be included in accounts payable and accrued expenses.

Cash Rebates

Under Brazilian GAAP, cash rebates are classified as other operating expenses. Under U.S. GAAP cash rebates are recorded in the cost of services and goods sold.

l) Leases

The Company and its subsidiary have leased certain computer hardware and software under non-cancelable leases. Under Brazilian GAAP, all leases are considered to be operating leases, with lease expense recorded when paid. For U.S. GAAP purposes, this lease is considered a capital lease as defined in SFAS No. 13, *Accounting for Leases*. Under SFAS No. 13, the Company and its subsidiary are required to record the asset at the present value of the minimum lease payments with a corresponding debt obligation. Depreciation is recorded over the shorter of the estimated useful life of the asset or the lease term. Interest expense is recognized over the life of the lease and payments under the lease are amortized to principal and interest under the effective interest method.

m) Valuation of long-lived assets and goodwill

Under accounting practices adopted in Brazil, an impairment is recognized on long-lived assets, such as property, plant and equipment and concession intangibles, if the expected net cash flows generated the respective asset is not sufficient to cover its book value. Under U.S. GAAP, the Company and its subsidiary evaluate long-lived assets for impairment using the criteria set forth in SFAS No. 144, *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of*. In accordance with this Standard, the Company and its subsidiary periodically evaluate 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.

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The Company and its subsidiary have performed a review of its long-lived assets including property, plant and equipment, finite-lived intangible asset including concession and concluded that the recognition of an impairment charge was not required. The Company's 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 Company has historically achieved. There can be no assurance that the Company will be successful in achieving these improvements in its revenues and gross margin percentages, mainly due to technological and competition environment. Should the Company 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.

Under Brazilian GAAP, the amount of goodwill impairment, if any, is measured based on projected undiscounted future operating cash flows. Under U.S. GAAP, pursuant to SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized and is subject to a yearly impairment test. In performing the yearly impairment test, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. The Company then determines the fair value of each reporting unit and compares it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, a second step of the impairment test is performed which involves the determination of the implicit fair value of the reporting unit by performing a hypothetical purchase price allocation. If the implicit value of the goodwill exceeds the book value, an impairment is recognized. The Company performed an impairment test for goodwill under U.S. GAAP and determined that the recognition of an impairment loss was not required. The fair values of the reporting units were estimated using the present value of future cash flows. The Company performed its impairment testing as of December 31, 2007.

The changes in the carrying amount of goodwill as of December 31, 2007, 2006 and 2005 are as follows:

| | Vivo Participações S.A. (*) | | TCO reporting unit |
|---------------------------------------------------|--------------------------------|----------|--------------------------|
| | 2007 | 2006 | 2005 |
| Balance at January 1 | 648,460 | 717,674 | 786,888 |
| Reduction of goodwill for tax benefits recognized | (69,214) | (69,214) | (69,214) |
| Balance at December 31 | 579,246 | 648,460 | 717,674 |

(*) As discussed in Note 37.f), during 2006 the Company completed restructurings resulting in a change in the Company's management structure and operating segments. As a result, the Company had one reportable segment, which represented a reporting unit as of December 31, 2007.

n) FISTEL fees

Under BR GAAP, the FISTEL fees assessed on each activation of a new cellular line is deferred beginning on January 1, 2001 for amortization over the customers' estimated subscription period. For U.S. GAAP purposes, this fee would be charged directly to the consolidated statement of operations. Therefore, the deferred FISTEL fees on activation fees as of December 31, 2007, 2006 and 2005 is being adjusted in the reconciliation of the income differences between Brazilian GAAP and U.S. GAAP.

o) Revenue recognition

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Under U.S. GAAP, the Company and its subsidiary recognize 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 handsets are deferred and amortized over their estimated useful life. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale.

(i) Roaming

The Company and its subsidiary have roaming agreements with other cellular service providers. When a call is made from within one coverage area by a subscriber of another cellular service provider, that service provider pays the subsidiary for the service at the applicable rates. Conversely, when one of the subsidiary's customers roams outside the coverage area, the subsidiary pays the charges associated with that call to the cellular service provider in whose region the call was originated and charges the same amount to its subscriber. Under Brazilian GAAP, revenues for roaming charges are recorded net of the related costs when the services are provided. Under U.S. GAAP, revenues and costs for roaming charges should be recorded gross. Accordingly, this difference in accounting policy has no impact on net loss nor in the reconciliation of shareholders' equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of goods and services by R\$46,796, R\$32,057 and R\$208,895 for 2007, 2006 and 2005, respectively.

(ii) Value-added and other sales taxes

Under Brazilian GAAP, 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 has no impact in net loss nor in shareholders' equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of goods and services by R\$3,380,046, R\$3,091,000 and R\$3,152,978 for 2007, 2006 and 2005, respectively, as compared to amounts reported under Brazilian GAAP.

(iii) Deferred revenue sales of handsets

Under Brazilian GAAP, 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 their estimated useful life. 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 of the subsidiary's handsets are sold below cost, this difference in accounting policy had no impact on net loss nor in shareholders' equity. The unamortized balance of deferred handset revenue and the related balance of unamortized deferred handset costs was R\$1,267,138, R\$1,176,302 and R\$1,293,132 as of December 31, 2007, 2006 and 2005, respectively. The impact of this difference under U.S. GAAP was to decrease both net revenues and cost of services and goods by R\$90,837 and R\$221,279 for 2007 and 2005, respectively, and to increase both net revenues and cost of services and goods by R\$116,831 for 2006. We have considered whether these handsets represent a separate unit of accounting under EITF 00-21 and believe the criterion in paragraph 9a has not been met because the handsets do not have value to the customer on a stand-alone basis, since our TDMA and CDMA technology handsets are not compatible with the GSM technology used by all other competitors. In the beginning of 2007 the subsidiary started the transition of CDMA technology to GSM. However, we concluded there was no impact in our revenue recognition policy under US GAAP, since the frequency utilized by our competitors during 2007 was not compatible

with the frequency used by our GSM technology and therefore, the GSM handsets also do not have stand-alone value. Consequently, the revenue recognition policy under US GAAP for the sale of GSM handsets was consistent with policy used for the sale of CDMA.

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(iv) Free minutes given in connection with sales of handsets

Under U.S. GAAP, pursuant to EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*, the subsidiary began to separately account for free minutes given in connection with the sales of handsets. Consequently, a portion of the revenue generated from the sale of handsets is allocated to the free minutes given and deferred based on the fair value of the minutes. The revenues associated with the free minutes are then recognized based on subscriber airtime usage. Under Brazilian GAAP, the subsidiary does not separately account for free minutes given in connection with sales of handsets. For the year ended December 31, 2007, the effects in net loss of this accounting difference was R\$93,608, in 2006 R\$(24,305) and in 2005 R\$13,367.

p) Derivative financial instruments

As mentioned in Note 31 the Company and its subsidiary have entered into foreign-currency swap contracts at various exchange rates, in the notional amounts of US\$369.3 million, JPY 66,065.3 million and 15.2 million (US\$761,7 million, JPY50,285.6 million and 1.9 million as of December 31, 2006). As of December 31, 2007, the Company had contracted interest rate swaps in the notional amount of R\$1,097.6 million (R\$1,694 million as of December 31, 2006) for local interest rates (CDI) and of US\$52.5 million (US\$232.5 million as of December 31, 2006) for foreign-currency interest rate (Libor). Under Brazilian GAAP, foreign-currency swap contracts are recorded on a net basis as if they had been settled at the balance sheet date.

Under U.S. GAAP, the Company and its subsidiary apply SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets and liabilities or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, must be immediately recorded in earnings. Any portion of a change in a derivative's fair value that the Company and its subsidiary have elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will also be recorded in earnings.

The Company and its subsidiary have designated certain swap contracts as fair value hedges. The Company and its subsidiary had R\$1,794.5 million (US\$337.8 million, JPY66,065.2 million, 15.2 million and R\$110.0 million) as of December 31, 2007, and R\$2,147.5 million (US\$530.7 million, JPY50,285.6 million, 1.9 million and R\$110.0 million) as of December 31, 2006, of notional value swap contracts with a fair value of R\$1,697.7 million as of December 31, 2007 (R\$2,208.7 million as of December 31, 2006) designated as fair value hedges of a portion of the Company's foreign-currency denominated debt. The Company and its subsidiary are hedging the related foreign currency (U.S. dollar) and interest rate risk associated with such indebtedness. The Company and its subsidiary calculate the effectiveness of these hedges both at inception and on an ongoing basis (i.e., at least quarterly). Since these derivative contracts qualify for hedge accounting under U.S. GAAP, the hedged debt is also

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adjusted to fair value under the fair value hedge rules of SFAS No. 133. As of December 31, 2007 and 2006, the value of the Company's debt subject to these accounting hedges is higher than their respective book values by R\$2.8 million and R\$2.5 million, respectively, representing the related mark-to-market adjustment, which was recorded in the statement of operations as part of the financial expense, net for the years ended December 31, 2007 and 2006.

Ineffectiveness amounting to R\$0.48 million and R\$2.8 million for the years ended December 31, 2007 and 2006, respectively, was included in current earnings. For the year ended December 31, 2005, ineffectiveness amounted to R\$18.1 million. Consequently, these derivative instruments have been highly effective in achieving offsetting changes in fair values due to changes in the risks being hedged. The U.S. GAAP adjustment reflects the difference between the recorded value of the related derivative contracts and the related debt under Brazilian GAAP and their fair values under U.S. GAAP. The Company and its subsidiary's remaining derivative contracts for the years presented have not been accounted for using hedge accounting.

q) License acquisition costs

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate Band B mobile telephone services and the date of the initial operations of GT was recorded as deferred assets according to Brazilian GAAP. Under U.S. GAAP, the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interests accrued in 1998. This difference is being amortized over the license period. The effects of license acquisition costs on net income (loss) for the years ended 2007, 2006 and 2005 are R\$6,001, R\$6,159 and R\$6,159, respectively.

Additionally, GT recorded amortization of license acquisition costs during the start-up period as deferred assets according to Brazilian GAAP. Under U.S. GAAP, such amortization was reversed and the amortization period starts on the start-up date, January 1, 1999, the date GT began to operate.

r) Deferred assets

The Company has recorded pre-operational costs as deferred assets, to be amortized on a straight-line basis over 10 years, as allowed by Brazilian GAAP. Under U.S. GAAP, these costs are recorded as expenses when incurred. The effects of deferred assets amortization on net income (loss) for the years ended 2007, 2006 and 2005 are R\$35,871, R\$35,871 and R\$35,863, respectively.

s) Advance to affiliate

In January 2002, TCO made an advance payment of R\$34,259, adjusted based on market rates, to BID S.A., corresponding to the present value of the tax benefit contributed by BID S.A. to TCO relating to the goodwill paid by BID S.A. for TCO's shares. With this transaction, TCO relieved itself of the obligation to issue the corresponding shares to BID S.A. in the future. In December 2004, such balance of advance payment was R\$15,584. Under Brazilian GAAP, the amount of R\$15,584 was recorded as an advance to affiliate. For U.S. GAAP purposes, such transaction would be recorded as a distribution to shareholders. Additionally, for U.S. GAAP purposes, no interest income would be accrued related to this transaction.

In 2005, this advance was reverted from to capital reserve in TCO, as a special goodwill reserve.

t) Donations

Under Brazilian GAAP, equipment received free of charge (donations) are recorded at fair value, with a corresponding credit to capital reserve, which is amortized into result of operations based on realization of

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the corresponding asset. For U.S. GAAP purposes, the credit to capital reserves would be classified as a reduction of the related asset and amortized to reduce depreciation expense.

u) Items posted directly to shareholders' equity.

Under Brazilian GAAP, various items are posted directly to shareholders' equity, which under U.S. GAAP would be posted to the consolidated statements of operations. The posting of such items to shareholders' equity gives rise to adjustments in the consolidated statement of changes in shareholders' equity. Since the original postings to the equity accounts would, under U.S. GAAP be made directly to the consolidated statements of operations, the adjustment is included in the reconciliation of net loss differences between U.S. and Brazilian GAAP. Write-off of tax loss carryforward of subsidiaries of R\$294,094 in 2006, tax reserve incentives balance of R\$3,589 at 2007, accumulated amount of donations of R\$47,502 through the years are adjusted in the Company's financial statements for U.S. GAAP purposes.

v) Restructuring costs

The Company commenced a restructuring process in the end of 2005 that resulted in the exchange of shares of the Company for shares held by minority shareholders outside of companies controlled by Brasilcel N.V. The Company incurred certain costs directly related to the exchange of shares with minority shareholders in the restructuring that were expensed during the year ended December 31, 2005 under Brazilian GAAP. Under U.S. GAAP, pursuant to SFAS No. 141, *Business Combinations*, the costs of registering and issuing equity securities is recognized as a reduction of the otherwise determinable fair value of the securities and the direct costs including out-of-pocket or incremental costs directly related to an acquisition of minority interest, such as fees paid to outside consultants for accounting and legal issues and for appraisals, are included as part of the acquisition cost. Therefore, the amounts related to direct costs incurred for the registering and issuing of equity securities and the acquisition of minority interest was deferred as of December 31, 2005 under U.S. GAAP. In 2006, this restructuring process was finished and the costs directly related to the exchange of shares with minority shareholders were reclassified as a reduction in the fair value of the shares issued.

w) Comprehensive income

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The objective of the Statement is to report all changes in shareholders' equity that result from transactions and other economic events of the period other than transactions with owners (*comprehensive income*). Comprehensive income is the total net income and other non-owner equity transactions that result in changes in net equity.

For the year ended December 31, 2007 and 2006, the component of comprehensive income includes only the accumulated effect of initial adoption of FAS No. 158, *Conforming Amendments to the Illustrations in FASB No. 87, No. 88 and No. 106 and to Related Staff Implementation Guidance*. For the years ended December 31, 2005 there was not any component in the comprehensive income.

y) Inventories owned by the subsidiary and provided free of charge to corporate customers

The subsidiary has agreements with its corporate customers, through which handsets owned by the subsidiary is provided free of charge to the customer from periods varying from 12 to 24 months, through a right-of-use agreement. Under Brazilian GAAP these handsets are recorded as property, plant and

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equipment and depreciated over a period of 18 months. The period of 18 months represents the estimated contractual relationship with our subscribers and also the estimated useful life of the handsets.

Under US GAAP the subsidiary has deferred the inventoriable cost of the handsets provided for customer under this revenue arrangement, as required in Accounting Research Bulletin No. 43 Restatement and Revision of Accounting Research Bulletins as amended by FASB Statement No. 151 Inventory Costs, an Amendment of ARB No. 43, Chapter 4 (ARB 43). Therefore, the cost of handsets under this type of agreement are reclassified from property, plant and equipment to costs of inventory subject to a deferred revenue arrangement, non-current, and amortized over the period of 18 months. The subsidiary expects to recover the cost through the non-cancellable service arrangement.

The amounts of inventoriable costs incurred by the Company and reclassified to non-current assets, net of amortization was R\$290,398, R\$292,944 and R\$248,342 as of December 31, 2007, 2006 and 2005, respectively.

Reconciliation of the net income (loss) differences between Brazilian GAAP and U.S. GAAP

| | Consolidated | | Combined |
|---------------------------------------------------------------------------------|--------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Brazilian GAAP net income (loss) for the year | (99,391) | 16,347 | (909,246) |
| TSD, TLE and CRT results under Brazilian GAAP | - | - | 141,782 |
| Brazilian GAAP combined net loss for the year | (99,391) | 16,347 | (767,464) |
| Add (deduct)- | | | |
| Different criteria for: | | | |
| b) Capitalized interest | 20,295 | 4,782 | 23,869 |
| b) Amortization of capitalized interest | (54,643) | (31,021) | (5,020) |
| c) Amortization of monetary restatement of 1996 and 1997 | (3,524) | (3,591) | (11,737) |
| c) Loss on disposal of assets monetarily restated in 1996 and 1997 | - | (411) | (2,892) |
| d) Exchange of shares for minority interest: | | | |
| Depreciation effect from reduction of fixed assets | 9,727 | 10,199 | 6,965 |
| Amortization of concession | (12,989) | (12,989) | (45,275) |
| e) Acquisitions: | | | |
| Reversal of goodwill amortization according to Brazilian GAAP | 480,609 | 469,119 | 484,132 |
| Reversal of tax benefit on amortization of goodwill according to Brazilian GAAP | (45,681) | (45,681) | (45,681) |
| Depreciation of fixed assets | 7,269 | (2,747) | (6,746) |
| Amortization of customer list | - | (59,291) | (119,990) |
| Amortization of intangible related to concession | (105,090) | (168,749) | (168,749) |
| Additional interest expense on purchase price allocation of debt | (1,046) | (1,729) | (1,806) |

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| | | | |
|------------------------------------------------------------|-----------|-----------|-----------|
| Reversal of valuation allowance | - | (383,939) | - |
| f) Merger of TSD, TLE, CRT and TCO | (389,477) | (369,079) | - |
| g) Pension and other post-retirement benefits | 9,880 | 8,175 | 1,869 |
| l) Difference in criteria for capital leases | (4,756) | (6,790) | (6,224) |
| n) FISTEL fees | (63,027) | 61,790 | 35,591 |
| o) Free minutes given in connection with sales of handsets | 93,608 | (24,305) | 13,367 |
| p) Derivative contracts | 8,051 | 65,724 | (32,349) |
| q) Amortization of license acquisition costs | (6,001) | (6,159) | (6,159) |
| r) Amortization of deferred assets | 35,871 | 35,871 | 35,863 |
| s) Advance to affiliate | - | - | 15,584 |
| t) Donations | 3,132 | 2,683 | 1,044 |
| u) Tax reserve incentives | - | 24,162 | 7,887 |
| u) Write-off of tax loss carryforwards of subsidiaries | - | (294,094) | (23,327) |
| v) Restructuring costs | - | 2,202 | 19,950 |
| i) Deferred tax effect on the above adjustments | 7,558 | 249,416 | 104,972 |
| Minority interest on the above adjustments | - | (415) | (1,914) |
| U.S. GAAP net loss for the year | (109,625) | (460,520) | (494,240) |

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Loss per share in accordance with U.S. GAAP

| | Consolidated | | Combined |
|-------------------------------------------------------|--------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Common shares - basic and diluted | (0.21) | (0.99) | (1.19) |
| Weighted-average common shares - basic and diluted | 524,931,665 | 481,267,468 | 443,996,716 |
| Preferred shares - basic and diluted | - | 0.02 | 0.05 |
| Weighted-average preferred shares - basic and diluted | 912,691,180 | 841,340,834 | 637,776,690 |

As described in item (j), under EITF No. 03-06, net losses have not been allocated to preferred shares in the loss per share calculation since preferred shareholders have a liquidation preference over common shareholders. Additionally, as described in item (j), loss per share and share amounts have been retroactively restated to reflect the reverse stock split described in item (j).

Reconciliation of the shareholders' equity differences between Brazilian GAAP and U.S. GAAP

| | Consolidated | | Combined |
|---------------------------------------------------------------|--------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Brazilian GAAP shareholders' equity | 8,297,577 | 8,371,746 | 4,015,189 |
| Shareholders' equity of TSD, TLE and CRT under Brazilian GAAP | - | - | 3,032,299 |
| Brazilian GAAP combined shareholders' equity | 8,297,577 | 8,371,746 | 7,047,488 |
| Add (deduct)- | | | |
| Different criteria for: | | | |
| b) Capitalized interest | 172,784 | 152,490 | 147,708 |
| b) Amortization of capitalized interest | (111,238) | (56,594) | (25,573) |
| c) Monetary restatement of 1996 and 1997, net | 5,023 | 8,547 | 12,549 |
| d) Exchange of shares for minority interest: | | | |
| Adjustment to fixed assets | (59,976) | (59,976) | (59,976) |
| Accumulated depreciation | 57,770 | 48,043 | 37,844 |

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| | | | |
|------------------------------------------------------------|-----------|-----------|-----------|
| Adjustment to concession | 318,926 | 318,926 | 318,926 |
| Amortization of concession | (259,878) | (246,889) | (233,900) |
| Adjustment to client list | 137,900 | 137,900 | 137,900 |
| Amortization of client list | (137,900) | (137,900) | (137,900) |
| e) Acquisitions - purchase accounting allocations: | | | |
| GT and Holdings | (327,922) | (412,701) | (37,680) |
| TCO | 711,293 | 577,280 | 256,903 |
| f) Merger of TSD, TLE, CRT and TCO | 334,043 | 591,098 | - |
| g) Pension and other post-retirement benefits | 53,765 | 50,126 | (2,965) |
| l) Difference in criteria for capital leases | 16,920 | 21,676 | 28,466 |
| n) FISTEL fees | (110,304) | (47,277) | (109,067) |
| o) Free minutes given in connection with sales of handsets | (3,130) | (96,738) | (72,433) |
| p) Derivative contracts | 10,092 | 2,041 | (63,683) |
| q) Interest capitalized on license acquisition costs | 42,006 | 42,006 | 42,006 |
| q) Accumulated amortization of license acquisition costs | (12,189) | (6,188) | (29) |
| r) Deferred assets, net of accumulated amortization | (58,833) | (94,704) | (130,575) |
| t) Donations | (47,502) | (37,348) | (20,777) |
| v) Restructuring costs | - | - | 19,950 |
| i) Deferred taxes on the above adjustments | (4,840) | 631 | 30,347 |
| Minority interest on the above adjustments | - | - | (19,899) |
| U.S. GAAP shareholders equity | 9,024,387 | 9,126,195 | 7,165,630 |

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Changes in the consolidated shareholders' equity under U. S. GAAP

| | Consolidated | | Combined |
|--------------------------------------------------------------------|--------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Shareholders' equity under U.S. GAAP as of beginning of the year | 9,126,195 | 7,165,630 | 5,685,915 |
| Capital increase | - | - | 2,000,000 |
| Premium paid on acquisition of fractional shares | - | - | 8 |
| Adjustment on goodwill reserve | - | - | (3,910) |
| Corporate restructuring | - | - | 58,110 |
| Merger of TSD, TLE, CRT and acquisition of TCO's minority interest | - | 2,385,520 | - |
| Prescribed dividends and interest on shareholders' equity | 11,936 | 22,728 | - |
| Net loss | (109,625) | (460,520) | (494,240) |
| Net income allocation: | | | |
| Dividends | - | (16,808) | (13,517) |
| Interest on shareholders' equity | - | - | (44,051) |
| Change in minority interest of TSD, TLE and CRT | - | - | (22,685) |
| Accumulated other comprehensive income - FAS No. 158, net of tax | (4,119) | 29,645 | - |
| Shareholders' equity under U.S. GAAP | 9,024,387 | 9,126,195 | 7,165,630 |

Disclosure of accumulated other comprehensive income balance

| | Pension plan - SFAS No. 158 - adjustment, net of tax | Accumulated other comprehensive income |
|------------------------------------------------|------------------------------------------------------|----------------------------------------|
| Balance at December 31, 2005 | - | - |
| Current period change, net of tax (R\$15,272). | 29,645 | 29,645 |

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| | | |
|------------------------------------------------------|---------|---------|
| Balance at December 31, 2006 | 29,645 | 29,645 |
| Current period change, net of tax (R\$2,122) | (4,119) | (4,119) |
| Balance at December 31, 2007, net of tax (R\$13,150) | 25,526 | 25,526 |

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U.S. GAAP supplementary informationReconciliation of operating income under Brazilian GAAP to operating income under U.S. GAAP

| | Consolidated | | Combined |
|-----------------------------------------------------------------|--------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Brazilian GAAP operating income (loss) as reported | 178,470 | (545,727) | (134,574) |
| Reversal of financial expense, net | 468,339 | 747,985 | 913,142 |
| U.S. GAAP adjustments: | | | |
| Amortization of monetary restatement of 1996 and 1997 | (3,524) | (3,591) | (11,737) |
| Loss on disposal of assets monetarily restated in 1996 and 1997 | - | (411) | (2,892) |
| Amortization on capitalized interest | (54,769) | (39,976) | (11,648) |
| Amortization of license acquisition costs | (6,001) | (6,159) | (6,159) |
| Difference in criteria for capital leases | (4,756) | (6,790) | (6,865) |
| FISTEL fees | (63,027) | 61,790 | 35,591 |
| Exchange of shares of minority interest: | | | |
| Depreciation effect from reduction of fixed assets | 9,727 | 10,199 | 6,965 |
| Amortization of concession | (12,989) | (12,989) | (45,275) |
| Amortization of deferred assets | 35,871 | 35,871 | 35,863 |
| Amortization of donations | 3,132 | 2,683 | 1,044 |
| Pension and other post-retirement benefits | 9,880 | 8,175 | 1,869 |
| Free minutes given in connection with sales of handsets | 93,608 | (24,305) | 13,367 |
| Advance to affiliate | - | - | 15,584 |
| Acquisitions: | | | |
| Reversal of goodwill amortization according to Brazilian GAAP | 480,609 | 469,119 | 484,132 |
| Amortization of intangible related to concession | (105,090) | (168,749) | (168,749) |
| Depreciation of fixed assets | 7,269 | (2,747) | (6,746) |
| Amortization of customer list | - | (59,291) | (119,990) |
| Merger of TSD, TLE, CRT and TCO | (389,477) | (369,079) | - |
| Provision for losses on assets | - | (277,987) | (36,403) |
| Loss on property, plant and equipment disposals | (23,970) | (2,715) | (29,436) |
| Provision for loss investments | - | (671) | (17,328) |
| Restructuring costs | - | 2,202 | 19,950 |
| U.S. GAAP operating (loss) income | 623,302 | (183,163) | 929,705 |

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Reconciliation of net operating revenue and costs of services and goods sold under Brazilian GAAP to U.S. GAAP

| | Consolidated | | Combined |
|-----------------------------------------------------------------------------------------------|--------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Brazilian GAAP net revenue | 12,492,494 | 10,936,714 | 11,253,834 |
| Reclassification to cost of services and goods value-added and other sales taxes . | 3,380,046 | 3,091,000 | 3,152,978 |
| Roaming charges | 46,796 | 32,057 | 208,895 |
| Deferred revenues on sales of handsets, net of amortization | (90,837) | 116,831 | (221,279) |
| U.S. GAAP adjustments: | | | |
| Free minutes given in connection with sales of handsets | 93,608 | (24,305) | 13,367 |
| Deferred revenues on sales of handsets with minute rebates | - | - | - |
| U.S. GAAP net revenue | 15,922,107 | 14,152,297 | 14,407,795 |
| Brazilian GAAP cost of services and goods sold | (6,623,290) | (5,564,168) | (5,337,339) |
| Reclassification to cost of services and goods sold: | | | |
| Value-added and other sales taxes | (3,380,046) | (3,091,000) | (3,152,978) |
| Roaming charges | (46,796) | (32,057) | (208,895) |
| Deferred cost on handset sales, including taxes on sales, net of amortization during the year | 90,837 | (116,831) | 221,279 |
| Reclassification from selling expense- Rewards program expense | (11,336) | (15,273) | (19,597) |
| Reclassification from other operating expense- Cash Rebates | 10,243 | 13,568 | 55,878 |
| U.S. GAAP adjustments: | | | |
| Amortization of monetary restatement of 1996 and 1997 | (3,524) | (3,591) | (11,737) |
| Amortization on capitalized interest | (54,769) | (39,976) | (11,648) |
| Amortization of license acquisition costs | (6,001) | (6,159) | (6,159) |
| Difference in criteria for capital leases | (4,756) | (6,790) | (6,865) |
| FISTEL fees | (63,027) | 61,790 | 35,591 |
| Exchange of shares of minority interest: | | | |
| Depreciation effect from reduction of fixed assets | 9,727 | 10,199 | 6,965 |
| Amortization of concession | (12,989) | (12,989) | (45,275) |
| Amortization of donations | 3,132 | 2,683 | 1,044 |
| Pension and other post-retirement benefits | 9,880 | 8,175 | 1,869 |
| Acquisitions: | | | |
| Amortization of intangible related to concession | (105,090) | (168,749) | (168,749) |

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| | | | |
|--------------------------------------|--------------|-------------|-------------|
| Depreciation of fixed assets | 7,269 | (2,747) | (6,746) |
| Amortization of customer list | - | (59,291) | (119,990) |
| Merger of TSD, TLE, CRT and TCO | (389,477) | (369,079) | - |
| U.S. GAAP cost of services and goods | (10,570,013) | (9,392,285) | (8,773,352) |
| U.S. GAAP gross profit | 5,352,094 | 4,760,012 | 5,634,443 |

Supplementary balance sheet information U.S. GAAP:

| | | | |
|--------------|------------|------------|------------|
| Total assets | 22,508,441 | 18,392,470 | 20,367,054 |
|--------------|------------|------------|------------|

| | | | |
|---------------------|-----------|-----------|-----------|
| Current liabilities | 9,480,393 | 5,772,070 | 6,040,463 |
|---------------------|-----------|-----------|-----------|

| | | | |
|-------------------------|-----------|-----------|-----------|
| Non-current liabilities | 4,003,661 | 3,438,303 | 5,254,243 |
|-------------------------|-----------|-----------|-----------|

| | | | |
|-----------------------------------|-----------|-----------|-----------|
| Net property, plant and equipment | 6,078,929 | 6,333,273 | 6,536,440 |
|-----------------------------------|-----------|-----------|-----------|

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38. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP**a) Pension and other post-retirement benefits**

As described in Notes 32 and 36.g), the Company and its subsidiary's employees receive pension and post-retirement pension benefits under funded and unfunded defined benefit plans, defined contribution plans and multiemployer plans. The Company uses a November 30 measurement date for its plans assets. Disclosures on the Company's contributions to defined contribution and multiemployer plans are included in Note 32.

Although TCP Prev and TCO Prev are defined contribution plans, there is a risk of death and disability of participants, which is born by the sponsor, requiring an actuarial calculation. Following is the obligation and funded status information on the Company's single-employer benefit plans under U.S. GAAP:

Change in benefit obligation

| | Consolidated | |
|-------------------------------------------------|--------------|---------|
| | 2007 | 2006 |
| Benefit obligation at the beginning of the year | 75,099 | 69,995 |
| Service cost | 2,302 | 1,864 |
| Interest cost | 7,473 | 7,695 |
| Plan participants contributions | - | 167 |
| Actuarial gain | (6,568) | (1,723) |
| Benefits paid | (3,566) | (2,899) |
| Vivoprev plan | 652 | - |
| Benefit obligation at the end of the year | 75,392 | 75,099 |

Change in plan assets

| | Consolidated | |
|--------------------------------------------------------|--------------|---------|
| | 2007 | 2006 |
| Fair value of plan assets at the beginning of the year | 122,624 | 101,149 |
| Actual return on plan assets | 3,656 | 22,115 |
| Actual contributions | 2,483 | 2,259 |

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| | | |
|--------------------------------------------------|---------|---------|
| Benefits paid | (3,566) | (2,899) |
| Fair value of plan assets at the end of the year | 125,197 | 122,624 |

Reconciliation of funded status

| | Consolidated | |
|---------------|--------------|----------|
| | 2007 | 2006 |
| Funded status | (49,805) | (47,525) |

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Amounts recognized in the statement of financial position

| | Consolidated | |
|-----------------------|--------------|--------|
| | 2007 | 2006 |
| Non-current assets | 50,457 | 47,525 |
| Current liability | (98) | - |
| Non-current liability | (554) | - |
| Net amount recognized | 49,805 | 47,525 |

Components of net periodic pension cost and other benefit cost

| | Consolidated | | Combined |
|--------------------------------------------------|--------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Service cost (net of employee contributions) | 2,170 | 1,864 | 2,541 |
| Interest cost on PBO | 7,473 | 7,695 | 7,563 |
| Expected return on assets | (14,451) | (13,763) | (10,321) |
| Amortization of initial transition obligation | 609 | 609 | 609 |
| Amortization of gains | (2,141) | (1,404) | (599) |
| Amortization of prior service cost | 29 | 29 | 29 |
| Net periodic pension cost and other benefit cost | (6,311) | (4,970) | (178) |

Accumulated other comprehensive income

| | 2007 | 2006 |
|-----------------------|----------|----------|
| Actuarial gain | (43,918) | (50,146) |
| Transition obligation | 4,200 | 4,809 |
| Prior service cost | 1,044 | 421 |

| | | |
|-------|----------|----------|
| Total | (38,674) | (44,916) |
|-------|----------|----------|

Changes in items not yet recognized in net periodic pension cost

Consolidated

| | 2007 | | | 2006 | | |
|--------------------------------------|--------------------------|--------------------------|-----------------------|--------------------------|--------------------------|-----------------------|
| | Actuarial (gain) loss | Transition obligation | Prior service cost | Actuarial (gain) loss | Transition obligation | Prior service cost |
| Balance at the beginning of the year | (50,146) | 4,809 | 421 | (41,471) | 5,418 | 450 |
| Amount generated in the period | 4,087 | - | 652 | (10,079) | - | - |
| Amount recycled to profit and loss | 2,141 | (609) | (29) | 1,404 | (609) | (29) |
| Balance at ending of year | (43,918) | 4,200 | 1,044 | (50,146) | 4,809 | 421 |

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Assumptions

| | Consolidated | | Combined |
|-------------------------------------------------------------|--------------|--------|----------|
| | 2007 | 2006 | 2005 |
| Discount rate for determining projected benefit obligations | 10.77% | 10.24% | 11.30% |
| Rate of increase in compensation levels | 6.59% | 6.08% | 7.10% |
| Benefit adjustments | 4.50% | 4.00% | 5.00% |
| Expected long-term rate of return on plan assets | 11.00% | 11.84% | 13.73% |
| Inflation | 4.50% | 4.00% | 5.00% |

Plan assets

The Company's weighted-average pension plan asset allocations by asset category at the end of 2007 and 2006, and the target allocation for 2008, are as follows:

| Asset category: | Target allocation for | Percentage of plan assets at year end | |
|-------------------|--------------------------|------------------------------------------|--------|
| | 2008 | 2007 | 2006 |
| Equity securities | 17.9% | 18.8% | 18.7% |
| Loans | - | 1.3% | 1.8% |
| Fixed income | 81.0% | 74.0% | 73.1% |
| Other | 1.1% | 5.9% | 6.4% |
| Total | 100.0% | 100.0% | 100.0% |

The investment strategy for these pension plans is based on a long-term macroeconomic scenario, which takes into consideration the assumption of maximization of return commensurate to the risks of the several kinds of investments (fixed income, equity securities and loans), according to limits of allocation imposed by Conselho Monetário Nacional Resolutions. The expected return on plan assets is average after-tax return of each asset category weighted by target allocations. Asset categories returns as based on long-term macroeconomic scenarios.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Single-employer amount

| | |
|-----------------|--------|
| 2008 | 4,429 |
| 2009 | 4,918 |
| 2010 | 5,269 |
| 2011 | 5,866 |
| 2012 | 6,419 |
| Years 2013-2017 | 42,546 |

A summary of the SISTEL multiemployer defined-benefit pension plan (inactive employees pension plan - PBS-A) as of December 31, 2007 and 2006, which the Company and its subsidiary participate is as follows:

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Inactive employees pension plan - PBS-A

| | Consolidated | |
|------------------------------|--------------|-------------|
| | 2007 | 2006 |
| Funded status: | | |
| Projected benefit obligation | 4,225,533 | 4,118,077 |
| Fair value of plan assets | (6,853,284) | (6,092,174) |
| Funded status | (2,627,751) | (1,974,097) |

A summary of the SISTEL multiemployer post-retirement benefits plan (health care plan - PAMA), which the Company and its subsidiary participate, is as follows:

Health care plan - PAMA

| | Consolidated | |
|-------------------------------------------------|--------------|-----------|
| | 2007 | 2006 |
| Funded status: | | |
| Accumulated post-retirement benefit obligation: | | |
| Active participants | 33,710 | 27,438 |
| Fully eligible active plan participants | 7,823 | 4,510 |
| Inactive participants | 1,185,019 | 1,019,730 |
| | 1,226,552 | 1,051,678 |
| Fair value of plan assets | (561,415) | (563,348) |
| Obligations in excess of plan assets | 665,137 | 488,330 |

b) Intangible assets

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Following is a summary of the Company's intangible assets subject to amortization under U.S. GAAP:

Consolidated

2007

| | Concession | Software use rights | Customer list | Other |
|--------------------------|-------------|------------------------|------------------|----------|
| Gross | 3,984,293 | 3,334,738 | 1,207,536 | 35,511 |
| Accumulated amortization | (1,887,403) | (2,080,128) | (1,182,219) | (28,849) |
| Write-off of concession | (473,472) | - | - | - |
| Net | 1,623,418 | 1,254,610 | 25,317 | 6,662 |
| Amortization expense | 190,837 | 394,936 | 303,803 | 5,655 |
| Amortization period | (*) | 5 years | 2 years | 5.1years |

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Consolidated

2006

| Concession | Software | Customer use rights | Other list | |
|--------------------------|-------------|------------------------|---------------|----------|
| Gross | 3,933,905 | 2,901,316 | 1,207,536 | 35,592 |
| Accumulated amortization | (1,696,566) | (1,685,686) | (878,416) | (23,233) |
| Write-off of concession | (473,472) | - | - | - |
| Net | 1,763,867 | 1,215,630 | 329,120 | 12,359 |
| Amortization expense | 253,625 | 388,105 | 337,777 | 6,127 |
| Amortization period | | (*) 5 years | 2 years | 5.1years |

(*) Amortized on a straight-line method over the major term of concession period for Areas 7 and 8 until 2023. The estimated aggregate amortization expense for the next five years is as follows:

| | Amount |
|------|---------|
| 2008 | 891,600 |
| 2009 | 774,566 |
| 2010 | 184,760 |
| 2011 | 184,760 |
| 2012 | 184,760 |

c) Capital leases

The future minimum payments, by year and in the aggregate, under the Company's non-cancelable lease obligation

| | |
|--------------------------|-------|
| 2008 | 3,907 |
| 2009 | 3,280 |
| 2010 | 771 |
| Aggregate lease payments | 7,958 |

s classified as capital leases are as follows:

Future minimum lease payments:

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The following summarizes the amounts related to the assets and accumulated depreciation for U.S. GAAP purposes of the related assets under the Company and its subsidiary's capital lease obligations:

2007

| | |
|--------------------------------|----------|
| Property, plant and equipment: | |
| Software | 82,518 |
| Less- Accumulated amortization | (57,640) |
| | 24,878 |

d) Concentration of risks

Credit risk with respect to trade accounts receivable is diversified. The Company and its subsidiary continually monitor 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 their business, Vivo S.A. is fully dependent upon the cellular telecommunications authorizations, granted by the Federal Government.

There is no concentration of available sources of labor, services, concessions or rights, other than those mentioned above, that could, if suddenly eliminated, severely impact the Company and its subsidiary's operations.

e) Commitments (unaudited)

Budgeted capital expenditure commitments for 2008 are approximately R\$6,068.8 million, of which R\$3.4 billion refer to Vivo's consolidated operational budget (of which R\$1.2 billion refer to the 3G licenses and frequencies including the Northeast region) and R\$2.7 billion refer to Telemig's recent acquisition. For 2007, the budgeted capital expenditure commitments were approximately R\$1,732.0 million, of which R\$1,905.7 million was incurred during the year. Most of the 2007 capital expenditures was related to infrastructure, information technology and transmission equipment.

As established in our authorizations and original concession agreements, the Company and its subsidiary are subject to obligations concerning quality of services, network expansion and modernization, as established in their authorizations and their original concession agreements. The Company believes that it is currently in compliance with its quality of service and expansion obligations.

f) Segment information

As described in Note 1, during 2006, the Company merged with TSD, TLE and CRT and acquired the remaining minority interest in TCO. Additionally, the Company completed corporate restructurings to simplify its corporate legal structure and create a single legal operating company. This resulted in changes to the Company's management structure and operating segments. By the end of the year ended December 31, 2007, the Company had one operating segment, cellular telecommunications services. Consequently, no separate segment information has been presented for U.S. GAAP purposes.

g) Asset Retirement Obligation

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SFAS No. 143, *Accounting for Asset Retirement Obligations* requires the subsidiary to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and capitalize that amount as part of the book value of the long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the subsidiary either settles the obligation for its recorded amount or incurs a gain or loss.

The subsidiary has certain legal obligations related to network infrastructure, principally tower assets, which fall within the scope of SFAS 143. These legal obligations include obligations to remediate leased land on which the subsidiary's network infrastructure assets are located. The significant assumptions used in estimating the subsidiary's asset retirement obligations include the following: a probability that each of the subsidiary's network infrastructure assets will be remediated at the lessor's directive, expected settlement dates that coincide with lease expiration dates plus estimates of lease extensions, remediation costs that are indicative of what third party vendors would charge the subsidiary to remediate the sites, expected inflation rates that are consistent with historical inflation rates, and credit-adjusted risk-free rates that approximate the subsidiary's incremental borrowing rates.

The changes in asset retirement obligation were as follows:

| | |
|------------------------------|---------|
| Balance at December 31, 2005 | 81,237 |
| Additions in 2006, net | 45,216 |
| Accretion expense | 3,454 |
| Balance at December 31, 2006 | 129,907 |
| Additions in 2007, net | 12,066 |
| Accretion expense | 3,974 |
| Balance at December 31, 2007 | 145,947 |

The asset retirement obligation is also recorded under Brazilian GAAP. See footnote 21.

h) Deferred Income taxes

Under Brazilian GAAP, deferred taxes are classified as current or non-current based upon the expected period of reversal. Under USGAAP, deferred taxes are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards, are classified according to the expected reversal date of the temporary difference. The classification of our deferred tax assets and liabilities under USGAAP is as follows as of December 31, 2007 and 2006. Current deferred tax asset of R\$814,729 and R\$732,782, respectively, current deferred tax liability of R\$15,634 and R\$12,694, respectively, non-current deferred tax asset of R\$1,459,485 and R\$1,773,333 respectively.

Additionally, under Brazilian GAAP, the Company (Vivo Participações S.A.) did not recognize deferred income tax and social contribution assets of R\$945.7 million and R\$947.4 million as of December 31, 2007 and 2006, respectively, due to the uncertainties involving their realization. Under US GAAP Vivo Participações S.A. recorded those amounts, and as a result of the uncertainty involving their realization, a full valuation allowance in the same amount was also recorded in 2007 and 2006.

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i) Recently Adopted Standards

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R (SFAS 158)*. SFAS 158 requires companies to (1) fully recognize, as an asset or liability, the overfunded or underfunded status of defined pension and other postretirement benefit plans; (2) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; (3) measure the funded status of defined pension and other postretirement benefit plans as of the date of the Company's fiscal year end; and (4) provide enhanced disclosures. The provisions of SFAS 158 were effective for our year ended December 31, 2006. Refer to Note 37.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48)*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. The adoption of FIN 48 did not have impact on our Consolidated Financial Statements and, at this time, we do not expect FIN 48 to have a material impact on our Consolidated Financial Statements in the future. Refer to Note 37.

In June 2006, the EITF reached a consensus on EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation) (EITF 06-3)*. The consensus provides that the presentation of taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions (e.g. sales, use, value added and excise taxes) between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. In addition, for any such taxes that are reported on a gross basis, the amounts of those taxes should be disclosed in interim and annual Consolidated Financial Statements for each period for which an income statement is presented if those amounts are significant. EITF 06-3 was effective January 1, 2007. We record substantially all of the taxes within the scope of EITF 06-3 on a gross basis in our cost of services and goods sold. Refer to Note 37.

j) New accounting pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (Revised 2007), *Business Combinations (SFAS 141R)*. SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In September 2006 the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 157, Fair Value Measurements. SFAS No. 157 provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various

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prior accounting pronouncements. We are required to adopt SFAS No. 157 for our fiscal year beginning January 1, 2008, except as it relates to fair value measurements for nonfinancial assets and nonfinancial liabilities, which will be our fiscal year beginning January 1, 2009, as stated by FSP 157-2 issued by FASB Staff Position (FSP) in February 2008. We are currently evaluating the effect that the adoption of SFAS No. 157 will have on our results of operations and financial condition, but do not expect it to have a material impact.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses for that item shall be reported in current earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for our fiscal year beginning January 1, 2008. We are currently evaluating the effect, if any, that the adoption of SFAS No. 159 will have on our results of operations and financial condition, but do not expect it to have a material impact.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements (SFAS 160)*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statements and separated from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the Consolidated Statement of Operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement is effective for us on January 1, 2009. We expect SFAS 160 will not have significant impact on our Consolidated Financial Statements. As of December 31, 2007 and 2006, we have no minority interest due to our corporate restructuring as mentioned in note 1.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11)*. EITF 06-11 requires companies to recognize a realized income tax benefit associated with dividends or dividend equivalents paid on nonvested equity-classified employee share-based payment awards that are charged to retained earnings as an increase to additional paid-in capital. EITF 06-11 is effective for us on January 1, 2008. We do not expect the adoption of EITF 06-11 to have a material impact on our Consolidated Financial Statements.

39. SUBSEQUENT EVENTS

As mentioned in Note 1 the sale agreement of Tele Norte Participações S.A. to Telemar Norte Leste S.A., was subject to ANATEL's approval. As of March 5, 2008 in accordance to Act nº 1,261, published on *DOU Diário Oficial da União* (Federal Diary) on March 7, 2008, ANATEL has granted its consent for the transfer of shares of Tele Norte Participações to Vivo Participações and the subsequent consent for the transfer of the same shares to Telemar Norte

Leste S.A.

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