

Vivo Participacoes S.A.
Form 20-F
May 03, 2007

As filed with the Securities and Exchange Commission on May 3, 2007

**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, 2006

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, 2006:

Title of Class	Number of Shares Outstanding
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Common Stock	524,931,665
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Preferred Stock	917,186,080
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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;
- Federal District are to the federal district of Brasilia, the capital of Brazil;
- General Telecommunications Law are to *Lei Geral de Telecomunicações*, as amended, which regulates the telecommunications industry in Brazil;

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- 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;
- *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 alphanumeric 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;
- Telesp Celular and TC are to Telesp Celular S.A., formerly a Vivo subsidiary prior to our corporate restructuring;
- 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 Participações 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 handled 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, 2006 and 2005 and for the three years in the period ended December 31, 2006 and our combined financial statements as of December 31, 2005, and for the two 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 Method, which differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 37 to our financial statements appearing elsewhere in this annual report describes the principal differences between the Brazilian Corporate Law Method and U.S. GAAP as they relate to us, and provides a reconciliation to U.S. GAAP of net loss and shareholders' equity. These consolidated financial statements have been audited by *Deloitte Touche Tohmatsu Auditores Independentes*.

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 have been presented supplementally for the purposes of this annual report in our consolidated financial statements as of December 31, 2006 and 2005 and for the three years in the period ended December 31, 2006 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 that could significantly affect expected results. The risks and uncertainties include, but are not limited to:

- the short history of our operations as an independent, private-sector entity and the introduction of competition to the Brazilian telecommunications sector;
- the cost and availability of financing;
- uncertainties relating to political and economic conditions in Brazil;
- inflation, 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**

The selected financial data as of December 31, 2006 and 2005 and for the three year in the period ended December 31, 2006 included in this annual report have been derived from our audited consolidated and combined financial statements and notes thereto included elsewhere in this annual report and audited by *Deloitte Touche Tohmatsu Auditores Independentes*.

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 have been presented supplementally for the purposes of this annual report in our consolidated financial statements as of December 31, 2006 and 2005 and for the three years in the period ended December 31, 2006 and are not required for statutory reporting purposes in Brazil.

Our consolidated and combined financial statements are prepared in accordance with the Brazilian Corporate Law Method, which differs in certain material respects from U.S. GAAP. See note 37 to our financial statements for a summary of (i) the differences between the Brazilian Corporate Law Method and U.S. GAAP as they relate to us, (ii) a reconciliation to U.S. GAAP of shareholders equity as of December 31, 2006 and 2005, and (iii) our net income for the year ended December 31, 2006 and net loss for the years ended December 31, 2005 and 2004.

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

Combined

2006(1)

2005(1)

2004(1)

2003(1)

2002(1)

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

Net operating revenue	10,936.7	11,253.8	10,929.4	9,393.5	3,415.0
Cost of services and goods sold	(5,564.2)	(5,337.3)	(5,338.1)	(4,836.1)	(1,739.4)
Gross profit	5,372.5	5,916.5	5,591.3	4,557.4	1,675.6
Operating expenses:					
Selling expenses	(3,787.5)	(3,744.5)	(2,833.0)	(1,968.7)	(526.9)
General and administrative expenses	(1,112.2)	(1,033.3)	(959.2)	(924.4)	(343.2)
Other net operating expenses	(270.6)	(360.1)	(129.2)	(138.7)	(39.8)
Operating income before equity in losses of unconsolidated subsidiary and net financial expenses	202.2	778.6	1,669.9	1,525.6	765.7
Equity in losses of unconsolidated subsidiary					(890.7)
Net financial expenses	(748.0)	(913.1)	(1,088.5)	(1,161.1)	(808.4)
Operating income (loss)	(545.8)	(134.5)	581.4	364.5	(933.4)
Net non-operating income (expenses)	(289.0)	(96.5)	(60.9)	(36.1)	10.0
Extraordinary item					(170.8)
Income (loss) before income taxes and minority interests	(834.8)	(231.0)	520.5	328.4	(1,094.2)
Income taxes	859.1	(363.0)	(438.5)	(407.8)	(46.5)
Minority interests	(8.0)	(173.5)	(480.9)	(347.6)	
Net income (loss)	16.3	(767.5)	(398.9)	(427.0)	(1,140.7)
Net income (loss) per share (R\$)	0.0113	(0.6919)	(0.1765)	(0.2065)	(0.00097)
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	14,152.3	14,407.8	14,856.5	12,159.0	4,575.0
Operating (loss) income	(183.2)	929.7	1,368.5	1,345.5	328.8
Net financial expenses	(666.3)	(914.7)	(992.9)	(138.4)	(1,149.6)
Equity in losses of unconsolidated subsidiaries					- (759.1)
Net non-operating income (expenses)	(11.6)	(14.8)	(12.0)	(35.2)	9.8
Income (loss) before income taxes, minority interests	(861.1)	0.2	363.6	1,171.9	(1,570.1)
Income taxes and minority interest	400.6	(494.4)	(852.6)	(1,034.0)	74.4
Net income (loss)	(460.5)	(494.2)	(489.0)	137.9	(1,495.7)
Basic and diluted net income (loss) per share common (R\$)	(0.99)	(1.19)	(1.43)	0.15	(15.58)
	0.02	0.05	0.08	0.15	(15.58)

Basic and diluted net income (loss) per
share preferred (R\$)

Weighted average common shares outstanding (2)	481,267,468	443,996,716	371,686,879	335,446,441	163,753,546
Weighted average preferred shares outstanding (2)	841,340,834	637,776,690	532,574,385	487,069,335	178,807,226

Year ended December 31,

	2006(1)	2005(1)	2004(1)
	Consolidated	Combined	

(in millions of reais)

Cash Flow Data:

Cash flows from operating activities	3,100.8	2,302.2	2,068.4
Cash flows from investing activities	(1,922.4)	(2,361.2)	(2,773.8)
Cash flows from financing activities	(1,458.4)	(373.1)	732.6

As of December 31,

	Consolidated		Combined		
	2006(1)	2005(1)	2004(1)	2003(1)	2002(1)
(in millions of reais, except for per share data)					
Balance Sheet Data:					
<i>Brazilian Corporate Law Method</i>					
Property, plant and equipment, net	6,445.5	6,683.2	6,477.5	6,323.1	2,497.2
Total assets	17,542.1	19,259.3	19,803.0	18,977.0	9,654.4
Loans and financing	4,500.4	5,652.8	5,595.5	7,124.0	4,460.8
Shareholders equity	8,371.7	7,047.5	5,830.9	5,967.1	4,010.0
Capital Stock	6,347.8	8,232.4	5,828.9	5,615.8	4,373.7
Number of shares as adjusted to reflect changes in capital	1,437,623	1,109,225	2,259,465,452	2,066,942,500	1,171,784,352
<i>U.S. GAAP</i>					
Property, plant and equipment, net	6,626.2	6,784.7	6,621.4	7,105.2	2,794.5
Total assets	18,392.5	20,367.1	20,092.6	19,148.7	10,202.0
Total liabilities	9,210.4	11,294.7	10,799.5	11,383.2	6,894.7
Shareholders equity	9,126.2	7,165.6	5,685.9	5,904.8	3,307.3
Capital stock	6,325.6	8,232.4	5,828.9	5,615.8	4,373.7
Number of shares as adjusted to reflect changes in capital	1,437,623	1,109,225	903,786	826,777	468,714

(1) The financial information presented for 2006 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. 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. The financial information presented for the 2002 fiscal year represents information from TCP's financial statements.

(2) 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 included for the purpose of calculating diluted earnings per share for the years ended December 31, 2002, 2003, 2004, 2005 and 2006. 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, 2006, the Company adopted Emerging Issues Task Force EITF 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. Prior period earnings per share amounts presented for comparative purposes were restated to conform to the current year presentation. 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,				
2002	2.271	3.955	2.931	3.533
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

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, 2006	2.133	2.168
November 30, 2006	2.135	2.187
December 31, 2006	2.138	2.169
January 31, 2007	2.125	2.156
February 28, 2007	2.077	2.118
March 30, 2007	2.050	2.139

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 2.9% in 2006, 2.3% in 2005 and 4.9% in 2004. 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 2006, 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 3.8%, compared to 1.22% in 2005 and 12.13% in 2004.

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 34.3% and 22.3% against the U.S. dollar in 2002 and 2003, respectively. In 2004 and 2005, the *real* appreciated against the U.S. dollar by 8.8% and 11.8%, respectively, and in 2006 the *real* appreciated by 8.7% against the U.S. dollar.

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, 2006, Vivo had R\$4.5 billion in consolidated total debt, of which approximately 59.0% 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, 2005, 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. 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 February and July 2002, the Central Bank reduced the basic interest rate from 19% to 18%. 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, 2006, the basic interest rate is 13.3%. As of December 31, 2006, Vivo's total indebtedness was R\$4,500.4 million. Approximately 41.0% 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. ANATEL is currently studying a new model to determine reference costs for 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 and is expected to be completed by mid-2007. The free negotiation of the mobile call termination fees (VU-M) continued on 2006, but because mobile and fixed operators did not agree on a new collective agreement for tariff readjustments in 2006. Therefore, the 2005 provisional agreement between the local fixed concessionaires and the mobile operators remains in effect while new attempts at negotiation are in progress.

While a provisional agreement has been reached concerning a new VU-M value, all the mobile and fixed operators requested in early 2005 for ANATEL to arbitrate the definitive value of the mobile termination fee. During this process, ANATEL has recommended that the operators hire a consulting company to conduct a study to determine the new VU-M value. The mobile and fixed operators presented all necessary documents in 2006 during the arbitration process and are currently awaiting a decision from the Brazilian Regulatory Authority.

Under Resolution 438, published in July 2006, 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 is not implemented, 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 2007, we expect the Brazilian government to 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*), possibly starting in 2008. Under Resolution 438, after the economic model is implemented, 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. 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) and the new Regulation of Remuneration of Use of SMP Providers Networks (Resolution number 438/2006). 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 and (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, according to criteria which is yet to be defined. These regulations could have an adverse effect on 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.

ANATEL's Public Consultation number 642 of 2005 relates to alterations in the regulation of SMP. While counter arguments thereunder must have been sent to ANATEL before January 16, 2006, none have been made. In the proposed 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, an extension of the period for blocking use by insolvent customers and a limitation on the period of time after which customers may leave service plans. We have presented our arguments to ANATEL against the proposals that may have adverse effects on our business. If these new regulations take effect, they may have adverse effects on our revenues and results of operations.

In 2006, ANATEL published Public Consultation number 734. The period for public comment regarding this Public Consultation ended on November 6, 2006. This Public Consultation considers regulations that will implement and develop fixed and wireless number portability in Brazil by 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. For the next step, ANATEL will analyze and evaluate the

suggestions presented by fixed and mobile operators, including Vivo, and will issue the new regulation. There can be no assurance that this new regulation will not have adverse effects on the results of our operations.

Another Public Consultation published by ANATEL in 2006 is number 756. The period for public comment was suspended for judicial sentence. This Public Consultation considers a proposal for an auction to consider bids for exploration of the SMP in the remaining radio frequency bands D and E, and in some bands defined in Resolution 454 to the SMP, including the 1.9 GHz band (band L), previously allocated to the fixed operators. This auction proposal does not include 3G radiofrequencies.

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.

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 44.4% as of December 31, 2005 to 38.2% as of December 31, 2006, and our market share of net additions to our customer base decreased from 21.8% for the twelve months ended December 31, 2005 to a negative percentage of 8.5% for the twelve months ended December 31, 2006. In addition, our net additions of customers decreased 123.5% from the twelve months ended December 31, 2005 to the twelve months ended December 31, 2006.

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 has declined significantly, primarily due to competition and increased 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 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. This decrease 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 our 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, 2006, *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. 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, 2006, the amount of goodwill of the Company is R\$1,012.0 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 TCO with a carrying value of R\$648.5 million as of December 31, 2006. 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 those assets exceeds their fair market value for purposes of U.S. GAAP. This annual 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, 2002, 2003, 2004 and 2005 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 depositary 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 investing in securities of issuers from more developed countries.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. 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\$722.6 billion as of December 31, 2006, and an average monthly trading volume of approximately US\$23.4 billion for the first twelve months of 2006.

In comparison, the NYSE had a domestic market capitalization of US\$9,113.5 billion (excluding funds and non-U.S. companies) as of December 31, 2006. 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. In addition, 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.

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 and 2006, 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 depository, 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 ADSs could be subject to Brazilian income tax on capital gains from sales of ADSs.

Brazilian Law No. 10,833, dated December 29, 2003, provides that gains on the disposition of assets located in Brazil by non-residents of Brazil, whether to other non-residents or to Brazilian residents, will be subject to Brazilian taxation. The 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. 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 5105-1182, our facsimile number is +55 11 5105-2247, 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, 2006:

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 29.1% of the total market in Brazil, according to ANATEL, with 29.1 million customers as of December 31, 2006, according to market share data published by ANATEL. Its operations cover an area of approximately 138 million inhabitants, or 73.8% of the Brazilian population, and approximately 83.1% 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 is 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.

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.

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

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,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Switching equipment	375.9	523.0	582.1
Transmission equipment	844.4	862.8	623.8
Information technology	414.8	407.6	291.9
Others(2)	468.8	413.1	442.7
Total capital expenditures	2,103.9	2,206.5	1,940.5

Year ended December 31,

State of São Paulo Areas 1 and 2	2006(1)	2005(1)	2004(1)
	<i>(in millions of reais)</i>		
Switching equipment	121.3	216.2	175.9
Transmission equipment	304.7	309.7	172.8
Information Technology	351.5	360.4	251.5
Others(2)	167.4	120.9	160.7
Total capital expenditures	944.9	1,007.2	760.9

Year ended December 31,

States of Rio de Janeiro and Espírito Santo

<u>Area 3</u>	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Switching equipment	65.0	90.2	90.6
Transmission equipment	164.1	112.8	64.8
Information technology	12.9	11.6	
Others(2)	90.3	82.5	86.1
Total capital expenditures	332.3	297.1	241.5

Year ended December 31,

States of Paraná and Santa Catarina Area

<u>5</u>	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Switching equipment	30.5	25.4	47.5
Transmission equipment	70.8	123.2	124.5
Information Technology	10.6	6.4	15.7
Others(2)	45.3	30.9	27.9
Total capital expenditures	157.2	185.9	215.6

Year ended December 31,

State of Rio Grande do Sul Area 6

	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Switching equipment	89.8	59.7	72.2
Transmission equipment	43.5	118.4	84.5
Information technology	8.0	4.2	
Others(2)	64.3	56.2	47.6
Total capital expenditures	205.6	238.5	204.3

Year ended December 31,

Central Western and Northern regions Areas 7

<u>and 8</u>	2006(1)	2005(1)	2004(1)
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	(in millions of reais)		
Switching equipment	44.0	101.6	156.7
Transmission equipment	149.8	145.8	153.4
Information Technology	27.0	19.4	18.6
Others(2)	66.5	86.7	89.9
Total capital expenditures	287.3	353.5	418.6

	Year ended December 31,		
<u>States of Bahia and Sergipe Area 9</u>	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Switching equipment	25.3	29.9	39.2
Transmission equipment	111.5	52.9	23.8
Information technology	4.8	5.6	6.1
Others(2)	35.0	35.9	30.5
Total capital expenditures	176.6	124.3	99.6

(1) The financial information presented for 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006. The financial information presented for the 2005 and 2004 fiscal years represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

(2) Consisting primarily of free handset rentals, network construction, furniture and fixtures, office equipment and store layouts.

Our capital expenditure estimate for 2007 is approximately R\$1.7 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, Espirito 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, 2006, Vivo S.A. had 10.684 million cellular lines in service in these areas, which represented a 2.0% increase from December 31, 2005, and a market share of approximately 44.2% 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 Espirito Santo. At December 31, 2006, Vivo S.A. had 4.920 million cellular lines in service in this area, which represented a 3.8% net increase from December 31, 2005, 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 93.0% of the population of Paraná and Santa Catarina. At December 31, 2006, Vivo S.A. had 2.570 million cellular lines in service in this area, which represented a 11.7% net decrease from December 31, 2005, and a market share of approximately 27.6% in those states.

In Area 6, Vivo S.A. uses the Band A frequency range that covers 70% of the municipalities and 96.0% of the population in the state of Rio Grande do Sul. At December 31, 2006, Vivo S.A. had 3.321 million cellular lines in service in this area, which represented a 1.9% net decrease from December 31, 2005, and a market share of approximately 43.8% 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, 2006, Vivo S.A. had 5.912 million cellular lines in service in these areas, which represented a 13.3% net decrease from December 31, 2005, and a market share of approximately 36.1% in those states.

In Area 9, Vivo S.A. uses the Band A frequency range that covers 45.0% of the municipalities and 78.0% of the population in the States of Bahia and Sergipe. At December 31, 2006, Vivo S.A. had 1.647 million cellular lines in service in this area, which represented a 11.5% net increase from December 31, 2005, and a market share of approximately 27.6% in those states.

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,		
	2006	2005	2004
Cellular lines in service at year-end (in thousands)	10,684	10,476	9,232
Contract customers	1,803	1,779	1,603
Prepaid customers	8,881	8,696	7,629
Growth in cellular lines in service during year	2.0%	13.5%	23.2%
Churn(1)	28.6%	18.7%	18.9%
Estimated population of concession areas (in millions)(2)	40.6	39.7	39.1
Estimated covered population (in millions)(3)	40.6	39.7	38.5
Percentage of population covered(4)	100%	100%	98.5%
Penetration at year-end(5)	59.6%	53.0%	42.7%
Percentage of municipalities covered	100%	100%	79.6%
Market share(6)	44.2%	49.2%	55.2%

States of Rio de Janeiro and Espírito Santo Area 3

	Year ended December 31,		
	2006	2005	2004
Cellular lines in service at year-end (in thousands)	4,920	4,740	4,376
Contract customers	1,343	1,476	1,259
Prepaid customers	3,577	3,264	3,117
Customer growth during the year	3.8%	8.3%	18.0%
Churn(1)	32.6%	29.5%	31.3%
Estimated population of Region at year-end (millions)(2)	19.1	18.8	18.6
Estimated covered population at year-end (millions)(3)	19.1	18.8	18.6
Percentage of population of Region covered at year-end(4)	100%	100%	100%
Penetration at year-end(5)	64.3%	58.8%	49.1%
Percentage of municipalities covered	100%	100%	100%
Market share(6)	39.9%	42.6%	47.7%

States of Paraná and Santa Catarina Area 5

	Year ended December 31,		
	2006	2005	2004
Cellular lines in service at year-end (in thousands)	2,570	2,910	2,579
Contract customers	406	366	298
Prepaid customers	2,164	2,543	2,281
Growth in cellular lines in service during year	(11.7)%	12.8%	52.5%
Churn(1)	44.1%	20.0%	13.7%

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Estimated population of concession areas (in millions)(2)	16.5	16.1	15.9
Estimated covered population (in millions)(3)	15.2	14.9	14.0
Percentage of population covered(4)	93%	92.3%	88.0%
Penetration at year-end(5)	56.6%	51.4%	39.8%
Percentage of municipalities covered	60.0%	59.0%	42.3%
Market share(6)	27.6%	34.5%	41.3%

State of Rio Grande do Sul Area 6

	Year ended December 31,		
	2006	2005	2004
Cellular lines in service at year-end (in thousands)	3,321	3,387	3,215
Contract customers	790	829	788

	Year ended December 31,		
	2006	2005	2004
Prepaid customers	2,530	2,558	2,427
Growth in cellular lines in service during year	(2.0)%	5.3%	27.4%
Churn(1)	27.5%	21.7%	19.5%
Estimated population of concession areas (in millions)(2)	10.6	10.5	10.3
Estimated covered population (in millions)(3)	10.2	10.0	9.9
Percentage of population covered(4)	96%	96.0%	95.6%
Penetration at year-end(5)	71.3%	65.6%	55.2%
Percentage of municipalities covered	70.0%	69.9%	55.2%
Market share(6)	43.8%	48.3%	54.8%

Central Western and Northern regions Areas 7 and 8

	Year ended December 31,		
	2006	2005	2004
Cellular lines in service at year-end (in thousands)	5,912	6,815	5,820
Contract customers	836	970	945
Prepaid customers	5,075	5,845	4,875
Growth in cellular lines in service during year	(13.3)%	17.1%	41.6%
Churn(1)	47.3%	19.2%	23.4%
Estimated population of concession areas (in millions)(2)	34.6	33.8	33.0
Estimated covered population (in millions)(3)	28.0	27.1	25.5
Percentage of population covered(4)	81.0%	80.4%	77.2%
Penetration at year-end(5)	47.3%	44.0%	34.8%
Percentage of municipalities covered	46.0%	44.7%	41.3%
Market share(6)	36.1%	45.5%	51.3%

States of Bahia and Sergipe Area 9

	Year ended December 31,		
	2006	2005	2004
Cellular lines in service at year-end (in thousands)	1,647	1,477	1,320
Contract customers	331	323	292
Prepaid customers	1,316	1,154	1,028
Customer growth during the year	11.5%	11.9%	17.3%
Churn(1)	32.1%	33.6%	35.3%
Estimated population of region at year-end (million)(2)	16.0	15.8	15.6
Estimated covered population at year-end (million)(3)	12.4%	11.1%	10.8%
Percentage of population covered at year-end(4)	78.0%	70.3%	69.3%
Penetration at year-end(5)	38.6%	29.2%	19.9%

Percentage of municipalities covered	45.0%	33.1%	31.3%
Estimated market share(6)	26.6%	31.8%	42.3%

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- (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 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 addition, 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).

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 frequency in 19 Brazilian states in addition to Distrito Federal, which represents approximately 7.3 million square kilometers and 85.6% of the Brazilian territory. This area includes more than 138.8 million people, representing 73.8% of Brazil's population, and 212 municipalities with a population in excess of 100,000. The GDP of this area reached approximately 83.1% of Brazil's total GDP, as of December 2004.

The following tables set forth population, gross domestic product (GDP), and per capita income statistics for each state in our Region at the dates and for the years indicated:

Area	Frequency Range	At December 31, 2006		Last Available IBGE Data		
		Population (in thousands)(1)	Percent of Brazil's population (1)	GDP (in millions of reais)(2)(3)	Percent of Brazil's GDP(3)	Per capita income (in reais)(2)(3)
São Paulo state	A Band	41,361	22.0%	546,607	30.9%	13,725
Paraná state	B Band	10,450	5.6%	108,699	6.2%	10,725
Santa Catarina state	B Band	6,004	3.2%	70,208	4.0%	12,159
Goiás state	A Band	5,786	3.1%	41,316	2.3%	7,501
Tocantins state	A Band	1,346	0.7%	4,768	0.3%	3,776
Mato Grosso state	A Band	2,884	1.5%	27,935	1.6%	10,162
Mato Grosso do Sul state	A Band	2,315	1.2%	19,954	1.1%	8,945
Rondônia state	A Band	1,576	0.8%	9,744	0.6%	6,238
Acre state	A Band	690	0.4%	3,242	0.2%	5,143
Amapá state	B Band	626	0.3%	3,720	0.2%	6,796
Amazonas state	B Band	3,355	1.8%	35,889	2.0%	11,434
Maranhão state	B Band	6,225	3.3%	16,547	0.9%	2,748
Pará state	B Band	7,180	3.8%	34,196	1.9%	4,992
Roraima state	B Band	409	0.2%	1,864	0.1%	4,881
Federal District	A Band	2,409	1.3%	43,522	2.5%	19,071
Bahia state	A Band	14,017	7.5%	86,882	4.9%	6,350
	A Band	2,017	1.1%	13,121	0.7%	6,782

Sergipe state						
Rio de Janeiro state	A Band	15,650	8.3%	222,564	12.6%	14,639
Espírito Santo state	A Band	3,492	1.9%	34,488	2.0%	10,289
Rio Grande do Sul state	A Band	11,022	5.9%	142,874	8.1%	13,320
Vivo		138,814	73.8%	1,468,140	83.1%	10,210

Source: *Instituto Brasileiro de Geografia e Estatística* (IBGE)

(1) Estimates from IBGE for the year end 2006.

(2) According to the most recent IBGE data (2004).

(3) Nominal Brazilian GDP was R\$1,766,621 million as of December 2004 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 postpaid 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, 2006, Vivo possessed 307 sales outlets (94 in São Paulo, 50 in the states of Rio de Janeiro and Espírito Santo, 33 in the state of Rio Grande do Sul, 37 in the states of Paraná and Santa Catarina, 24 in the states of Bahia and Sergipe, and 69 in the states that make up the midwestern and northern regions of Brazil). It also has an efficient network of 7,837 authorized retail and resales dealerships. Consequently, Vivo has maintained its market leadership position, with a total of 8,144 points of sale.

Prepaid telephone card recharging was available at 322,863 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

Vivo has continued its policy of outsourcing, keeping 100% of customer services in the hands of specialized companies, while maintaining full management control. These services are available 24 hours from our call center and our website.

Satisfaction evaluation

Customer satisfaction is evaluated by regular satisfaction surveys. In the second half of 2006, 3,200 customers of Vivo and 2,200 customers of other non-affiliated companies were interviewed all over the country about customer assistance, products and services. Vivo's satisfaction mark was ranked 8.21 on a range from 1 to 10, with the market average being 8.27. Several actions have been taken in order to increase our customer satisfaction. For example, one of the most frequent complaints from our customers was related to billing. Therefore, every step of the billing process, from inside the call center to the back office, was reworked in order to speed up customer response time, to assure the quality of customer service, and to front-load the response process in order to increase the likelihood of first-call resolution (FCR).

One of the most important objectives of 2006 was to retain our customers by increasing their satisfaction when using our services. A new administrative structure was designed to better track our premium customers and suggest ways to improve retention.

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, 2006, 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 its own and as leased mainly from Telecomunicações de São Paulo S.A., or Telesp, and 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, 2006, the telecommunications network in PR/SC that provides both CDMA digital and GSM digital services covered 59.8% of the municipalities, or 92.6% 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., and 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, 2006, 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 45.8% of the municipalities, or 80.9% 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 and 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, 2006, the telecommunications network of Vivo S.A. in Bahia and Sergipe (BA/SE) covered 44.7% of the municipalities, or 77.6% 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. and Lucent Technologies do Brasil, Ind. e Com. Ltda. are Vivo S.A.'s main suppliers in BA/SE.

As of December 31, 2006, 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, GSM digital and AMPS analog services, which have been substantially phased out. 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, and 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, 2006, 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 70.1% of the municipalities, or 96.0% 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, and 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, 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, Espirito 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.

We are obligated to meet certain requirements for service quality and annual network expansion. See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies. We have already achieved all of our required network expansion obligations for 2006.

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 each of our operating subsidiaries for the last three years.

Vivo

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	7,243.9	7,399.0	6,377.8
Sales of wireless devices and accessories	2,742.6	3,051.7	2,984.6
Interconnection	4,338.1	4,304.4	4,590.9
Other	1,130.1	1,005.3	767.7
Total gross operating revenue	15,454.7	15,760.4	14,721.0

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Value-added and other indirect taxes	(3,094.1)	(3,157.7)	(2,756.1)
Sales and services discount and return of goods sold	(1,423.9)	(1,348.9)	(1,035.5)
Net operating revenues (2)	10,936.7	11,253.8	10,929.4

State of São Paulo Areas 1 and 2

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	2,568.8	2,545.9	2,342.9
Sales of wireless devices and accessories	1,029.3	1,243.7	1,209.5
Interconnection	1,813.5	1,841.1	1,913.7
Other	401.7	348.6	315.9
Total gross operating revenue	5,813.3	5,979.3	5,782.0
Value-added and other indirect taxes	(1,012.2)	(1,054.1)	(986.2)
Sales and services discount and return of goods sold	(560.2)	(544.2)	(466.8)
Net operating revenues	4,240.9	4,381.0	4,329.0

States of Rio de Janeiro and Espírito Santo Area 3

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	1,621.8	1,541.8	1,257.7
Sales of wireless devices and accessories	545.7	626.4	584.1
Interconnection charges	805.4	734.3	792.5
Other	186.3	137.7	69.5
Total gross operating revenue	3,159.2	3,040.2	2,703.8
Value-added and other indirect taxes	(693.1)	(667.8)	(553.3)
Discounts granted and return of goods	(275.6)	(294.5)	(223.3)
Net operating revenues	2,190.5	2,077.9	1,927.2

States of Paraná and Santa Catarina Area 5

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)

	(in millions of reais)		
Usage and additional charges and monthly subscription charges	434.3	459.1	347.9
Sales of wireless devices and accessories	210.6	220.8	257.1
Interconnection	310.9	321.5	356.2
Other	115.8	102.6	62.7
 Total gross operating revenue	 1,071.6	 1,104.0	 1,023.9
Value-added and other indirect taxes	(198.5)	(207.2)	(179.4)
Sales and services discount and return of goods sold	(91.9)	(76.2)	(43.0)
 Net operating revenues	 781.2	 820.6	 801.5

State of Rio Grande do Sul Area 6

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	823.3	886.4	688.9
Sales of wireless devices and accessories	209.1	246.2	291.7
Interconnection charges	395.3	406.3	453.9
Other	137.8	139.4	117.6
Total gross operating revenue	1,565.5	1,678.3	1,552.1
Value-added and other indirect taxes	(364.9)	(387.3)	(287.6)
Discounts granted and return of goods	(95.9)	(108.6)	(90.2)
Net operating revenues	1,104.7	1,182.4	1,174.3

Central Western and Northern regions Areas 7 and 8

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	1,460.2	1,625.4	1,420.7
Sales of wireless devices and accessories	570.8	521.0	486.8
Interconnection	791.9	797.6	872.1
Other	224.7	227.6	170.1
Total gross operating revenue	3,047.6	3,171.6	2,949.7
Value-added and other indirect taxes	(652.7)	(681.9)	(610.8)
Sales and services discount and return of goods sold	(303.7)	(218.3)	(128.5)
Net operating revenues	2,091.2	2,271.4	2,210.4

States of Bahia and Sergipe Area 9

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)

	(in millions of reais)		
Usage and additional charges and monthly subscription charges	394.4	381.7	319.7
Sales of wireless devices and accessories	177.1	193.6	155.4
Interconnection charges	221.1	203.6	202.5
Other	63.8	49.4	31.9
Total gross operating revenue	856.4	828.3	709.5
Value-added and other indirect taxes	(172.7)	(159.4)	(138.8)
Discounts granted and return of goods	(96.6)	(107.1)	(83.7)
Net operating revenues	587.1	561.8	487.0

(1) The financial information presented for 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006. The financial information presented for the 2005 and 2004 fiscal years represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

(2) Includes the following amounts that have been eliminated upon consolidation and combination of financial statements:

Vivo Intercompany net operating revenues

	Year ended December 31,		
	2006(1)	2005(1)	2004(1)
	(in millions of reais)		
Net operating revenues	(58.9)	(41.3)	na

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 (TCO's B Band subsidiary NBT).
- 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, 2006), 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 offer CDMA automatic international roaming in the United States, Argentina, Uruguay, Chile, Canada, China, Mexico, Venezuela, Porto Rico, New Zealand, Dominican Republic and South Korea. 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.

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. 10,833 was enacted, making such contribution noncumulative and increasing the rate from 3.0% to 7.60%, except in connection with telecommunication services, where the rate continues to be 3.0%.

- **PIS** (*Programa de Integração Social*) is a federal social contribution tax which corresponds to 1.65% of the gross operating revenue less discounts and returns, except in connection with telecommunication services, where the rate is 0.65%.
- **FUST** (*Fundo de Universalização dos Serviços de Telecomunicações*) is a federal social contribution which corresponds to 1% of the net revenue generated by telecommunications services (other than interconnection charges). The purpose of the FUST is to fund a portion of the costs incurred by telecommunication service providers to meet the universal service targets required by ANATEL, in case the service providers are unable to fund, in whole or in part, such costs.
- **FUNTTEL** (*Fundo para Desenvolvimento Tecnológico das Telecomunicações*) is a federal social contribution which corresponds to 0.5% of the net revenue generated by telecommunications services (other than interconnection charges). The purpose of FUNTTEL is to promote the development of telecommunications technology in Brazil and to improve competition.
- **FISTEL** (*Fundo de Fiscalização das Telecomunicações*) is a federal tax applicable to telecommunications transmission equipment. The purpose of FISTEL is to provide financial resources for the Brazilian federal government to control and inspect the industry. This tax 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 customers and radio stations at the end of the previous fiscal year. *Taxa de Fiscalização de Instalação* is based on (i) the net monthly additions (new customers less churn) and (ii) the movement of radio stations.

Billing

Vivo uses Atlys, a billing solution that combines software and hardware resources, from the supplier company Convergys as the billing system for centralized postpaid 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 postpaid 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 (postpaid 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 postpaid 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 postpaid). 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 postpaid 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 postpaid 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 postpaid customer 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 Serasa, a credit bureau. After 105 days of default, accounts are directed to independent agencies for collection and the Consumer Protection Service.

All payments that are over 90 days late are considered either bad debt or written off. We account for late payments 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 2006, we led a campaign against subscription and cloning 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. 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.

In December 2006, our campaign against these two types of fraud was conducted through specific projects and the authentication of our cell phone base, which resulted in a 95.0% decrease in the total number of cloning fraud cases from December 2005 and a 19.0% decrease in the total number of subscription fraud cases from December 2005.

With the assistance of various officers and the Committee for the Campaign against Fraud and Cloning, created in January 2006, we were able to significantly reduce the number of fraud and cloning occurrences. Our initiatives focused on authenticating our wireless network and the cell phone bases.

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 *Telefónica*.

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 Salvador 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 1,800 MHz radio frequency bands, and were denominated C Band, D Band and E 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 and in March of 2006.

Under these new licenses:

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

- a cellular 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 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) and the new Regulation of Remuneration of Use of SMP Providers Networks (Resolution number 438/2006).

ANATEL's Public Consultation number 642 of 2005 relates to alterations in the regulation of SMP. While counter-arguments thereunder must have been sent to ANATEL before January 16, 2006, none have been made. In the proposed 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, an extension of the period for blocking use by insolvent customers and limits on the period of time after which customers may leave service plans. We have presented our arguments to ANATEL against proposals that may have adverse effects on our business. If these new regulations take effect, they 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 Celular CRT until 2022 (renewed in 2006, only once, for a fifteen-year period); Telerj until 2020 (renewed in 2005, only once, for a fifteen-year period); Telest until 2008; Telebahia and Telergipe until 2008; TC until 2008 or 2009 (for the cities of Ribeirão Preto and

Guatapar); GT until 2013, TCO until 2021 (for Brazil's Federal District, renewed in 2006, only once, for a fifteen-year period); Teleacre, Teleron, Telemat and Telems until 2009; Telegoias until 2008; and NBT until 2013). Spectrum rights may be renewed only once for a fifteen-year period.

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 TC, GT, TCO, Telegoiás, Telemat, Telems, Teleron, Teleacre, NBT, Telebahia, Telergipe, Telerj, Telest and Celular CRT 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. ANATEL is currently studying a new model 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, and is expected to be

completed by mid-2007. In 2006 the free negotiation of the mobile call termination fees that was started in 2005 (VU-M) was maintained, although ANATEL did not accept the new agreements proposed by mobile and fixed operators. Therefore the provisional agreement between the local fixed concessionaires and the mobile operators reached in 2005 is still in effect, while new attempts at negotiation are in progress. 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, 2006, 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 89.0% of our voting stock, 47.53% of our preferred shares and 62.40% 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 subsidiaries. We rely very substantially on dividends from our subsidiaries to meet our needs for cash, including cash to pay dividends to our shareholders. See [Item 5. 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](#).

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, 2006, we had 56 cellular switches in São Paulo and other equipment installed in 12 owned spaces, two leased spaces and 18 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 3,229 base stations and other network equipment are installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, in Sao Paulo we own administrative buildings (approximately 5,126 square meters) and one retail store and we lease five administrative facilities (approximately 76,549 square meters), warehouse space (approximately 6,000 square meters), 11 administrative areas (approximately 6,257 square meters), 11 kiosks and 82 retail stores.

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As of December 31, 2006, Vivo S.A., in the states of Parana and Santa Catarina (PR/SC), had 18 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 1,435 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 7,367 square meters), warehouse space (approximately 4,526 square meters), and 38 retail stores.

As of December 31, 2006, Vivo S.A. in the midwest region (CO) had 21 cellular switches and other equipment installed in 11 owned spaces and one shared space. 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 1,807 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 six administrative buildings (approximately 35,380 square meters), two warehouse spaces (approximately 1,300 square meters), one administrative area (approximately 491 square meters) and three retail stores, and leases four administrative facilities (approximately 3,958 square meters), six warehouse spaces (approximately 8,288 square meters), three administrative areas (approximately 2,890 square meters) and 47 retail stores.

As of December 31, 2006, Vivo S.A. in the northern region had 16 cellular switches and other equipment installed in 12 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 572 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, the northern region owns a warehouse space (approximately 600 square meters) and leases five administrative facilities (approximately 5,556 square meters), five warehouse spaces (approximately 15,705 square meters) and 23 retail stores.

As of December 31, 2006, Vivo S.A. in the states of Bahia and Sergipe had nine cellular switches and other equipment installed in two owned spaces and three 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 622 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 24 retail stores throughout this region.

As of December 31, 2006, Vivo S.A. in the states of Rio de Janeiro and Espirito Santo had 23 cellular switches and other equipment installed in four owned spaces, three shared spaces and one 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 five years. Our 2,124 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. 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), two warehouse spaces (approximately 11,977 square meters), eight kiosks and 44 retail stores throughout this Region.

As of December 31, 2006, Vivo S.A. in the state of Rio Grande do Sul had 19 cellular switches and other equipment installed in two owned spaces, two 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 2,122 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, they have their own administrative building (approximately 1,484 square meters) and also lease an administrative facility (approximately 4,549 square meters), two warehouse spaces (approximately 7,524 square meters), four 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 Note 37 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;
- valuation of 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, 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. 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 of the estimated useful lives of the underlying assets, which consider historical information available to us, as well as known industry trends. The sensitivity of an impact in changes in the useful lives of property, plant and equipment was assessed by applying a hypothetical 10% decrease to the useful lives of switching and transmission equipment existing at December 31, 2006. This hypothetical 10% decrease would cause a R\$130 million increase in our annual depreciation expense in the year of the change.

Valuation 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

On April 25, 2003, we acquired 64.03% of TCO's common stock. Subsequently, we increased our ownership interest to 90.73% of TCO's common stock through a public tender offer. Since May 1, 2003, we have consolidated 100% of the results of TCO.

The comparability of the TCP figures for the fiscal years ended December 31, 2003 and 2004 has been affected by the consolidation of the operating results of TCO from May 1, 2003.

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.

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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, Telebahia, 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.

Results of Operations for 2006, 2005 and 2004 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	
	2006 (1) Consolidated	2005 (1) Combined	2004 (1) Combined	2006-2005	2005-2004
	(in millions of reais)				
Net operating revenue	10,936.7	11,253.8	10,929.4	(2.8)	3.0
Cost of services and goods	(5,564.2)	(5,337.3)	(5,338.1)	4.3	0.0
Gross profit	5,372.5	5,916.5	5,591.3	(9.2)	5.8
Operating expenses:					
Selling	(3,787.5)	(3,744.5)	(2,833.0)	1.1	32.2
General and administrative	(1,112.2)	(1,033.3)	(959.2)	7.6	7.7
Other operating expenses, net	(270.6)	(360.1)	(129.2)	(24.9)	178.7
Total operating expenses	(5,170.3)	(5,137.9)	(3,921.4)	0.6	31.0
Operating income before financial expense, net	202.2	778.6	1,669.9	(74.0)	(53.4)
Net financial expenses	(748.0)	(913.1)	(1,088.5)	(18.1)	(16.1)
Operating income (loss)	(545.8)	(134.5)	581.4	305.8	na
Net non-operating expense	(289.0)	(96.5)	(60.9)	199.5	58.5
Net income (loss) before income and social contribution taxes and minority interests	(834.8)	(231.0)	520.5	261.4	na

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Income and social contribution taxes	859.1	(363.0)	(438.5)	Na	(17.2)
Minority interests	(8.0)	(173.5)	(480.9)	(95.4)	(63.9)
Net Income (loss)	16.3	(767.5)	(398.9)	Na	92.4

(1) The financial information presented for 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006. The financial information presented for the 2005 and 2004 fiscal years 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 3.5% decrease in the number of contract customers to 5.5 million in 2006, from 5.7 million in 2005. The 2005 figure represented a 9.6% increase from 5.2 million in 2004. Similarly, net additions generated a 2.5% decrease in the number of prepaid customers to 23.5 million in 2006, from 24.1 million in 2005. The 2005 figure represented a 12.6% increase from 21.4 million in 2004.

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.

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 are 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.

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	
	2006 (1)	2005 (1)	2004 (1)	2006-2005	2005-2004
	(in millions of reais)				
Usage, additional call and monthly subscription charges	7,243.9	7,399.0	6,377.8	(2.1)	16.0
Interconnection charges	4,338.1	4,304.4	4,590.9	0.8	(6.2)
Sales of wireless devices and accessories	2,742.6	3,051.7	2,984.6	(10.1)	2.3
Other	1,130.1	1,005.3	767.7	12.4	30.9
Gross operating revenue	15,454.7	15,760.4	14,721.0	(1.9)	7.1
Value-added and other indirect taxes	(3,094.1)	(3,157.7)	(2,756.1)	(2.0)	14.6
Discounts granted and return of goods	(1,423.9)	(1,348.9)	(1,035.5)	5.6	30.3
Net operating revenues (1)	10,936.7	11,253.8	10,929.4	(2.8)	3.0

(1) The financial information presented for the 2006 fiscal year represents information from Vivo's consolidated financial statements. The financial information presented for the 2005 and 2004 fiscal years represents the combined financial data for Vivo and TSD, TLE and CRT.

Net operating revenues decreased by 2.8% to R\$10,936.7 million in 2006 and from R\$11,253.8 million in 2005, which in turn represented a 3.0% increase from R\$10,929.4 million in 2004. The reduction in 2006 reflects mainly a decrease in revenue from sales of wireless devices and accessories and usage charges, partially offset through an increase in interconnection charges and other revenues. The growth in 2005 reflects mainly an increase from usage charges, other revenues and sales of wireless devices and accessories, partially offset by a decrease in interconnection charges and monthly subscription charges.

Usage, additional call and monthly subscription charges. Revenues from usage charges decreased by 2.1% to R\$7,243.9 million in 2006, from R\$7,399.0 million in 2005, which in turn represented a 16.0% increase from R\$6,377.8 million in 2004. The decrease in usage charges in 2006 was mainly due to a decrease of 2.3% in our customer base to 29.1 million. The increase in usage charges in 2005 was mainly due to an increase of 12.5% in our customer base to 29.8 million customers in 2005 as compared to 26.5 million customers in 2004, in addition to an increase in traffic due to an increase of 10.8% in contract customers.

Interconnection charges. Revenues from interconnection charges increased by 0.8% to R\$4,338.1 million in 2006, from R\$4,304.4 million in 2005, which in turn represented a 6.2% decrease from R\$4,590.9 million in 2004. 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 decrease in interconnection charges in 2005 was principally due to a trend toward a greater volume of cellular-to-cellular calls and a reduction in the volume of fixed-line to cellular calls and to the effect of the partial Bill & Keep system under ANATEL's Personal Mobile Service (*Serviço Móvel Pessoal*, or SMP) regime, as described in Item 3. Key Information.

Sales of wireless devices and accessories. Revenues from sales of wireless devices and accessories decreased by 10.1% to R\$2,742.6 million in 2006 and from R\$3,051.7 million in 2005, which in turn represented a 2.3% increase from R\$2,984.6 million in 2004. 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. The increase in 2005 was mainly due to the increase in our customer base, described above, which resulted in part from promotional campaigns to acquire new customers.

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\$521.8 million, R\$783.5 million and R\$928.5 million in 2006, 2005 and 2004, respectively.

Other. Revenues from other services increased 12.4% to R\$1,130.1 million in 2006, and from R\$1,005.3 million in 2005, which in turn represented a 30.9% increase from R\$767.7 million in 2004. The increase was principally due to the 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 2005 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. 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 decreased 2.0% to R\$3,094.1 million from R\$3,157.7 million in 2005, which in turn represented a 14.6% increase from R\$2,756.1 million in 2004. The decrease was principally due to a decrease in gross operating revenue, particularly in revenue from the sales of wireless devices and accessories and usage charges. The increase in 2005 occurred principally because of the increase in gross operating revenues other than from interconnection fees (which are not subject to these taxes). 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 20.0%, 20.0% and 18.7% of our gross operating revenues in 2006, 2005 and 2004, respectively.

Sales and services discounts and return of goods sold. Discounts and returns increased by 5.6% in 2006 to R\$1,423.9 million, from R\$1,348.9 million in 2005, which in turn represented a 30.3% increase from R\$1,035.5 million in 2004. Discounts and returns corresponded to 9.2%, 8.6% and 7.0% of our gross operating revenues in 2006, 2005 and 2004, respectively. The increase was principally due to the increase of discounts on services due to competition. The increase in 2005 was principally due to increases in discounts on wireless devices and accessories in response to aggressive competition from other providers and to higher commissions for prepaid card sales.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for 2006, 2005 and 2004, as well as the percentage change from the previous year.

	Year ended December 31,			Percent change	
	2006 (1)	2005 (1)	2004 (1)	2006-2005	2005-2004
	(in millions of reais)				
Cost of goods sold	(1,898.3)	(2,424.7)	(2,682.0)	(21.7)	(9.6)
Depreciation and amortization	(1,327.5)	(1,240.4)	(1,237.9)	7.0	0.2
Supplies, outside services other	(517.9)	(399.4)	(279.4)	29.7	42.9
Interconnection charges add	(785.0)	(242.7)	(347.6)	223.4	(30.2)
Rent, insurance, condominium fees, and leased lines	(429.3)	(438.2)	(380.3)	(2.0)	15.2
Personnel	(88.7)	(98.2)	(91.2)	(9.7)	7.7
Taxes	(517.5)	(493.7)	(319.7)	4.8	54.4
Cost of services and goods	(5,564.2)	(5,337.3)	(5,338.1)	4.3	0.0

- (1) The financial information presented for 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006. The financial information presented for the 2005 and 2004 fiscal years 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 4.3% in 2006 to R\$5,564.2 million, from R\$5,337.3 million in 2005, which remained stable compared to 2004, which reached R\$5,338.1 million. 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, an increase of third-party costs and the depreciation and amortization costs, partially offset by a reduction in the cost of goods sold. The increase in 2005 was mainly due to increases in tax payments, depreciation and amortization and the cost of third party services. This increase was partially offset by a decrease in interconnection charges paid to other providers and the cost goods sold. Gross margin (gross profit as a percent of net revenues) corresponded to 49.1%, 52.6% and 51.2% in 2006, 2005 and 2004, respectively.

Cost of goods sold. Cost of wireless devices and accessories decreased 21.7% to R\$1,898.3 million in 2006, from R\$2,424.7 million in 2005, which in turn represented a decrease of 9.6% from R\$2,682.0 million in 2004. 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. The decrease in 2005 was principally due to lower costs negotiated with suppliers and fewer new customers in 2005 compared to 2004.

Depreciation and amortization. Depreciation and amortization expenses increased 7.0% to R\$1,327.5 million in 2006, from R\$1,240.4 million in 2005, which in turn represented an increase of 0.2% from R\$1,237.9 million in 2004. 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. The increase in 2005 was principally due to expansion of our transmission network and other assets driven by the expansion in our customer base.

Supplies, outside services and other. Cost of materials and third-party services increased 29.7% to R\$517.9 million in 2006, from R\$399.4 million in 2005, which in turn represented an increase of 42.9% from R\$279.4 million in 2004. 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. The increase in 2005 was principally due to increase in the cost of third-party services and rental payments, such as network maintenance services and the costs of rented circuits and transmission lines.

Interconnection charges. Interconnection charges increased by 223.4% to R\$785.0 million in 2006, and from R\$242.7 million in 2005, which in turn represented a decrease of 30.2% from R\$347.6 million in 2004. 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 decreased 2.0% to R\$429.3 million in 2006, from R\$438.2 million in 2005, which in turn represented an increase of 15.2% from R\$380.3 million in 2004. 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. The increase in 2005 was principally a result of increases in lease payments for shared space, paid for by a reduction in commercial equipment leases.

Personnel. Personnel expenses decreased 9.7% to R\$88.7 million in 2006, from R\$98.2 million in 2005, which in turn represented an increase of 7.7% from R\$91.2 million in 2004. 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. The increase in 2005 was mainly due to an approximate 6% 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.

Taxes. Taxes increased 4.8% to R\$517.5 million in 2006, compared to R\$493.7 million in 2005, which in turn represented a 54.4% increase from R\$319.7 million in 2004. The increase in 2006 was principally due to the increase in FISTEL taxes. The increase in 2005 was principally due to a change in accounting policies at TCO to bring TCO's accounting for FISTEL and other taxes in line with that of TCP. Beginning in January of 2005, TCO began to accrue amounts monthly for these taxes, as does TCP, rather than recognize the entire tax amount in December of a given fiscal year.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the years ended December 31, 2006, 2005 and 2004, as well as the percentage change from the prior year.

	Year ended December 31,			Percent change	
	2006 (1)	2005 (1)	2004 (1)	2006-2005	2005-2004
	(in millions of reais)				
Selling expenses	(3,787.5)	(3,744.5)	(2,833.0)	1.1	32.2
General and administrative expenses	(1,112.2)	(1,033.3)	(959.2)	7.6	7.7
Other net operating expenses	(270.6)	(360.1)	(129.2)	(24.9)	178.7
Total	(5,170.3)	(5,137.9)	(3,921.4)	0.6	31.0

(1) The financial information presented for the 2006 fiscal year represents information from Vivo's consolidated financial statements. The financial information presented for the 2005 and 2004 fiscal years represents the combined financial data for Vivo and TSD, TLE and CRT.

Vivo's operating expenses increased 0.6% to R\$5,170.3 million in 2006, from R\$5,137.9 million in 2005, which in turn represented an increase of 31.0% from R\$3,921.4 million in 2004. The increase in operating expenses in 2006 was principally due to the increase in general and administrative expenses compensated through a reduction in other operating expenses. The increase in operating expenses in 2005 was principally due to an increase in selling expenses, which in 2005 totaled R\$3,744.5 million, a 32.2% increase from R\$2,833.0 million in 2004.

Selling expenses. Selling expenses increased 1.1% to R\$3,787.5 million in 2006, from R\$3,744.5 million in 2005, which in turn represented a 32.2% increase from R\$2,833.0 million in 2004. The increase in 2006 was principally due to a 11.4% increase of 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. The increase in 2005 was principally due to increases in expenses for third-party services (such as marketing, client care and call center services); increases in the provision for doubtful accounts; and expenses for depreciation of stores, equipment and other assets. Provisions for doubtful accounts increased 93.1% to R\$647.0 million for the year ended December 31, 2005 from R\$335.1 million for the year ended December 31, 2004, mainly due to an increase in our customer base and the effect of changes in how we recognize acquisitions of new customers and receivables from calls made through networks of other operators. Such values, according to the present regulations, are necessarily paid to the cited operators, independent of recognition of such calls from our customers. Provisions for doubtful accounts were 4.7%, 4.1% and 2.28% of gross revenues for 2006, 2005, and 2004, respectively.

General and administrative expenses. General and administrative expenses increased by 7.6% in 2006 to R\$1,112.2 million, and from R\$1,033.3 million in 2005, which in turn represented an increase of 7.7% in 2004 from R\$959.2 million in 2004. 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. The increase in general and administrative expenses in 2005 was primarily due to increases in outsourcing, especially for data processing and network maintenance and to larger depreciation and amortization expenses.

Other net operating expenses. The net amount of other operating expenses decreased by 24.9% to R\$270.6 million in 2006, from R\$360.1 million in 2005, which in turn represented an increase of 178.7% from R\$129.2 million in

2004. 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 reserve for contingencies. The increase in 2005 was mainly caused by the amortization of goodwill generated in the acquisition of additional shares of TCO.

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, 2006, 2005 and 2004.

	Year ended December 31,			Percent Change	
	2006 (1)	2005 (1)	2004 (1)	2006-2005	2005-2004
	(in millions of reais)				
Financial income	286.8	439.7	379.6	(34.8)	15.8
Exchange gains and losses	323.0	466.3	359.2	(30.7)	29.8
Gains (Losses) on foreign currency derivative contracts	(764.3)	(1,120.0)	(1,030.2)	(31.8)	8.7
Financial expenses	(593.5)	(699.1)	(797.1)	(15.1)	(12.3)
	(748.0)	(913.1)	(1,088.5)	(18.1)	(16.1)

(1) The financial information presented for 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006. The financial information presented for the 2005 and 2004 fiscal years 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 18.1% to R\$748.0 million in 2006, from R\$913.1 million in 2005, which in turn represented a decrease of 16.1% from R\$1,088.5 million in 2004. The decrease in 2006 was principally due to the reduction in net indebtedness, which occurred due to the corporate reorganization and financial liabilities restructuring, as well as to the decrease in the interest rates during the period (15.0% in 2006 and 19.0% in 2005).

Vivo's net financial expenses decreased between 2004 and 2005 primarily due to a reduction in our cost of net debt obtained from the renewal of financial agreements, which offset the higher interest rates during the period (from 16.17% per year in 2004 to 19.0% per year in 2005).

As of December 31, 2006, all of our foreign exchange indebtedness (R\$2,651.2 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\$335.0 million in our foreign currency-denominated debt (a gain of R\$460.1 million in 2005 and a gain of R\$355.3 million in 2004), which was offset by losses in our currency and interest rate derivatives contracts of R\$764.3 million in 2006 (a loss of R\$1,120.0 million in 2005 and a loss of R\$1,030.2 million in 2004).

Net non-operating Expense

The net non-operating expense increased by 199.5% to R\$289.0 million from R\$96.5 million in 2005, which in turn represented a 58.5% increase from R\$60.9 million in 2004. In 2006, we recorded a provision for loss in property, plant and equipment in the amount of R\$278.0 as a result of our analysis of the recoverability of assets related to the technologies.

Income and Social Contribution Taxes Income (Expense)

We recorded income from income and social contribution taxes in the amount of R\$859.1 million in 2006, a variation from an expense of R\$363.0 million that we recorded in 2005, which in turn represented a 17.2% decrease from an expense of R\$438.5 million in 2004. This shift from expense to income in 2006 resulted from the Corporate Restructuring process. See Note 30 to our financial statements.

Minority Interest

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 2006, 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\$3,100.8 million, R\$2,302.2 million and R\$2,068.4 million in 2006, 2005 and 2004, respectively.

Vivo had net cash used in financing activities of R\$1,458.4 million as of December 31, 2006. Although Vivo obtained new loans in the aggregate amount of R\$2,200.7 million in that period, these were more than offset by loan repayments of R\$2,962.0 million and net settlements on derivatives contracts of R\$640.5 million.

Vivo had R\$2,910.1 million in long-term loans and financing as of December 31, 2006. Vivo's R\$1,590.3 million in short-term indebtedness as of December 31, 2006 consisted primarily of funding from financial institutions. As of December 31, 2006, Vivo had a working capital (current assets minus current liabilities) deficit of R\$27.5 million compared to a working capital of R\$1,326.3 million as of December 31, 2005. As of December 31, 2004, Vivo had a working capital (current assets minus current liabilities) deficit of R\$352.0 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.

Also, in October of 2004, TCP held a voluntary public tender offer to acquire shares of TCO in the amount of R\$902.0 million, with the objective of increasing the ownership interest of the Company in the capital stock of TCO. The number of preferred shares of capital stock of TCO held by TCP and by persons directly and indirectly linked to TCP increased to 84,252,534,000 preferred shares, representing 32.76% of the total preferred shares and representing an increase from 28.86% to 50.65% of the ownership interest of the Company in the total capital stock of TCO.

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 and payment of dividends to our shareholders.

Our capital expenditures (including capitalized interest) amounted to R\$2,103.9 million, R\$2,206.5 million and R\$1,940.5 million in 2006, 2005 and 2004, respectively. Payment of debt and derivative instruments consumed cash flows of R\$3,602.5 million, R\$4,080.5 million and R\$5,134.4 million in 2006, 2005 and 2004, respectively. Dividends and interest on equity payments consumed cash flows of R\$63.2 million, R\$184.7 million and R\$176.5 million in 2006, 2005 and 2004, respectively.

Capital Expenditures

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

Vivo	Year ended December 31,		
	2006 (1)	2005 (1)	2004 (1)
	(in millions of reais)		
Switching equipment	375.9	523.0	582.1
Transmission equipment	844.4	862.8	623.8
Information technology	414.8	407.6	291.9
Others(2)	468.8	413.1	442.7
Total capital expenditures	2,103.9	2,206.5	1,940.5

(1) The financial information presented for 2006 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006. The financial information presented for the 2005 and 2004 fiscal years represents the combined financial data for Vivo, TSD, TLE and CRT, since the companies were under common control with Vivo for these periods.

(2) Consisting primarily of free wireless device rentals, 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\$2,103.9 million were invested during the year ended December 31, 2006, which included investment in the GSM/EDGE network and in the current CDMA/EV-DO network. This amount represented 19.28% of our net operating revenues.

Our capital expenditures for 2007 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 expenses 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. Financial Information Consolidated Statements and Other Financial Information Dividend Policy and Dividends Payment of Dividends.

Debt

As of December 31, 2006, Vivo's total debt position was as follows:

Debt	Amount Outstanding as of December 31, 2006
	(in millions of reais)
Financing from financial institutions	4,358.5
Fixcel (acquisition of TCO)	10.7
Interest	131.2
Long-term debt(1)	2,910.1
Short-term debt	1,590.3
Total debt	4,500.4

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

As of December 31, 2006, Vivo's total debt was R\$4.5 billion, of which R\$2.7 billion, or 59%, was denominated in foreign currencies and therefore exposed to currency fluctuations. Of that amount, R\$1,651 million was denominated in U.S. dollars (US\$772 million), R\$902.8 million was denominated in yen (¥50,286 million), and R\$28 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 2006, we incurred financial expense from foreign currency derivative transactions of R\$764 million against financial income from monetary and foreign exchange variations of R\$335 million. At December 31, 2006, we had derivative contracts that covered 99% 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, 2006 were R\$501 million.

We are exposed to interest rate risk as a consequence of our floating rate debt. At December 31, 2006, approximately 52% 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, 2006, 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\$232 million and R\$1,864.0 million, respectively. The CDI rates as of December 31, 2006 and 2005 were 13.17% and 19.0%, 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, 2006 totaled R\$191.9 million. In accordance with contractual obligations, there are several economic and financial indicators that must be maintained annually. Vivo S.A. did not meet the required level of EBITDA Margin (EBITDA over net operational revenue), EBITDA Margin without wireless devices (eliminating net income of the sale of goods and cost of wireless devices sold), and the current liquidity (current assets over current liabilities) as of December 31, 2006. We have already obtained a waiver from the bank for the non-fulfillment of such obligations. Vivo S.A. has indebtedness and financing with the Europe Bank of Investments, which as of December 31, 2006 totaled R\$240.5 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 the Brazilian Corporate Law Method, which differs in significant respects from U.S. GAAP. Net losses for 2006, 2005 and 2004 were R\$460.5 million, R\$494.2 million and R\$489.0 million under U.S. GAAP, compared to net income (losses) of R\$16.3 million, R\$(767.5) million and R\$(398.9) million, respectively, under the Brazilian Corporate Law Method. Shareholder's equity at December 31, 2006, 2005 and 2004 was R\$9,126.2 million, R\$7,165.6 million and R\$5,685.9 million, respectively, under U.S. GAAP, compared to R\$8,371.7 million, R\$7,047.5 million and R\$5,830.9 million, respectively, under the Brazilian Corporate Law Method.

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

New Accounting Pronouncements

In June 2006, the Emerging Issues Task Force (EITF) ratified the consensus on EITF 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. EITF 06-3

provides that taxes imposed by a governmental authority on a revenue producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the seller's accounting policy, which should be disclosed pursuant to Accounting Principles Board Opinion No. 22, Disclosure

of Accounting Policies. Amounts that are allowed to be charged to customers as an offset to taxes owed by a company are not considered taxes collected and remitted. If such taxes are significant and are presented on a gross basis, the amounts of those taxes should be disclosed. EITF 06-3 will be effective for interim and annual reporting periods beginning after December 15, 2006. We are currently evaluating the impact EITF 06-3 to determine the impact on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, (FIN 48), Accounting for Uncertainty in Income Taxes , an Interpretation of FASB Statement No. 109 which clarifies the accounting for and disclosure of uncertain tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to tax positions with uncertainty. FIN 48 requires that a tax position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company will adopt the provisions of FIN 48 effective January 1, 2007. We are evaluating the potential impact of this interpretation on our financial statements but we do not anticipate any such impact to be material.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurement. FAS 157 does not require any new fair value measurements and we do not expect the application of this standard to change our current practice. FAS 157 requires prospective application for fiscal years ending after November 15, 2007.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires an employer that is a business entity who sponsors one or more single-employer defined benefit plans to (i) recognize the funded status of a benefit plan in its statement of financial position; (ii) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers Accounting for Pensions, or No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions ; (iii) measure defined benefit plan assets and obligations as of the date of the employers fiscal year-end statement of financial position; and (iv) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year arising from the delayed recognition of the gains or losses, prior service costs or credits, and transition net assets or obligations. We adopted SFAS 158 recognition and related disclosure provisions as of December 31, 2006, which resulted in a gain of R\$29,645, net of income taxes, recorded directly in accumulated other comprehensive income (AOCI).

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, a standard that provides companies with an option to report selected financial assets and liabilities at fair value. The standard requires companies to provide additional information that shows the effect of the company s choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments. This statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. We will be evaluating the impact SFAS No. 159 will have on our financial statements during 2007.

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.

The Company incurred no significant cost in 2006, 2005 and 2004.

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, 2006, 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, 2006:

	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)	4,405.7	1,495.7	1,761.7	148.3	1,000.0
Operating leases	2,893.4	341.9	658.5	604.3	1,288.7
Unconditional purchase obligations	125.9	85.7	40.2	-	-
Other long-term obligations(2)	63.8	37.2	26.6	-	-
Total contractual cash obligations(3)	7,488.8	1,960.5	2,487.0	752.6	2,288.7

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

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

(3) 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\$120.0 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

Name	Position	Date Elected
João Pedro Amadeu Baptista	Vice Chairman	May 10, 2006 March 26,
Shakhaf Wine	Director	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
Henry Philippe Reichstul	Director	March 26, 2006
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 March & 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 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 Telefónica 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.

Henry Philippe Reichstul, born on April 12, 1949, is a member of the Board of Directors and Audit Committee of Vivo since July 2005. He 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. Mr. Reichstul is also a member of the Boards of Prisma Energy International, TAM-Linhas Aéreas S.A., Pão de Açúcar Group, Repsol YPF S.A., Member of the Advisory Board of Lhoist do Brasil Ltda, Member of the Consulting Board of Peugeot Citroen do Brasil, Member of the Strategic Board of ABDIB-Associação Brasileira da Infra-Estrutura e Indústrias de Base, Member of Coinfra-Conselho Superior da Infra-Estrutura da FIESP, and Vice Chairman of the Board of the Brazilian Foundation for Sustainable Development. Mr. Reichstul was the Chief Executive Officer of Petrobrás Petróleo Brasileiro S.A. from March 1999 to December 2001 and was the Chief Executive Officer of Globopar in 2002. Prior to that time, Mr. Reichstul held various positions as an economist and as an executive. Mr. Reichstul has served on the Boards of Directors of Telebrás from 1985 to 1986, Eletrobrás Centrais Elétricas S.A. from 1985 to 1987 and BNDES from 1986 to 1989. Mr. Reichstul holds a degree in Economics from *Universidade de São Paulo* and did post-graduate

work at Hertford College of Oxford University.

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.

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
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 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 Estudios 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., 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 Compañia Europea 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, is the Executive Vice President of Marketing and Innovation of Vivo Participações, Vivo S.A and TCO-IP S.A. 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
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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, 2006, we paid our directors and executive officers, and the directors and executive officers of our subsidiary, as compensation an aggregate amount of R\$11.8 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, 2006, we had 5,896 full-time employees and 225 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,		
	2006	2005	2004
Total number of employees (including trainees)	5,896	6,084	6,350
Number by category of activity:			
Technical and operations area	1,865	1,437	1,565
Sales and marketing	2,117	2,347	2,706
Finance and administrative support	1,330	1,448	1,196
Customer service	584	852	883

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 2.9% and a benefit increase of approximately 12.5%, effective as of December 31, 2006.

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, 2007.

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 December 31, 2006, 60.1% 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, 2006, 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, 2006:

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	42	(2)	1,759	(2)

(1) Subsidiary of Brasilcel.

(2) Less than 1% of aggregate.

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 call-center services to Telecomunicações Móveis Nacionais – TMN customers in connection with roaming services in the Company's network.
- Technical assistance: Refers to the provision of corporate management advisory services by Portugal Telecom, SGPS, S.A. and technical assistance by Telefónica S.A., Telefónica International S.A. and TBS Celular Participações S.A., based on a percentage of the net services revenue, monetarily restated in accordance with the currency variation.
- 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.
- Maintenance: Maintenance of the modular profitability analysis system (MARE) and cost control system by Telefónica Mobile Solution do Brasil Ltda., contracted for 12 months, renewable for an equal period.
- Allocation of corporate costs: With operators of the same group, allocated at the cost incurred for the services.
- Operating logistical services, accounting and financial assistance: Provided by Telefónica 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 law suits are individually material. Based on the opinion of our counsel, we believe that probable losses with respect to these claims total approximately R\$123.2 thousand, an amount for which we have made provisions, and that possible losses with respect to these claims total approximately R\$264.0 thousand.

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\$12.7 thousand. 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, is a defendant in a number of administrative and legal proceedings and is 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 has been challenged in numerous legal proceedings, some of which have not 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 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 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 Lune'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.

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 of Brazil. 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.

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.

Application of COFINS and PIS

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 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.

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.

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.

FUST

ANATEL, through the Abridgment of Law nº 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 subsidiary have filed writs of mandamus questioning the legality of this contribution and have been granted a favorable preliminary order 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.

FISTEL

Our former subsidiaries, *Telerj* and *TCO*, held two authorizations to provide telecommunication services granted by the government through SMP Authorization Term nº 013/2002: one to explore the *Serviço Móvel Pessoal* for an indeterminate period of time and the other to use radiofrequencies for the remaining period of time of the first license but renewable for fifteen years.

On November 30, 2005, the remaining time of the license for the usage of radiofrequency expired and consequently our former subsidiaries requested an extension. In order to obtain the licenses of its telecommunications stations with expiration dates, ANATEL requested the payment of a TFI (Installation Inspection Fee), with which our former subsidiaries declined to pay on the grounds that they had already paid TFI for all fixed and mobiles stations and radiofrequencies.

ANATEL's position is that the TFI assessment is due in accordance with Act nº 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.

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.

Other Litigation

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.

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 31, 2006, we paid dividends in the amount of R\$16.8 million, which was insufficient to meet the minimum dividend required by law. 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. In 2007, dividends will be paid solely for preferred shares, but since this value will be inferior to the minimum value required, holders of preferred shares will still have full voting rights.

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.

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

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 Corporate Law, 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 depository, which is responsible for the delivery of the dividends to their respective

holders. We are not required to adjust the amount of paid-in capital for inflation. Annual dividends may be paid to shareholders *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 2006 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 principally traded on BOVESPA, which is the trading market for our common and preferred shares. Our preferred shares began trading on the Brazilian stock exchanges on September 21, 1998. In the United States, our preferred shares trade in the form of ADSs that each represent one preferred share as of December 31, 2006 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.

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, 2002	9.00	1.58	22.92	6.43
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
Year ended December 31, 2005				
First quarter	7.52	5.49	19.38	14.90

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Second quarter	6.20	4.25	15.85	9.94
Third quarter	4.70	3.65	10.89	8.31
Fourth quarter	4.14	3.12	9.29	7.00
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

	New York Stock Exchange US\$ per ADS		São Paulo Stock Exchange R\$ per 1 preferred shares	
	High	Low	High	Low
Quarter ended				
March 31, 2007	4.25	3.41	8.84	7.10
Month ended				
October 31, 2006	3.58	3.11	7.65	6.63
November 30, 2006	4.14	3.51	9.01	7.60
December 31, 2006	4.11	3.74	8.81	8.01
January 31, 2007	3.98	3.60	8.80	7.77
February 28, 2007	4.25	3.70	8.84	7.56
March 31, 2007	3.76	3.41	7.77	7.10
April 2007 through April 20, 2007	4.23	3.59	8.55	7.34

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 a nonprofit 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, 2006, the aggregate market capitalization of the 394 companies listed on the BOVESPA was equivalent to approximately R\$1,544.9 billion (US\$722.6 billion). By comparison, as of December 31, 2006, the aggregate market capitalization of the 2,731 companies (including U.S. and non-U.S. companies) listed on the NYSE was approximately US\$15,421.2 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 2006, the combined daily trading volumes on BOVESPA averaged approximately U.S.\$1,120.4 million. See Item 3. 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. 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:

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- 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 law. We believe that the corporate governance guidelines applicable to us under Brazilian 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 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;

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- 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.

As we have not paid minimum dividends to holders of preferred shares in any of the past consecutive three years, in 2007 our holders of preferred shares will have full voting rights.

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 depository of the ADSs.

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

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

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, Guaiara, 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, Telerjipe 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.

D. Exchange Controls

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

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally

requires, among other things, that the 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. 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. 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 Capital

Brazilian corporations may make payments to shareholders characterized as interest on 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 capital may not exceed the greater of (i) 50% of net income (before taking the distribution and any deductions for income taxes into account) for the year in respect of which the payment is made or (ii) 50% of retained earnings for

the year prior to the year in respect of which the payment is made. Payments of interest on capital are decided by the shareholders on the basis of recommendations of the company's board of directors.

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

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

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

Taxation of Gains

Gains realized outside Brazil by a U.S. holder or 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, 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 depositary on a Brazilian stock exchange are not taxed in Brazil, but gains on other sales or assignments may be subject to tax at rates up to 15%.

The deposit of preferred shares in exchange for the ADSs is not subject to Brazilian income tax if the preferred shares 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.

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

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

In addition to the IOF tax, a second, temporary tax that applies to the removal of funds from accounts at banks and other financial institutions, the CPMF tax, will be imposed on distributions in respect of ADSs at the time these distributions are converted into U.S. dollars and remitted abroad by the Custodian. The CPMF tax is due to expire on December 31, 2007. It is currently imposed at a rate of 0.38%. Transactions conducted through the Brazilian stock exchanges in current accounts specified for stock exchange transactions have been exempt from the CPMF tax since July 13, 2002. Additionally, as of August 2004, Brazilian holders may elect to make investments through a special investment account, which is exempt from CPMF. In this case, the tax only applies upon the transfer of funds from the banking account to the investment account. Once deposited in this account, funds may be withdrawn without the CPMF. However, funds deposited in the investment account must only be used for investments.

U.S. Federal Income Tax Considerations

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

As used herein, the term U.S. Holder means a beneficial owner of preferred shares or ADSs that is, for U.S. federal income tax purposes, (1) a citizen or individual resident of the United States, (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or of any political

subdivision thereof or (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source. The U.S. federal income tax treatment of a partner in a partnership that holds our preferred shares or ADSs will depend on the status of the partner and the activities of the partnership. Partners in such partnerships should consult their own tax advisors.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. PROSPECTIVE PURCHASERS OF PREFERRED SHARES OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, 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.

General

In general, for U.S. federal income tax purposes, holders of American depositary receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs. Accordingly, such holders will not recognize gain or loss upon the exchange of ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury Department has expressed concerns that parties to whom depositary shares such as the ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of the ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain noncorporate holders. Accordingly, the analysis of the creditability of Brazilian taxes and the availability of the reduced tax rate for dividends received by certain noncorporate holders, each described below, could be affected by actions taken by parties to whom the ADSs are released.

Taxation of Distributions

Distributions made by us of cash or property (including distributions of interest on capital) generally will constitute a taxable dividend to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Since we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, U.S. holders will generally be required to treat such distributions as taxable dividends. The full amount of any dividend paid in respect of our preferred shares or ADSs (including the amount of Brazilian withholding taxes imposed on such dividend) will be included in the gross income of a U.S. Holder, as ordinary income from sources outside the United States, at the time that the dividend is received by the U.S. Holder, in the case of our preferred shares, or by the depositary, in the case of ADSs.

Under current law, subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011, with respect to the ADSs will be subject to taxation at a maximum rate of 15%, if the dividends represent qualified dividend income. Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company (PFIC). The ADSs are listed on the New York Stock Exchange, and may qualify as readily tradable on an established securities market in the United States for so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. U.S. Holders should consult their own tax advisors regarding the implications of this legislation in their particular circumstances.

The amount of any dividend paid in *reais* will be included in a U.S. Holder's income in a U.S. dollar amount calculated by reference to the spot rate for converting *reais* into U.S. dollars in effect on the date that the dividend is received by the U.S. Holder, in the case of our preferred shares, or by the depositary, in the case of ADSs, 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, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the Holder does not convert the amount of such dividend into U.S. dollars on the date of receipt. U.S. Holders should consult their own tax advisors regarding the

calculation and U.S. federal income tax treatment of foreign currency gain or loss. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations under the Code. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of Brazilian taxes and will be treated as foreign source dividend income to you.

Subject to applicable limitations that may vary depending upon a U.S. Holder's circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, a U.S. Holder will be entitled to a foreign tax credit against its U.S. federal income tax liability for Brazilian income taxes withheld by us. The limitation on foreign taxes eligible for credit is determined separately with respect to specific classes of income. The rules relating to the calculation of foreign tax credits and the applicable limitations are complex. U.S. Holders should consult their own advisors concerning the implications of the foreign tax credit rules in light of their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at its election, deduct such otherwise creditable Brazilian taxes in computing its U.S. federal taxable income, subject to generally applicable limitations under U.S. law.

Sale or Other Disposition of Preferred Shares or ADSs

Upon a sale or other taxable disposition of preferred shares or ADSs, a U.S. Holder will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in the preferred shares or ADSs. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the preferred shares or ADSs exceeds one year at the time of the sale or other taxable disposition.

Gain or loss derived from the sale or other disposition of our preferred shares or ADSs generally will be treated as U.S. source income 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 *Brazilian Tax Considerations Taxation of Gains* for a description of when a disposition may be subject to taxation by Brazil.

Passive Foreign Investment Company Rules

We believe that we will not be considered a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for 2006, and do not expect to be considered a PFIC in the foreseeable future. However, because PFIC status depends upon the composition of our income and assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that the preferred shares or ADSs will not be considered shares of a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder held a preferred share or ADS, certain adverse consequences could apply to the U.S. Holder, including the imposition of a higher tax rate than would otherwise apply to a U.S. Holder and additional tax form filing requirements. U.S. Holders are urged to consult their tax advisors regarding the consequences to them if we were considered to be a PFIC, as well as the availability and advisability of making an election to avoid the adverse United States federal income tax consequences of PFIC status should we be classified as a PFIC for any taxable year. Moreover, as described above, dividends on our ADSs would no longer be qualified dividend income subject to preferential rates of U.S. federal income tax if we are a PFIC.

Information Reporting and Backup Withholding

Payment 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. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such U.S. Holder's U.S. federal income tax liability, if any, and may entitle such U.S. Holder to a refund,

provided that the required information is furnished to the IRS in a timely manner.

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

F. Dividends and Paying Agents

Not applicable.

G. Statement of Experts

Not applicable.

H. Documents on Display

We are subject to the information requirements of the Exchange Act, except that, as a foreign issuer, we are not subject to the proxy rules or the short swing profit disclosure rules of the Exchange Act. In accordance with these statutory requirements, we file or furnish reports and other information with the Commission. Reports and other information filed or furnished by us with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. 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 and UMBNDES-denominated indebtedness. At December 31, 2006, we had US\$772.0 million and ¥50,286 million of indebtedness and R\$28 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, 2006, 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, 2006, our outstanding hedging positions covered 99% 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,

2006, we recorded financial expense from foreign currency derivative transactions of R\$764.3 million against financial income from monetary and foreign exchange variations of R\$335.0 million.

Our foreign currency-denominated debt produced a gain of R\$335.0 million in 2006, a gain of R\$460.1 million in 2005 and a gain of R\$355.3 million in 2004. This was offset by our derivatives, which produced a loss of R\$764.3 million in 2006 a loss of R\$1,120.0 million in 2005 and a loss of R\$1,030.2 million in 2004. The unrealized costs, net of unrealized loss on foreign exchange derivatives contracts was R\$500.5 million at December 31, 2006. The unrealized costs, net of unrealized loss on foreign exchange and interest rates derivatives contracts was R\$376.7 million at December 31, 2005. The unrealized gains, net of unrealized costs on foreign exchange derivatives contracts was R\$26.9 million at December 31, 2004.

The potential loss to us over one year that would have resulted from a hypothetical, instantaneous and unfavorable change of 1,000 basis points in the foreign exchange applicable to financial assets and liabilities on December 31, 2006 would be approximately R\$276.5 million. On the other hand, our derivative instruments would have a gross gain of R\$271.0 million. The net loss would be R\$5.5 million.

Exchange rate sensitivity analysis was made by applying a 10% change to the Brazilian Central Bank exchange rate on December 31, 2006 of R\$2.138 to U.S.\$1.00, which would represent a devaluation of the real of R\$0.2138. We then assumed that this unfavorable currency shift would be sustained from December 31, 2006 through December 31, 2007. 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, 2006, this amount totaled R\$1,364.7 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 and yen-denominated obligations are swapped into real-denominated obligations bearing interest linked to the CDI.

At December 31, 2006, we had R\$4,500.4 million in loans and financing outstanding, of which approximately R\$2.1 billion bore interest at fixed rates and approximately R\$2.4 billion bore interest at floating rates of interest (primarily LIBOR, CDI, IGPM and TJLP-based. Loans and financing in foreign currency are mainly denominated in U.S. dollars and yen, and bear interest at fixed rates ranging from 0% to 6.5% per annum, or are subject to variable interest from 1.4% to 1.75% 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 100% to 110% of CDI. At December 31, 2006 the CDI rate was 13.17% . We hedged against the risk of interest rates increasing (LIBOR) at the amount of US\$232.4 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, 2006, would be approximately R\$20.1 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 10% instantaneously on December 31, 2006, 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, 2006. 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, 2006. 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, 2006, our internal control over financial reporting were adequate and effective, based on those criteria.

Our independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes, S.A., has issued an attestation report on management's assessment of our internal controls over financial reporting as of December 31, 2006. The report on the audit of our internal control over financial reporting is included below.

(c) Attestation Report of the Registered Public Accounting Firm

Deloitte Touche Tohmatsu Auditores Independentes, S.A., the independent registered public accounting firm that has audited our consolidated financial statements, has issued an attestation report on management's assessment of our

internal controls over financial reporting as of December 31, 2006. The attestation report appears on page F-2.

(d) Changes in Internal Control over Financial Reporting

A number of processes and systems are currently being changed in order to unify the operations of the various entities making up Vivo. An action plan is being implemented in order to comply with the best practices within the

industry. However, these changes will not significantly affect these controls subsequent to the date of evaluation and do not constitute corrective action with regard to material weaknesses as a result of the evaluation. We have made no change to our internal control over financial reporting in the fourth fiscal quarter in 2006 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

Deloitte Touche Tohmatsu Auditores Independentes, or Deloitte, acted as our independent auditor for the years ended December 31, 2006 and 2005. The chart below sets forth the total amount billed to us by Deloitte for services performed in the years 2006 and 2005, and breaks down these amounts by category of service:

	For year ended December 31,	
	2006	2005
	(in thousands of reais)	
Audit fees	4,654	5,387
Tax fees	268	167
Total	4,922	5,554

Audit Fees

Audit fees are the aggregate fees billed by 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.

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 Deloitte. Any services provided by 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 2006 and 2005, none of the fees paid to 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 18. 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.
- 2.1 Deposit Agreement dated as of July 21, 1998, as amended and restated as of November 16, 1998, and as further amended and restated as of April 22, 1999. (1)
- 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. (2)
- 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.* (2)
- 4.1 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telesp Celular Participações S.A.* English translation. (3)
- 4.2 Authorization Term of the Personal Mobile Service entered by ANATEL and Global Telecom S.A. English translation. (3)
- 4.3 Authorization Term of the Personal Mobile Service entered by ANATEL and *Tele Centro Oeste Celular Participações S.A.* English translation. (4)
- 4.4 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telebahia Celular* English translation. (5)
- 4.5 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telergipe Celular* English translation. (5)
- 4.6 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telerj Celular* English translation. (6)
- 4.7 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telest Celular* English translation. (6)
- 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
- 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. (7)
- 4.10 Shareholders Agreement dated as of February 6, 2001, among DDI Corporation, *Inepa Telecomunicações S.A.*, ITX Corporation and *Telesp Celular Participações S.A.* (2)
- 4.11 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), *Inepa Telecomunicações S.A.* and ITX Corporation together with an English translation. (2)
- 4.12 Supply Agreement (*Contrato de Fornecimento*) dated as of August 27, 2001, between Global Telecom S.A. and Motorola do Brasil Ltda. English summary. (2)
- 4.13 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. (2)
- 4.14 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. (2)
- 4.15 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. (8)
- 4.16

Agreement dated as of August 4, 2006 among Vivo Participações S.A., Ericsson and Huawei English summary.

- 6.1 Statement regarding computation of per share earnings. (9)
- 8.1 List of Subsidiaries.
- 12.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Incorporated by reference to our registration statement on Form F-6 filed on April 20, 1999 (File No. 333-9514).
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) Incorporated by reference to our Form F-4 filed with the Commission on December 16, 2005.
- (9) 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: May 3, 2007

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2 and F-3</u>
<u>Consolidated Balance Sheets as of December 31, 2006 and 2005</u>	<u>F-4 and F-5</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2006, 2005 and 2004</u>	<u>F-6</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2006, 2005 and 2004</u>	<u>F-7, F-8 and F-9</u>
<u>Consolidated Statements of Changes in Financial Position for the Years Ended December 31, 2006, 2005 and 2004</u>	<u>F-10 and F-11</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004</u>	<u>F-12 and F-13</u>
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Definitions:

Brazilian GAAP - Accounting practices adopted in Brazil

U.S. GAAP - Generally accepted accounting principles in the United States of America.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Management of
Vivo Participações S.A.
São Paulo SP Brazil

1. We have audited the accompanying consolidated financial statements of Vivo Participações S.A. (a Brazilian corporation) and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 2006. We also have audited management's assessment, included in the accompanying Item 15, Controls and Procedures, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

2. 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 financial statements are free of material misstatements and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

3. A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) 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.

4. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

5. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vivo Participações S.A. and subsidiary as of December 31, 2006 and 2005, the results of their operations, the changes in shareholders' equity and the changes in their financial position for each of the three years in the period ended December 31, 2006, in conformity with accounting practices adopted in Brazil. Also in our opinion, management's assessment, that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective 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.

6. 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 37 to the consolidated financial statements.

7. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidated statements of cash flows for each of the three years in the period ended December 31, 2006 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.

8. The combined balance sheet as of December 31, 2005 and combined statements of operations, changes in shareholders' equity, changes in financial position and cash flows for each of the two years in the period 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.

/s/ Deloitte Touche Tohmatsu Auditores Independentes

São Paulo, Brazil
April 27, 2007

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais)

		December 31,		Combined
	Note	2006	2005	2005
ASSETS				
Current assets:				
Cash and cash equivalents	4	1,401,996	855,751	1,682,048
Short-term investments pledged as collateral	5	45,644	166,395	191,166
Trade accounts receivable, net	6	1,961,246	1,775,409	2,774,451
Inventories	7	282,020	258,755	362,312
Advances to suppliers	-	13,142	18,273	23,579
Recoverable taxes	8	784,342	471,128	895,499
Deferred income taxes	30.c	878,397	477,987	615,832
Prepaid expenses	9	181,872	187,276	281,071
Derivative contracts	11	1,298	300,662	301,229
Other assets	10	122,537	90,158	126,637
Total current assets		5,672,494	4,601,794	7,253,824
Noncurrent assets:				
Long-term assets:				
Recoverable taxes	8	693,520	484,205	643,423
Deferred income taxes	30.c	1,931,418	868,568	1,236,151
Derivative contracts	11	135	5,354	5,443
Prepaid expenses	9	21,314	25,030	39,234
Other assets	10	21,732	18,545	21,371
Goodwill	12	979,045	1,550,101	1,550,101
Goodwill on merged subsidiary, net	15	33,004	41,431	41,431
Property, plant and equipment, net	13.a	6,445,479	4,600,732	6,683,159
Intangible assets, net	13.b	1,642,683	1,392,677	1,646,204
Deferred assets, net	14	101,253	135,869	138,935
Total noncurrent assets	-	11,869,583	9,122,512	12,005,452
TOTAL ASSETS	-	17,542,077	13,724,306	19,259,276

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

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais)

	Note	December 31, 2006	2005	Combined 2005
LIABILITIES, SHAREHOLDERS EQUITY AND FUNDS				
FOR CAPITALIZATION				
Current liabilities:				
Payroll and related accruals	16	156,625	105,106	149,840
Trade accounts payable	17	2,627,013	1,536,277	2,463,777
Taxes payable	18	453,710	506,624	716,688
Loans and financing	19	1,590,345	1,546,935	1,734,921
Interest on shareholders' equity and dividends		51,702	51,771	120,793
Reserve for contingencies	20	61,911	41,266	47,972
Derivative contracts	11	372,229	321,686	339,738
Other liabilities	21	386,422	215,285	353,770
Total current liabilities		5,699,957	4,324,950	5,927,499
Noncurrent liabilities:				
Long-term liabilities:				
Loans and financing	19	2,910,048	3,646,102	3,917,856
Reserve for contingencies	20	84,712	171,518	180,144
Taxes payable	18	212,469	169,578	211,995
Derivative contracts	11	129,718	294,416	343,654
Other liabilities	21	132,981	44,086	83,733
Total noncurrent liabilities	-	3,469,928	4,325,700	4,737,382
Minority interest	-	-	1,058,189	1,546,461
Shareholders' equity:				
Capital stock	22	6,347,784	6,670,152	8,232,449
Capital reserves	-	1,071,316	793,396	1,561,448
Income reserves	-	765,068	-	711,103
Treasury shares	-	(11,070)	-	(11,070)
Retained earnings (accumulated deficit)	-	198,648	(3,448,359)	(3,446,442)
Total shareholders' equity	-	8,371,746	4,015,189	7,047,488

Funds for capitalization	-	446	278	446
TOTAL LIABILITIES, SHAREHOLDERS EQUITY AND FUNDS FOR CAPITALIZATION	-	17,542,077	13,724,306	19,259,276

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, 2006, 2005 AND 2004
(In thousands of Brazilian *reais*, except earnings (loss) per share)

		Years ended December 31,			Combined	
	Note	2006	2005	2004	2005	2004
NET OPERATING REVENUE	23	10,936,714	7,473,066	7,341,027	11,253,834	10,929,403
COST OF SERVICES AND GOODS SOLD	24	(5,564,168)	(3,412,596)	(3,326,244)	(5,337,339)	(5,338,072)
GROSS PROFIT		5,372,546	4,060,470	4,014,783	5,916,495	5,591,331
OPERATING EXPENSES						
Selling expenses	25	(3,787,500)	(2,571,455)	(1,909,269)	(3,744,484)	(2,833,073)
General and administrative expenses	26	(1,112,184)	(659,355)	(620,591)	(1,033,368)	(959,175)
Other operating expenses, net	27	(270,604)	(343,024)	(169,899)	(360,075)	(129,217)
		(5,170,288)	(3,573,834)	(2,699,759)	(5,137,927)	(3,921,465)
OPERATING INCOME BEFORE NET FINANCIAL EXPENSES		202,258	486,636	1,315,024	778,568	1,669,866
NET FINANCIAL EXPENSES	28	(747,985)	(917,614)	(1,095,402)	(913,142)	(1,088,510)
OPERATING INCOME (LOSS)		(545,727)	(430,978)	219,622	(134,574)	581,356
Net nonoperating expenses	29	(288,970)	(65,318)	(51,184)	(96,489)	(60,902)
NET INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES AND MINORITY INTEREST	-	(834,697)	(496,296)	168,438	(231,063)	520,454
Income and social contribution taxes	30	859,012	(246,066)	(327,060)	(362,955)	(438,459)
Minority interest		(7,968)	(166,884)	(331,522)	(173,446)	(480,866)

NET INCOME (LOSS) FOR THE YEAR	-	16,347	(909,246)	(490,144)	(767,464)	(398,871)
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SHARES OUTSTANDING AT DECEMBER 31 (IN THOUSANDS)	-	1,437,623	662,325	1,171,784,352	1,109,225	2,259,465,452
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EARNINGS (LOSS) PER SHARE OUTSTANDING AT THE BALANCE SHEET DATE (IN BRAZILIAN <i>reais</i>)	-	0.01137	(1.3728)(*)	(0.00042)(*)	(0.6919)(*)	(0.1765)(*)
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(*) 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. Had the reverse stock split occurred on December 31, 2004, shares outstanding and loss per share for the year ended December 31, 2004 would have amounted to 468,713,741 and R\$1.0457, and on a combined basis would have amounted to 903,786,181 and R\$0.4413.

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, 2006, 2005 AND 2004
(In thousands of Brazilian reais)

	Capital reserves				Income reserves			Treasury shares	Retained earnings (accumulated losses)
	Capital stock	Share premium	Special goodwill reserve	Tax incentive reserve	Legal reserve	Reserve for contingencies	Reserve for expansion		
BALANCES AT DECEMBER 31, 2003	4,373,661	99,710	990,169	-	-	-	-	-	(2,070,379)
Unclaimed dividends	-	-	-	-	-	-	-	-	4,364
Adjustment of income tax rate	-	-	-	-	-	-	-	-	-
Interest on shareholders equity and dividends	-	-	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	-	-	-	-	(490,144)
Acquisition of minority interest by the controlling group	-	-	-	-	-	-	-	-	-
Consolidation adjustments- Donations received by subsidiaries	-	-	-	-	-	-	-	-	-
BALANCES AT DECEMBER 31, 2004	4,373,661	99,710	990,169	-	-	-	-	-	(2,556,159)

VIVO PARTICIPAÇÕES S.A.
STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Continuation)
(In thousands of Brazilian reais)

	Capital reserves				Income reserves			Treasury shares	Retained earnings
	Capital stock	Share premium	Special goodwill reserve	Tax incentive reserve	Legal reserve	Reserve for contingencies	Reserve for expansion		(accumulated losses)
BALANCES AT DECEMBER 31, 2004	4,373,661	99,710	990,169	-	-	-	-	-	(2,556,159)
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	-	-	-	-	-	-	-
Computation of goodwill reserve	-	-	-	-	-	-	-	-	-
Reversion of goodwill reserve	-	-	-	-	-	-	-	-	-
Write-off of income tax	-	-	-	-	-	-	-	-	-
Interest on shareholders equity and dividends	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(909,246)

Net loss for the year									
Change in the minority interest	-	-	-	-	-	-	-	-	-
Consolidation adjustments:									
Tax incentives	-	-	-	-	-	-	-	-	7,887
Donations received by subsidiaries	-	-	-	-	-	-	-	-	9,159
BALANCES AT DECEMBER 31, 2005	6,670,152	99,718	693,678	-	-	-	-	-	(3,448,359)

VIVO PARTICIPAÇÕES S.A.
STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Continuation)
(In thousands of Brazilian reais)

	Capital reserves			Income reserves				Treasury shares	Retained earnings (accumulated losses)
	Capital stock	Share premium	Special goodwill reserve	Tax incentive reserve	Legal reserve	Reserve for contingencies	Reserve for expansion		
BALANCES AT DECEMBER 31, 2005	6,670,152	99,718	693,678	-	-	-	-	-	(3,448,359)
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)	490,188
Minority interest incorporation	-	-	-	-	-	-	-	-	(2,680)
Reversal of goodwill reserve	-	-	(294,094)	-	-	-	-	-	-
Unclaimed dividends and interest on shareholders equity	-	-	-	-	-	-	-	-	22,720
Capital increase - Special Shareholders Meeting of June 8, 2006	194,277	-	(194,277)	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	-	16,340
Consolidation adjustments:									
Tax incentives	-	-	-	-	-	-	-	-	24,160
Donations received by subsidiary	-	-	-	-	-	-	-	-	19,250

Proposed allocation of income:									
Legal reserve	-	-	-	-	3,539	-	-	-	(3,539)
Dividends	-	-	-	-	-	-	-	-	(16,800)
Reserve for expansion and modernization	-	-	-	-	-	-	50,426	-	(50,426)
BALANCES AT DECEMBER 31, 2006									
	6,347,784	515,089	552,638	3,589	100,960	11,070	653,038	(11,070)	198,640

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, 2006, 2005 AND 2004
(In thousands of Brazilian reais)

	Years ended December 31,			Combined	
	2006	2005	2004	2005	2004
SOURCES OF FUNDS					
From operations:					
Net income (loss)	16,347	(909,246)	(490,144)	(767,464)	(398,871)
Items not affecting working capital:					
Depreciation and amortization	2,394,385	1,552,485	1,273,875	2,245,093	1,983,288
Depreciation of shared systems	-	1,080	-	1,278	735
Minority interest	7,968	166,884	331,522	173,446	480,866
Monetary and exchange variations on noncurrent items, net					
	(123,721)	(253,207)	39,467	(295,948)	23,610
Net book value of assets disposals	48,828	1,733	58,030	33,481	62,274
Provision for loss on assets	277,987	36,403	-	36,403	-
Reserve for contingencies	50,344	3,251	16,034	14,534	16,273
Reserve for pension and other post-retirement benefit plans	824	125	(2,831)	8	(2,876)
Gain on extinguishments of liabilities	-	(7,425)	-	(7,425)	-
Taxes other than income taxes	(4,403)	-	-	-	-
Income taxes	(929,699)	-	(7,540)	2,606	(7,540)
Loss on investment in subsidiaries	671	15,830	1,271	17,328	1,271
Loss on derivative contracts	280,203	363,712	88,883	422,559	123,539
Others	(1,668)	-	-	634	-
Total from operations	2,018,066	971,625	1,308,567	1,876,533	2,282,569
From shareholders:					
Capital increase	-	58	-	58	-
Advances for future capital increase	-	-	1,999,942	-	1,999,942
Reserves	-	8	-	8	-
From third parties:					
Loans and financing	1,217,420	2,288,542	1,240,563	2,288,542	1,240,563
Transfer from noncurrent to current assets	283,936	394,871	219,873	559,291	246,613
Premium reserve adjustments	-	-	-	11,819	3,544
Unclaimed dividends	22,728	-	4,364	-	4,364
Increase in noncurrent liabilities	166,478	-	-	50,015	157,018
Transfer of derivatives to current assets	10,180	311,395	-	311,395	-
Tax incentive	24,162	-	-	-	-
Transfer from property, plant and equipment to current assets	-	5,276	1,282	5,276	2,095

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Total sources	3,742,970	3,971,775	4,774,591	5,102,937	5,936,708
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VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Continuation)
(In thousands of Brazilian reais)

	Years ended December 31,			Combined	
	2006	2005	2004	2005	2004
USES OF FUNDS					
Additions to property, plant and equipment	2,102,422	1,546,065	1,392,048	2,203,410	1,937,195
Transfer from noncurrent to current liabilities	306,477	-	1,397,831	20,749	-
Transfer from current to noncurrent assets	-	-	-	4,530	-
Increase in deferred assets	1,510	580	3,137	3,046	3,349
Investments in subsidiaries and affiliated	-	-	422,805	-	422,805
Goodwill paid on acquisition of subsidiaries	-	12,100	487,881	12,100	487,881
Other investments	3	8,771	6,873	9,471	7,298
Provision of special premium reserve	52,412	-	-	3,910	-
Increase in deferred taxes	-	-	126,902	38,065	126,902
Increase in noncurrent assets	27,886	34,536	61,720	131,730	104,085
Decrease in noncurrent liabilities	-	20,539	-	-	-
Transfer from loans, financing and derivatives to current liabilities	2,590,561	738,332	-	873,719	1,583,990
Dividends and interest on shareholders equity	16,808	46,345	64,662	116,700	165,470
Loss and share subscription by minority shareholders	-	7,214	21,837	7,214	21,837
Other incoming assets	-	-	3,303	-	3,303
Total uses	5,098,079	2,414,482	3,988,999	3,424,644	4,864,115
EFFECT ON WORKING CAPITAL ARISING FROM MERGER					
	1,050,802	-	-	-	-
INCREASE (DECREASE) IN WORKING CAPITAL					
	(304,307)	1,557,293	785,592	1,678,293	1,072,593
REPRESENTED BY					
Current assets:					
At the beginning of the year	4,601,794	4,363,351	4,387,584	7,149,742	6,634,071
At the end of the year	5,672,494	4,601,794	4,363,351	7,253,824	7,149,742
Increase (decrease)	1,070,700	238,443	(24,233)	104,082	515,671

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Current liabilities:

At the beginning of the year	4,324,950	5,643,800	6,453,625	7,501,710	8,058,632
At the end of the year	5,699,957	4,324,950	5,643,800	5,927,499	7,501,710
Increase (decrease)	1,375,007	(1,318,850)	(809,825)	(1,574,211)	(556,922)

INCREASE (DECREASE) IN WORKING
CAPITAL

(304,307)	1,557,293	785,592	1,678,293	1,072,593
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The accompanying notes are an integral part of these consolidated financial statements.

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(In thousands of Brazilian reais)

	Years ended December 31,			Combined	
	2006	2005	2004	2005	2004
OPERATING ACTIVITIES					
Net income (loss)	16,347	(909,246)	(490,144)	(767,464)	(398,871)
Adjustments to reconcile net income (loss) to cash provided by operating activities:					
Minority interest	7,968	166,884	331,522	173,446	480,866
Depreciation and amortization	2,394,385	1,552,485	1,273,875	2,245,093	1,983,288
Depreciation of shared systems	-	1,080	-	1,278	735
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	(1,220)	(1,922)	45,865	27,605	48,762
Loss on derivative contracts	764,264	941,142	913,820	1,119,993	1,030,196
Monetary and exchange variation	(334,978)	(380,782)	(307,831)	(460,130)	(355,257)
Provision for loss on investment	671	15,830	1,271	17,328	1,271
Other nonoperating loss	-	-	5,319	-	5,319
Allowance for doubtful accounts receivable	720,496	514,756	269,033	647,015	335,143
Reserve for pension and other post-retirement benefit plans	824	125	(2,831)	125	(2,831)
(Increase) decrease in customer accounts receivable	102,074	(806,346)	(540,378)	(1,149,034)	(777,677)
(Increase) decrease in inventories	80,292	196,557	(299,214)	196,557	(299,214)
(Increase) decrease in recoverable taxes and deferred income taxes	(907,635)	99,924	(267,678)	120,852	(369,843)
Decrease in income and social contribution taxes	-	3,502	-	-	-
(Increase) decrease in other current and noncurrent assets.	254,956	73,181	(132,736)	224,838	(440,121)
Increase (decrease) in payroll and related accruals	6,785	779	15,071	(271)	20,989
Increase (decrease) in interest payable	(56,064)	24,393	6,217	24,816	(4,183)
Increase (decrease) in accounts payable	153,870	(155,832)	371,085	(288,402)	669,183
Increase (decrease) in taxes payable	(219,211)	36,578	105,488	67,236	92,176
Increase (decrease) in reserve for contingencies	(211,366)	58,894	40,103	85,625	54,087
Decrease in provision for pension fund	-	-	-	(117)	(45)
Increase (decrease) in other current and noncurrent liabilities	50,333	8,839	(30,567)	(13,163)	(5,605)

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Net cash from operating activities	3,100,778	1,469,799	1,307,290	2,302,204	2,068,368
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INVESTING ACTIVITIES

Additions to property, plant, equipment and intangible

assets	(2,102,422)	(1,546,065)	(1,392,048)	(2,203,410)	(1,937,195)
Additions to deferred assets	(1,510)	(580)	(3,137)	(3,046)	(3,349)
Acquisition of minority interest in subsidiary	-	-	(901,502)	-	(901,502)
Short-term investments pledged as collateral	145,523	(166,395)	-	(191,166)	-
Acquisition of minority interest	(2,681)	-	-	-	-
Other investments	(3)	(8,771)	(6,873)	(9,471)	(7,298)
Escrow deposits	(11,387)	-	-	40,041	62,080
Cash received on sale of assets	50,048	3,655	12,165	5,876	13,512

Net cash used in investing activities	(1,922,432)	(1,718,156)	(2,291,395)	(2,361,176)	(2,773,752)
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VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Continuation)
(In thousands of Brazilian reais)

	Years ended December 31,			Combined	
	2006	2005	2004	2005	2004
FINANCING ACTIVITIES					
Loans and financing:					
New loans	2,200,702	3,592,689	3,836,116	3,780,314	4,043,645
Loans repaid	(2,962,043)	(2,999,002)	(4,858,543)	(3,280,265)	(5,210,718)
Net settlement on derivatives contracts	(640,470)	(657,993)	113,943	(800,210)	76,298
Interest on shareholders' equity and dividends paid					
to minorities	(63,167)	(76,854)	(85,344)	(184,689)	(176,549)
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	-
Advances for future capital increase	-	-	1,999,942	-	1,999,942
Net cash from (used in) financing activities	(1,458,398)	(76,750)	1,006,114	(373,082)	732,618
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash consolidated on January 1, 2006 due to merger					
of TSD, TLE and CRT (see Note 1)	826,297	-	-	-	-
At the beginning of the year	855,751	1,180,858	1,158,849	2,114,102	2,086,868
At the end of the year	1,401,996	855,751	1,180,858	1,682,048	