

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
-----------------------	-------------------------------------

Common Stock	524,931,665
--------------	-------------

Preferred Stock	917,186,080
-----------------	-------------

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

TABLE OF CONTENTS

	<u>PAGE</u>	
<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>1</u>
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>1</u>
<u>ITEM 3.</u>	<u>KEY INFORMATION</u>	<u>1</u>
<u>ITEM 4.</u>	<u>INFORMATION ON THE COMPANY</u>	<u>16</u>
<u>ITEM 4A.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	<u>43</u>
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>43</u>
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>58</u>
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>65</u>
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>	<u>66</u>
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>	<u>73</u>
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	<u>78</u>
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>93</u>
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>95</u>
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>96</u>
	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND</u>	
<u>ITEM 14.</u>	<u>USE OF PROCEEDS</u>	<u>96</u>
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	<u>96</u>
<u>ITEM 16.</u>	<u>[RESERVED]</u>	<u>97</u>
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>97</u>
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>	<u>97</u>
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>97</u>
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>98</u>
	<u>PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED</u>	
<u>ITEM 16E.</u>	<u>PURCHASERS</u>	<u>98</u>
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	<u>99</u>
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	<u>99</u>
<u>ITEM 19.</u>	<u>EXHIBITS</u>	<u>100</u>

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;

Edgar Filing: Vivo Participacoes S.A. - Form 20-F

- 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:*Brazilian Corporate Law Method*

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
--	-----------	-----------	---------------	---------------	---------------

U.S. GAAP

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 capita