

Vivo Participacoes S.A.
Form 20-F
April 23, 2009

As filed with the Securities and Exchange Commission on April 22, 2009

**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, 2008

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, 2008:

| Title of Class | Number of Shares Outstanding |
|-----------------|------------------------------|
| Common Stock | 134,150,345 |
| Preferred Stock | 234,369,011 |

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 basis of accounting the registrant has used to prepare the financial statements included in this filing:
 International Financial Reporting Standards as issued by the International Accounting Standards Board Other
 U.S.GAAP Standards Board

The financial statements included in this filing were prepared in accordance with the accounting practices adopted in Brazil, as prescribed by Brazilian Corporate Law (Brazilian GAAP).

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, by Law No. 10,303 of October 2001, and by Law 11,638 of December 2007;

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.A. Information on the Company Our History and Development Corporate Restructuring of Our Operating Subsidiaries ;

CVM are to the *Comissão de Valores Mobiliários*, the Brazilian securities commission;

D.O.U. are to the *Diário Oficial da União*, the Official Newspaper of the Government of Brazil;

Federal District are to the federal district of Brasilia, the capital of Brazil;

General Telecommunications Law are to *Lei Geral de Telecomunicações*, as amended, which regulates the telecommunications industry in Brazil;

Global Telecom and GT are to Global Telecom S.A., formerly a Vivo subsidiary prior to our corporate restructuring;

GSM are to the Global System for Mobile Communications, a service rendered by concession from ANATEL for a specific frequency range;

Net additions are to the total number of new customers acquired in the period minus the reduction in the number of customers;

NYSE are to the New York Stock Exchange;

OI are to TNL-PCS S.A., the mobile operator branch of Telemar;

real, *reais* or R\$ are to Brazilian *reais*, the official currency of Brazil;

SMC are to *Serviço Móvel Celular* (Mobile Cellular Service), a service rendered pursuant to a concession granted by ANATEL to provide mobile service in a specific frequency range;

SMP are to *Serviço Móvel Pessoal* (Personal Cellular Service), a service rendered pursuant to an authorization granted by ANATEL to provide mobile service in a specific frequency range;

SMS are to text messaging services for wireless devices, which allow customers to send and receive 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;

Telemar are to *Telemar Norte Leste S.A.* (controlled by Tele Norte Leste Participações S.A.);

Telemig or Telemig Participações are to *Telemig Celular Participações S.A.*;

Telemig Celular are to *Telemig Celular S.A.*;

Telenorte or Tele Norte are to *Tele Norte Celular Participações S.A.*;

Telesp Celular and TC are to *Telesp Celular S.A.*, formerly a Vivo subsidiary prior to our corporate restructuring;

Telpart are to *Telpart Participações S.A.*;

The Merger are to the merger of the Vivo Companies as discussed in Item 4. Information on the Company A. Our History and Development Merger of the Vivo Companies ;

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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 subsidiaries (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 operations including SMP operations 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);

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;

WCDMA are to Wide-Band Code-Division Multiple Access, a technology for wideband digital radio communications of Internet, multimedia, video and other bandwidth-demanding applications; and

wireless devices are to the wireless appliances that we sell, including cellular handsets, wireless handheld devices and wireless broadband cards.

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

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of December 31, 2008, 2007 and 2006 and for the three years in the period ended December 31, 2008, have been prepared in accordance with the accounting practices adopted in Brazil, as prescribed by Brazilian Corporate Law, or Brazilian GAAP, which differs in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP. Notes 39 and 40 to our financial statements appearing elsewhere in this annual report describe the principal differences between Brazilian GAAP and U.S. GAAP as they relate to us, and provide a reconciliation to U.S. GAAP of net income (loss) and shareholders equity. These consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. (EY or Ernst Young) for the years ended December 31, 2008 and 2007 and by Deloitte Touche Tohmatsu Auditores Independentes (Deloitte) for the year ended December 31, 2006.

As a result of a change in Brazilian corporate law with respect to financial reporting (Law 11,638), certain changes in accounting criteria became effective for fiscal year 2008. Pursuant to CVM Resolution No. 565, which approved accounting statement CPC 13 (Initial Adoption of Law No. 11,638/2007), we elected to apply these changes in

accounting criteria retroactively to our financial statements with an effective date as of January 1, 2007. As a result, certain adjustments have been made to our 2007 financial statements to make them comparable to our 2008 financial statements. We have elected not to restate our financial statements for fiscal years prior to 2007. Please see Note 2 to our 2008 financial statements for a qualitative and quantitative analysis of the changes resulting from the new accounting criteria.

As described in Note 1(d) to our 2008 financial statements, in April of 2008 we acquired the shareholding control of Telemig Celular Participações S.A.. See also Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte.

An Extraordinary Shareholders Meeting held February 22, 2006 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.A. Information on the Company Our History and Development Merger of the Vivo Companies.

The Company was under common control with TSD, TLE and CRT for all periods presented after December 2003 and prior to the above restructuring. 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.

FORWARD LOOKING STATEMENTS

Certain sections in this annual report, principally in Item 3.D. Key Information "Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, contain information that is forward-looking, including but not limited to:

- statements concerning our operations and prospects;
- the size of the Brazilian telecommunications market;
- estimated demand forecasts;
- our ability to secure and maintain telecommunications infrastructure licenses, rights of way and other regulatory approvals;
- our strategic initiatives and plans for business growth;
- industry conditions;
- our funding needs and financing sources;
- network completion and product development schedules;
- expected characteristics of competing networks, products and services;
- quantitative and qualitative disclosures about market risks;
- other statements of management's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts; and
- other factors identified or discussed under Item 3.D. Key Information Risk Factors.

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

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- 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**

Our consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. (EY or Ernst Young) for the years ended December 31, 2008 and 2007 and by Deloitte Touche Tohmatsu Auditores Independentes (Deloitte) for the year ended December 31, 2006.

In April 2008 we completed the acquisition of a controlling shareholding in Telemig Celular Participações S.A. which is consolidated in our consolidated financial statements as from April 1, 2008. See Note 1(d) to our 2008 financial statements and Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte.

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.A. 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 2003 and prior to the above restructuring, selected financial information combining the historical operations of these entities has been presented for the years ended December 31, 2005 and 2004. 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.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain significant respects from U.S. GAAP. See Notes 39 and 40 to our financial statements for a summary of (i) the differences between Brazilian GAAP and U.S. GAAP as they relate to us, (ii) a reconciliation to U.S. GAAP of shareholders' equity as of December 31, 2008 and 2007, and (iii) a reconciliation to U.S. GAAP of our net income or loss for the three years in the period ended December 31, 2008.

As a result of a change in Brazilian corporate law with respect to financial reporting (Law 11,638), certain changes in accounting criteria became effective for fiscal year 2008. Pursuant to a CVM resolution, we elected to apply these changes in accounting criteria retroactively to our financial statements with an effective date as of January 1, 2007. As a result, certain adjustments have been made to our 2007 financial statements to make them comparable to our 2008 financial statements. We have elected not to restate our financial statements for fiscal years prior to 2007. Please see Note 2 to our 2008 financial statements for a qualitative and quantitative analysis of the changes resulting from the

new accounting criteria.

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 2008 ⁽¹⁾ | Consolidated 2007 ⁽¹⁾ | Consolidated 2006 ⁽¹⁾ | Combined 2005 ⁽²⁾ | Combined 2004 ⁽²⁾ |
|--|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
|--|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|

(in millions of reais, except per share data)

Income Statement Data:*Brazilian GAAP*

| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Net operating revenue | 15,469.7 | 12,492.5 | 10,936.7 | 11,253.8 | 10,929.4 |
| Cost of services and goods sold | (8,141.5) | (6,623.3) | (5,564.2) | (5,337.3) | (5,338.1) |
| Gross profit | 7,328.2 | 5,869.2 | 5,372.5 | 5,916.5 | 5,591.3 |
| Operating expenses: | | | | | |
| Selling expenses | (4,104.4) | (3,532.8) | (3,751.1) | (3,614.9) | (2,740.2) |
| General and administrative expenses | (1,204.3) | (1,207.2) | (1,099.7) | (1,031.4) | (959.2) |
| Other net operating expenses | (469.9) | (509.4) | (319.5) | (491.6) | (222.0) |
| Operating income before equity in losses of unconsolidated subsidiary and net financial expenses | 1,549.6 | 619.8 | (202.2) | 778.6 | 1,669.9 |
| Net financial expenses | (637.7) | (462.8) | (748.0) | (913.1) | (1,088.5) |
| Operating income (loss) | 911.9 | 157.0 | (545.8) | (134.5) | 581.4 |
| Net non-operating income (expenses) | | | (289.0) | (96.5) | (60.9) |
| Income (loss) before income taxes and minority interests | 911.9 | 157.0 | (834.8) | (231.0) | 520.5 |
| Income taxes | (469.5) | (256.8) | 859.1 | (363.0) | (438.5) |
| Minority interests | (52.7) | | (8.0) | (173.5) | (480.9) |
| Net income (loss) | 389.7 | (99.8) | 16.3 | (767.5) | (398.9) |
| Net income (loss) per share (R\$) | 1.06066 | (0.0694) | 0.0113 | (0.6919) | (0.1765) |
| Dividends declared per thousand preferred shares (R\$) | 0.723 | | 0.018 | 0.037 | 0.058 |
| Dividends declared per thousand common Shares (R\$) | 0.723 | | | 0.047 | 0.083 |
| U.S. GAAP | | | | | |
| Net operating revenue | 20,558.3 | 15,922.1 | 14,152.3 | 14,407.8 | 14,856.5 |
| Operating (loss) income | 1,702.5 | 623.3 | (183.2) | 929.7 | 1,368.5 |
| Net financial expenses | (603.6) | (437.5) | (666.3) | (914.7) | (992.9) |
| Net non-operating income (expenses) | | (0.3) | (11.6) | (14.8) | (12.0) |
| Income (loss) before income taxes and minority interests | 1,098.9 | 185.5 | (861.1) | 0.2 | 363.6 |
| Income taxes | (547.0) | (295.1) | 409.0 | (319.0) | (386.6) |
| Minority interest | (51.0) | | (8.4) | (175.4) | (466.0) |
| Net income (loss) | 500.9 | (109.6) | (460.5) | (494.2) | (489.0) |
| Basic and diluted net income (loss) per share common (R\$) | 1.37 | (0.84) | (3.97) | (4.76) | (5.72) |
| Basic and diluted net income (loss) per share preferred (R\$) | 1.37 | | 0.08 | 0.20 | 0.32 |
| Weighted average common shares outstanding basic ⁽³⁾ | 132,991,366 | 131,232,916 | 120,316,867 | 110,999,179 | 92,921,720 |
| | 232,353,912 | 228,172,795 | 210,335,209 | 159,444,173 | 133,143,596 |

| | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| Weighted average preferred shares outstanding <i>basic</i> ⁽³⁾ | | | | | |
| Diluted net income (loss) per share common (R\$) | 1.37 | (0.84) | (3.97) | (4.76) | (5.72) |
| Diluted net income (loss) per share preferred (R\$) | 1.37 | | 0.08 | 0.20 | 0.32 |
| Weighted average common shares outstanding <i>diluted</i> ⁽⁴⁾ | 133,924,147 | 131,232,916 | 120,316,867 | 110,999,179 | 92,921,720 |
| Weighted average preferred shares outstanding <i>diluted</i> ⁽⁴⁾ | 232,353,912 | 228,172,795 | 210,335,209 | 159,444,173 | 133,143,593 |

Year ended December 31,

| | | | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| | Consolidated 2008 ⁽¹⁾ | Consolidated 2007 ⁽¹⁾ | Consolidated 2006 ⁽¹⁾ |
|--|-------------------------------------|-------------------------------------|-------------------------------------|

(in millions of
reais)**Cash Flow Data:***Brazilian GAAP*

| | | | |
|--------------------------------------|-----------|-----------|-----------|
| Cash flows from operating activities | 3,800.4 | 3,196.7 | 3,100.8 |
| Cash flows from investing activities | (4,773.3) | (2,011.5) | (1,922.4) |
| Cash flows from financing activities | 964.8 | (396.2) | (1,458.4) |

As of December 31,

| | | | | | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
| | Consolidated 2008 ⁽¹⁾ | Consolidated 2007 ⁽¹⁾ | Consolidated 2006 ⁽¹⁾ | Combined 2005 ⁽²⁾ | Combined 2004 ⁽²⁾ |
|--|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|

(in millions of *reais*, except for per share data)**Balance Sheet Data:***Brazilian GAAP*

| | | | | | |
|------------------------------------|----------|----------|----------|----------|----------|
| Property, plant and equipment, net | 7,183.9 | 6,316.9 | 6,445.5 | 6,683.2 | 6,477.5 |
| Total assets | 23,785.1 | 18,099.5 | 17,542.1 | 19,259.3 | 19,803.0 |

As of December 31,

| | Consolidated 2008 ⁽¹⁾ | Consolidated 2007 ⁽¹⁾ | Consolidated 2006 ⁽¹⁾ | Combined 2005 ⁽²⁾ | Combined 2004 ⁽²⁾ |
|--|-------------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
| (in millions of reais, except for per share data) | | | | | |
| Loans and financing | 8,003.2 | 4,385.7 | 4,500.4 | 5,652.8 | 5,595.5 |
| Shareholders' equity | 8,267.5 | 8,296.3 | 8,370.8 | 7,047.5 | 5,830.9 |
| Capital Stock | 6,710.5 | 6,347.8 | 6,347.8 | 8,232.4 | 5,828.9 |
| Number of shares as adjusted to reflect changes in capital | 367,396 | 1,437,623 | 1,437,623 | 1,109,225 | 2,259,465,452 |
| <i>U.S. GAAP</i> | | | | | |
| Property, plant and equipment, net | 6,973.5 | 6,078.9 | 6,333.3 | 6,536.4 | 6,399.5 |
| Total assets | 26,576.9 | 22,508.4 | 18,392.5 | 20,367.1 | 20,092.6 |
| Total liabilities | 17,225.6 | 13,484.0 | 9,210.4 | 11,294.7 | 10,799.5 |
| Shareholders' equity | 9,351.3 | 9,024.4 | 9,126.2 | 7,165.6 | 5,685.9 |
| Capital stock | 6,688.3 | 6,325.6 | 6,325.6 | 8,232.4 | 5,828.9 |
| Number of shares as adjusted to reflect changes in capital | 367,396 | 359,406 | 359,406 | 277,306 | 225,947 |

(1) The financial information presented for 2006 and 2007 represents information from Vivo's consolidated financial statements. Vivo's consolidated financial statements for 2008 include the results of Telemig as from April 1, 2008.

(2) The financial information presented for the 2005 and 2004 fiscal years represents the combined financial data for Vivo, TSD, TLE and CRT, since these companies were under common control with Vivo for these periods.

(3) As a result of the corporate restructuring in January 2000, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit on the amortization of the intangibles related to concession that was transferred in the Merger. The number of issuable shares, which are determined on the basis of estimates using the Company's share price at the date of the balance sheet, are considered dilutive and are required to be included for the purpose of calculating diluted earnings per share for the years ended December 31, 2004, 2005, 2006, 2007 and 2008. The potentially diluted shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for the years ended December 31, 2004, 2005, 2006 and 2007 as their effect would have been anti-dilutive. As described in Note 39 (j) to the Company's financial statements for the year ended December 31, 2008, the Company applies Emerging Issues Task Force EITF Issues No. 03.6, Participating Securities and the Two-Class Method under FASB Statement No. 128. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Additionally, loss per share and share amounts for all periods retroactively reflect the effect of the reverse stock split described in Note 23 to the Company's financial statements.

Exchange Rates

Since 2000, the Brazilian government has been introducing significant changes aimed at simplifying the Brazilian foreign exchange market. Until March 4, 2005, there were two principal legal 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. 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 by the National Monetary Council on March 4, 2005, 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 Brazilian Central Bank intervention. Since January 1999 when the Brazilian Central Bank abandoned the system of exchange bands and allowed the *real*-U.S. dollar exchange rate to float freely, the *real*-U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. The Brazilian Central Bank has intervened occasionally to control unstable movements in the exchange rate. Nevertheless, the exchange market may continue to be volatile, and the *real* may depreciate or appreciate substantially in relation to the U.S. dollar in the future. We cannot predict whether the Brazilian 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 whether the exchange market will not be volatile as a result of political instability or other factors. In addition, exchange rate fluctuations may also affect our financial condition. For more information on these risks, see the subsection Risk Factors Risks Relating to Brazil below.

On August 4, 2006, Resolution No. 3,389 relaxed the exchange regime for exports, allowing Brazilian exporters to keep up to 30% of the income generated from exports of goods and/or services outside of Brazil. The remaining 70% of such income continued to be subject to compulsory repatriation to Brazil. Since March 17, 2008, Brazilian exporters are allowed to keep 100% of such income earned outside of Brazil. In addition, the foreign exchange mechanism was simplified to allow for the simultaneous purchase and sale of foreign currency through the same financial institution and using the same exchange rate.

On September 27, 2006, Resolution No. 3,412 eliminated existing restrictions on investments in foreign financial and derivative markets by individuals and legal entities, and on October 27, 2006, Resolution No. 3,417 increased the liquidation period permitted for exchange transactions from 360 to 750 days.

The following tables set forth the exchange rate (rounded to the nearest tenth of a cent), expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated, as reported by the Brazilian Central Bank.

| | Exchange Rate of R\$ per US\$ | | | |
|--------------------------------|-------------------------------|-------|------------------------|----------|
| | Low | High | Average ⁽¹⁾ | Year-End |
| Year ended December 31, | | | | |
| 2004 | 2.654 | 3.205 | 2.917 | 2.654 |
| 2005 | 2.163 | 2.762 | 2.413 | 2.341 |
| 2006 | 2.059 | 2.371 | 2.168 | 2.138 |
| 2007 | 1.732 | 2.156 | 1.929 | 1.771 |
| 2008 | 1.559 | 2.500 | 1.833 | 2.337 |

Source: Brazilian Central Bank, 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, 2008 | 1.921 | 2.392 |
| November 30, 2008 | 2.121 | 2.428 |
| December 31, 2008 | 2.337 | 2.500 |
| January 31, 2009 | 2.189 | 2.380 |
| February 28, 2009 | 2.245 | 2.392 |
| March 31, 2009 | 2.237 | 2.447 |
| April 2009 (through April 20) | 2.169 | 2.289 |

Source: Brazilian Central Bank, 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. Additional risks that we do not presently consider material, or of which we are not currently aware, may also affect us. Our business, results of operations or financial condition could be harmed if any of these risks materialize and, as a result, the market price of our preferred shares and our ADSs could decline.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us and the trading price of our preferred shares and ADSs.

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made changes in policy and regulations. The Brazilian government's actions to control inflation and affect other policies have 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;
- 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 over the possibility of the Brazilian government implementing changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies. In addition, possible political crises may affect the confidence of investors and the public in general, which may result in economic deceleration and affect the trading prices of shares issued by companies listed on the stock exchange, such as us.

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 and on our business.

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.

Our business may be vulnerable to the current disruptions and volatility in the global financial markets.

Since August 2007, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to greater volatility. Since the fall of 2008, global financial markets deteriorated sharply and a number of major foreign financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, were experiencing significant difficulties including runs on their deposits and inadequate liquidity.

In an attempt to increase liquidity in the financial markets and prevent the failure of the financial system, various governments have intervened on an unprecedented scale, but there is no assurance that these measures will successfully alleviate the current financial crisis.

Despite the extent of the above-mentioned intervention, global investor confidence remains low and credit remains relatively lacking. Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on acceptable financial terms, and consequently on our operations. Furthermore, an economic downturn could negatively affect the financial stability of our customers, which could result in a general reduction in business activity and a consequent loss of income for us.

Inflation and government efforts to curb inflation may contribute to economic uncertainty in Brazil, adversely affecting our business and results of operations.

The Brazilian economy has historically experienced high rates of inflation compared to other economies. Inflation and certain government's measures taken in the attempt to curb inflation have had significant negative effects on the Brazilian economy. The Consumer Prices Index (Índice de Preços ao Consumidor), or the IPCA, published by the Instituto Brasileiro de Geografia e Estatística, rose 5.9% in 2008, reaching the target fixed by the National Monetary Council. This index had presented variations of 4.5% in 2007, 3.1% in 2006, 5.7% in 2005 and 7.6% in 2004.

Brazilian monetary policy will continue to use the IPCA as an inflation targeting system. The inflation target for 2009 is 4.5% and if inflation increases beyond this target, basic interest rates may rise, causing direct effects on the cost of debt and indirect effects on the demand for telecommunication goods and services.

Fluctuations in the real/U.S. dollar exchange rate 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 experienced fluctuations against the U.S. dollar. The *real* was devalued against the U.S. dollar by 18.7% in 2001 and 52.3% in 2002. Over the next few years, in contrast, the *real* began appreciating against the U.S. dollar, increasing 22.3%, 8.8%, 11.8%, 8.7% and 17.2% in 2003, 2004, 2005, 2006 and 2007, respectively. However, the *real* depreciated against the U.S. dollar by 31.9% in 2008. See Selected Financial Data Exchange Rates for more information on exchange rates.

Political, economic and social developments, and the perception of risk in other countries, especially emerging market countries, may adversely affect the Brazilian economy, our business, and the market price of Brazilian securities, including our preferred shares and ADSs.

The market for securities issued by Brazilian companies may be influenced, in varying degrees, by economic and international market conditions, especially by those in Latin American and other emerging markets. The reaction of investors to developments in other countries may have an adverse impact on the market value of securities of Brazilian companies. Crises in other emerging countries or the economic policies of other countries, in particular

those of the United States, may reduce investor demand for securities of Brazilian companies, including our preferred shares. Any of the foregoing developments may adversely affect the market value of our preferred shares and hinder our ability to access the capital markets and finance our operations in the future on acceptable terms and costs, or at all.

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

Brazilian law allows 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 capital outflows. Such restrictions could hinder or prevent the holders of our preferred shares or the depositary for the ADSs from remitting dividends abroad. The Brazilian government imposed restrictions on capital outflows for a six-month period at the end of 1989. If similar restrictions are introduced in the future, they would likely have an adverse effect on the market price of our preferred shares and ADSs.

Increases in interest rates may have a material adverse effect on our business.

The Central Bank's Monetary Policy Committee (Comitê de Política Monetária do Banco Central - COPOM), establishes the basic interest rate target for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. As of December 31, 2004, 2005, 2006, 2007 and 2008, the basic interest rate was 17.8%, 18.0%, 13.3%, 11.3% and 13.8%, respectively. Increases in interest rates may have a material adverse effect on us.

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.

According to the terms of our operating authorization, we are obligated to meet certain requirements and to maintain minimum quality, coverage and service standards. Failure by us to comply with these requirements may result in the imposition of fines or other government actions, including the termination of our operating authorization. Any partial or total revocation of our operating authorization would have a material adverse effect on our business,

financial condition, revenues, results of operations and prospects. In recent years, ANATEL has also been reviewing and introducing changes in the applicable regulation, especially regarding the interconnection fees among telecommunications service providers in Brazil. Interconnection fees, which are fees charged by telecommunications service providers to each other to interconnect to each others networks, are an important part of our revenue base. To the extent that changes to the rules governing interconnection fees reduce the amount of interconnection fees we are able to collect, our business, financial condition, revenues, results of operations and prospects could be materially adversely affected.

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

Under the SMP regime, we no longer receive payment from our customers for outbound long-distance traffic and instead receive payment for the use of our network in accordance with a network usage payment plan, which includes outbound long distance calls. However, the interconnection fees that we receive from long-distance operators may not compensate us for the revenues that we would have received from our customers for outbound long-distance traffic. Until June 30, 2004, SMP service providers were able to opt to establish a price cap or freely negotiate their interconnection charges. Now, free negotiation is the rule, subject to ANATEL regulations relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties. In 2005, ANATEL began permitting free negotiations for mobile interconnection, or VU-M, fees and by July 2005, local-fixed concessionaires and mobile operators had reached a provisional agreement with respect to VU-M fees for local calls, or VC-1 (the agreement guaranteed a 4.5% increase in mobile operators' fees). ANATEL approved that provisional agreement and in March 2006, approved another provisional agreement for VU-M fees for long-distance calls, or VC-2, VC-3, and international, among the same operators that had made the VC-1 agreement in July 2005. In July 2007, ANATEL approved a provisional agreement among the fixed line operators Telefônica, Telemar, Brasil Telecom, CTBC Telecom and Sercomtel and the mobile operators for interconnection fees for VC1, VC2 and VC3 calls that provides for an annual adjustment of 1.97143% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of 2.25356% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). In January 2008, ANATEL approved a provisional agreement among the fixed line long distance operator Embratel and the mobile operators for interconnection fees for VC2 and VC3 calls, considering the period since January 2004, that provides for an annual adjustment of 4.5% as of March 2006 and an annual adjustment of 1.97143% or 2.25356% as of July 2007. In July 2008, ANATEL approved a provisional agreement among the fixed line operators Telefônica, Telemar, Brasil Telecom, CTBC Telecom and Sercomtel and the mobile operators for interconnection fees for VC1, VC2 and VC3 calls that provides for an annual adjustment of 1.89409% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of 2.06308% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). Under Resolutions 438/2006, 480/2007, 483/2007 and 503/2008, the Brazilian Regulatory Authority developed a new model from 2010 onward to determine reference costs for the use of mobile networks' RVU-M by SMP providers who have significant market power. These values will be used in arbitration cases involving VU-M's value by ANATEL.

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

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

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

If the inflation adjustment index now applied to our prices is changed, the new index may not adequately reflect the true effect of inflation on our prices, which could adversely affect our results of operations.

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

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

ANATEL has proposed new regulations on interconnection rules, some of which could have an adverse effect on our results, including (1) new negotiation rules for VU-M prices by which ANATEL would have a role in determining the reference cost for use of mobile networks (RVU-M) by SMP providers who have significant market power, which will be used in the arbitration case by ANATEL of the value of VU-M, rather than the current, free-market negotiation of prices, (2) VU-M price unification among SMP providers of the same economic group having significant market power, in the same region of the general authorization plan (*Plano Geral de Autorizações*, or PGA) of SMP and (3) amendments in the regulation of SMP. These regulations could have an adverse effect on our revenues and our results of operations because (1) ANATEL may allow more favorable prices of VU-M for economic groups without significant market power and (2) the prices of VU-M we charge in certain regions in which we operate are higher than those in certain other regions, and consolidation of those prices, competitive pressures and other factors could reduce our average prices and thereby reduce our revenues. In the newly-amended regulation of SMP, ANATEL targets areas of vital importance for mobile business, such as the necessity for retail stores in the cities within an operator's coverage areas, increases in the validity periods of prepaid cards, and a limitation on the period of time after which customers may leave service plans. In the general plan of update of the regulation, ANATEL also targets several areas of vital importance for the mobile telecommunications business, such as the necessity of elaboration of proposals for the improvement of the quality of the services (it will be able to cause the rise of the operational costs), for the regulation of the virtual mobile operation (MVNO) (it will be able to cause the rise of the competitive pressure), for the regulation of the significant market power (*Poder de Mercado Significativo PMS*) (the VU-M price unification among SMP providers of the same economic group having significant market power is foreseen and this could reduce our revenues) and for the regulation of multimedia service of communication (*Serviço de Comunicação Multimídia SCM*) (it will be able to cause the rise of the competitive pressure).

In Resolution 460/2007, ANATEL published regulations that implemented and developed fixed and wireless number portability in Brazil effective as of March 2009. For SMP, number portability is applied for wireless codes of access of the same registration area. For fixed operators, number portability is applied for fixed codes of access of the same local area. There can be no assurance that this new regulation will not have material adverse effects on the results of our operations.

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. We also face indirect competition from telecommunications companies providing fixed line services and from high-speed Internet service providers.

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 36.7% as of December 31, 2007 to 29.8% as of December 31, 2008, and our market share of net additions to our customer base decreased from 28.8% for the twelve months ended December 31, 2007 to 25.5% for the twelve months ended December 31, 2008. In addition, our net additions of customers increased 54.4% from the twelve months ended December 31, 2007 to the twelve months ended December 31, 2008 including clients of Telemig.

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.

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

Our rate of acquisition of new customers can be negatively affected by market penetration. For example, our net additions of customers increased 689.1% from the twelve months ended December 31, 2006 to the twelve months ended December 31, 2007 and increased 70.65% to the twelve months ended December 31, 2008 (including clients of Telemig). The increase in 2007 was due to an increase in the addition of new prepaid customers to 3,692,360, and the increase in 2008 was due to an increase of 9,147,634 new prepaid customers (including clients of Telemig). This variation in the rate of new additions of customers has negatively affected our results of operations and could continue to do so in the future. In addition, if our rate of customer turnover were to increase significantly, our results of operations and or competitive position could be adversely affected. Several factors in addition to competitive pressures could influence our rate of acquisition of new customers and our rate of customer turnover, including limited network coverage, lack of sufficient reliability of our services and economic conditions in Brazil.

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

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

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

Certain of our 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 of our 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.

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

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

For Brazilian GAAP purposes, an impairment is recognized on goodwill if the expected net cash flows generated from the acquired net assets is not sufficient to cover their book value. As of December 31, 2008, the amount of goodwill of the Company is R\$1,424.4 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 39 to our audited consolidated financial statements. The Company has substantial goodwill including from the acquisition of Telemig on April 3, 2008, with a carrying value of R\$976.8 million as of December 31, 2008. 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. 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.

In addition, we are required to record impairment charges on long-lived assets, including property, plant and equipment and finite-lived intangible assets (including concessions) if the carrying value of these assets exceeds the undiscounted cash flows expected from their use for purposes of U.S. GAAP. This impairment test is also described in Note 39(m) to our audited consolidated financial statements included in this annual report.

Risks Relating to Our Shareholding Structure

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

As of December 31, 2008, *PT Móveis SGPS, S.A.* and *Telefónica S.A.*, our principal shareholders, owned, directly and indirectly, approximately 89.5% of our common shares and 63.5% 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 interests of *PT Móveis SGPS, S.A.* and *Telefónica S.A.* may differ from our interests or those of our other shareholders.

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 equal to 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, 2004, 2005 and 2007 because we had net losses. For the fiscal year ended December 2006, we were able to pay dividends because we had net income, but the amounts paid were insufficient to meet the minimum legal requirement. In addition, according to Brazilian Corporate Law, we would 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. For the fiscal year ended December 31, 2008, the Board of Directors Meeting held on February 12, 2009 approved to pay dividends in the amount of R\$402.6 million, which is sufficient to meet the minimum dividend required by law. As a result, holders of Vivo's preferred shares will no longer have voting rights equal to those of the holders of common shares. According to the approval granted at the Board of Directors Meeting held on February 12, 2009 and at the General Meeting of Shareholders held on March 19, 2009, the dividends will be paid as of December 30, 2009 at which time voting rights on the preferred shares will cease. 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 subsidiaries 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.

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.

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. These features may substantially limit the ability to sell the preferred shares underlying the ADSs at a price and time at which holders wish to do so. The São Paulo Stock Exchange had a market capitalization of US\$588.5 billion as of December 31, 2008, and an average monthly trading volume of approximately US\$64.7 billion for the first twelve months of 2008.

In comparison, the NYSE had a domestic market capitalization of US\$9.3 trillion (excluding funds and non-U.S. companies) as of December 31, 2008. A liquid and active market may never develop for our common shares, preferred shares or ADSs, and as a result, the ability of holders to sell at the desired price or time may be significantly hindered.

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

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

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

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

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

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

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

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

Holders of our ADSs may exercise the limited voting rights with respect to our preferred shares represented by the ADSs only in accordance with the deposit agreement related to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders meetings in certain newspapers in Brazil. To the extent that holders of our preferred shares are entitled to vote at a shareholders meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs will receive notice of a shareholders meeting by mail from the depositary following our notice to the depositary requesting the depositary to 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.

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

The ADSs benefit from the certificate of foreign capital registration, which permits The Bank of New York, as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary's certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain their own certificate of foreign capital registration, or unless they qualify under Resolution 2,689 of the Central Bank of Brazil, dated January 26, 2000 and issued by BACEN, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration.

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. Our History and Development

General

We are incorporated under the laws of the Federative Republic of Brazil under the name Vivo Participações S.A., known as Vivo (and prior to the Merger, under the name *Telesp Celular Participações S.A.*). We have the legal status of a *sociedade por ações*, or a stock corporation, operating under Brazilian Corporate Law. Our principal executive offices are located at Avenida Doutor Chucri Zaidan, 860, 04583-110, São Paulo, SP, Brazil. Our telephone number is +55 11 7420-1172, our facsimile number is +55 11 7420-2247, and our website is www.vivo.com.br. The information on our website is not part of this Form 20-F. Our agent for service of process in the United States is Puglisi & Associates, located at 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19715.

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*. Additionally, we acquired the control

in April 03, 2008 of Telemig Celular S.A., a wireless telecommunication provider in the state of Minas Gerais. Global Telecom (or GT, 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.

The following chart shows our corporate structure as of December 31, 2008:

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.

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 29.8% of the total market in Brazil, according to ANATEL, with 44.9 million customers as of December 31, 2008, according to market share data published by ANATEL. Its operations cover all of Brazil and its approximately 190 million inhabitants.

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 Tocantis 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\$19.49 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. On 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 customer 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:

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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

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

68.72% of TLE's common shares, 40.95% of TLE's preferred shares and 50.67% of TLE's total capital stock;

92.01% of TSD's common shares, 90.27% of TSD's preferred shares and 91.03% of TSD's total capital stock; and

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

Merger of the Vivo Companies

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

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

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

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

Capital Increase

On June 08, 2006, the Board of Directors of Vivo Participações approved a capital increase and issued a total of 15,705,528 new common shares at the issue price of R\$12.37 in connection with Brasilcel's capitalization of certain tax benefits relating to the goodwill it recorded when it acquired us in December 2002 and with preemptive rights exercised by our shareholders. CVM regulations permit buyers of joint stock companies to capitalize tax benefits derived from goodwill, provided preemptive rights related to such capital increase are extended to the other shareholders of the joint stock company. The goodwill Brasilcel capitalized included approximately R\$193.9 million in tax benefits for the fiscal year ending on December 31, 2005 and approximately R\$0.4 million for previous fiscal years, totaling approximately R\$194.3 million.

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

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

The Meeting of the Board of Directors held on May 26, 2008 approved a capital increase of R\$362,742, representing the tax benefit of the incorporated premium, and R\$179,862 and R\$182,880 for the years 2006 and 2007, respectively, with the issue of 31,959,675 new shares, comprised of 11,669,713 common shares and 20,289,962 preferred shares, ensuring the preemptive right provided for in Article 171 of Law No. 6404/76. The proceeds arising from the exercise of the preemptive right were credited to Portelcom Participações SA and Sudestecel Participações Ltda.

As a result of this capital increase Brasilcel's holdings in us consisted of 89.5% of Vivo common shares, 48.7% of Vivo preferred shares representing 63.5% 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' equity.

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

Acquisition of Telpart, Telemig and Tele Norte

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações (then the controlling shareholder of Telemig Celular) and Tele Norte Participações (then the controlling shareholder of Amazônia Celular S.A.) and 22.73% and 19.34%, respectively, of the total capital of both Telemig Participações and Tele Norte Participações for an aggregate amount of R\$1.2 billion, subject to certain price adjustments, and the completion of the transaction being subject to customary closing conditions. Telpart was at that time the parent company of Telemig and Tele Norte. In addition, pursuant to the agreement, Vivo would acquire from Telpart certain subscription rights with respect to goodwill reserves for R\$87 million (R\$65.8 million regarding Telemig and R\$21.1 regarding Tele Norte Participações). On November 9, 2007, ANATEL approved Vivo's acquisition of Telemig pursuant to Action (*Ato*) No. 68,401.

On December 20, 2007, in accordance with the terms of Instruction CVM 358 of 01/03/02, Vivo publicly announced that it signed a stock purchase agreement with Telemar, a Brazilian telecommunications company unrelated to either Telpart or Vivo, for the sale of all of the Tele Norte shares it was acquiring from Telpart under the stock purchase agreement dated August 2, 2007, in order to facilitate its acquisition of the shares of Telemig. Subsequent to signing this stock purchase agreement, and pursuant to Action (*Ato*) No. 1,261 dated March 5, 2008 published in the DOU on March 7, 2008, ANATEL approved the transfer of shares of Tele Norte to Vivo and the subsequent transfer of these shares to Telemar.

The sale to Telemar was agreed to be in the amount of R\$120,009,893.00, subject to the indexation set forth in the stock purchase agreement dated December 20, 2007, which was equivalent to the price Vivo paid for these same shares under the terms of the stock purchase agreement of August 2, 2007.

On April 3, 2008, Vivo announced that (i) all conditions precedent to the acquisition of Telemig were fulfilled, (ii) Vivo had paid the purchase price in the total amount of R\$1.23 billion, comprised of R\$1.163 billion in connection with the purchase of shares and R\$70.511 million in connection with the acquisition of subscription rights, and (iii) Vivo had acquired, as of that date, the direct control of Telemig as a result of the acquisition of 7,258,108 common shares and 969,932 preferred shares of Telemig, representing 53.90% of the voting capital and 22.73% of the total capital of Telemig. The price per share paid by Vivo was approximately R\$151.17 per common share and R\$67.43 per preferred share of Telemig.

Vivo further announced that the interests acquired in Tele Norte Participações and, indirectly, in Amazônia Celular were immediately transferred to Telemar Participações S.A., for the same price and under the same conditions set forth in the agreement with Telpart. Such interests in Tele Norte Participações consisted of 1,292,679 common shares, 3,715 preferred shares and rights to subscribe to shares to be issued by Tele Norte Participações.

Also on April 3, Vivo announced that it would proceed with two tender offers through its subsidiary TCO IP S.A.: (i) a mandatory offer to non-controlling common shareholders in Telemig Participações and Telemig Celular, at a price per share of R\$120.93 and R\$2,100.03, respectively, which was subsequently launched on July 15, 2008 and (ii) a voluntary offer for up to one-third of Telemig Participações's and Telemig Celular's outstanding preferred shares, on a pro-rated basis, at a price per share of R\$63.90 and R\$654.72, respectively, which prices included a premium of approximately 25% of the weighted average price of the preferred shares of the respective company in the 30

BOVESPA trading sessions preceding and including August 1, 2007. The voluntary offer also included holders of preferred shares underlying the ADSs and was launched on April 8, 2008.

On April 4, 2008, the Company approved the transfer of the equity control of TCO IP S.A. from Vivo S.A. to Vivo Participações S.A. As a result of such transfer of control, TCO IP became a wholly-owned subsidiary of Vivo Participações.

On August 20, 2008, Vivo announced the results of the tender offers. Upon completion of the voluntary tender offer on May 12, 2008, TCO IP had acquired 7,257,020 preferred shares of Telemig Participações and 89,492 preferred shares of Telemig Celular, for a total purchase price of R\$463.7 million and R\$58.59 million, respectively. On July 25, 2008, TCO IP acquired 3,929 preferred shares of Telemig Celular for an aggregate amount of R\$2.57 million, and on September 9 and 10, TCO IP acquired 4,000 preferred shares of Telemig Celular for the aggregate amount of R\$2.6 million. Upon completion of the mandatory tender offer on August 15, 2008, TCO IP acquired 5,803,171 common shares of Telemig Participações and 78,107 common shares of Telemig Celular, for an aggregate price of R\$732.6 million and R\$171.2 million, respectively.

On August 26, 2008, Vivo Participações subscribed to a capital increase in TCO IP in the amount of R\$1.149 billion, which was paid-in with the transfer and delivery, at book value, of 7,258,108 common and 969,932 preferred shares held by Vivo in Telemig Participações and Telemig Celular. As a result of this transaction, TCO IP's share capital increased from R\$905.03 million to R\$2.05 billion and TCO IP became the direct controlling shareholder of Telemig.

On December 19, 2008, Vivo and Telemig announced the shareholder approval of a corporate reorganization pursuant to which TCO IP S.A. was spun off and incorporated into Telemig Participações and Telemig Celular. As a result of the acquisition from Telpart, the tender offers and the corporate reorganization, Vivo became a holder of 96.994% common shares and 36.177% preferred shares in Telemig Participações and 8.764% common shares and 6.308% preferred shares in Telemig Celular.

Capital Increase

In an extraordinary meeting held on February 12, 2009, our Board of Directors approved a capital increase as a result of the corporate restructuring process involving the Company and its controlled and controlling companies. The goodwill amortization resulting from this corporate restructuring resulted in an accrued tax benefit in the total amount of approximately R\$189.9 million corresponding to the fiscal year ended on December 31, 2008. It also represents the credits held by the controlling shareholder, Portelcom Participações S.A. (Portelcom), used to increase the capital stock from approximately R\$6.7 billion to R\$6.9 billion, with the issuance of 5,819,678 new shares. Of such new shares being issued, 2,124,989 are common shares and 3,694,689 are preferred shares, entitled to preemptive rights as set forth by Brazilian law.

The issue price of R\$32.63 per preferred and common share, corresponded to 100% of the weighted average price of the preferred shares during the 10 trading sessions of BOVESPA, from January 28, 2009 until February 10, 2009, inclusive.

As a result of this capital increase Brasilcel's holdings in us consisted of 89.56% of our common shares, 48.75% of our preferred shares, representing 63.61% of our total capital.

Proposed Corporate Restructuring and Deregistration of Telemig and Telemig Celular

On March 23, 2009, in compliance with and for the purpose of Instructions CVM Nr. 319/99 and 358/02, the Board of Directors of Vivo, Telemig, and Telemig Celular approved to submit to the shareholders of all three companies the proposal for a corporate restructuring arising from the merger of the shares of Telemig Celular into Telemig and of Telemig into Vivo, with the objective of making Telemig Celular into a wholly-owned subsidiary of Telemig and making Telemig into a wholly-owned subsidiary of Vivo (Corporate Restructuring).

The purpose of the proposed Corporate Restructuring is to simplify the current organizational structure that comprises three publicly-held companies, two of them with ADRs traded outside of Brazil. The simplified structure

will reduce administrative costs and allow the shareholders of these three companies to participate in one company with shares traded on the Brazilian and international stock exchanges, thus increasing liquidity and facilitating the unification and standardization of the general administration of the businesses.

All the shares of Telemig Celular will be merged, in their entirety, into Telemig, and the holders of the merged shares of Telemig Celular will receive in exchange for their shares, new shares to be issued by Telemig of the same class. On the same date, the shares of Telemig will be merged, in their entirety, into Vivo, and the holders of the merged shares of Telemig will receive in exchange for their shares, new shares to be issued by Vivo of the same class. These shares exchanges will occur in accordance with an exchange ratio to be established by the three companies. Consequently, the merger of shares of Telemig Celular and Telemig will not result in any modification of the number or the composition per class of these shares that will ultimately be held in their totality by Vivo. The non-controlling shareholders of Telemig Celular and Telemig will become shareholders of Vivo.

With Telemig Celular set to become a wholly-owned subsidiary of Telemig and Telemig set to become a wholly-owned subsidiary of Vivo, their registration with CVM and with BOVESPA will be cancelled, as well as the registration of Telemig with the SEC and with the NYSE, in order to eliminate the costs related thereto.

The simplified organizational chart below shows the current corporate structure of Vivo, Telemig, and Telemig Celular.

The organizational chart below shows the corporate structure of Vivo, Telemig, and Telemig Celular after the implementation of the Corporate Restructuring described above. The Corporate Restructuring will not change the final composition of the control of the three companies involved.

In accordance with the recommendations stated in the *Parecer de Orientação nr. 35/08* issued by the CVM, special independent committees were created within Telemig and within Telemig Celular (Special Committees), in order to issue their opinion on the exchange ratio of the shares and on other terms of the Corporate Restructuring that will be proposed, and to submit their recommendations on such terms to the Board of Directors of the three companies involved.

The Telemig Special Committee is composed as follows: Shakhaf Wine, Director chosen by the majority of the members of the Board of Directors; Marcelo Santos Barbosa, Director chosen by the non-controlling shareholders; and Norair Ferreira do Carmo, chosen jointly by the other two members of the Special Committee. The Telemig Celular Special Committee is composed as follows: Shakhaf Wine, Director chosen by the majority of the members of the Board of Directors; Marcelo Santos Barbosa, Director chosen by the non-controlling shareholders; and Norair Ferreira do Carmo, chosen jointly by the other two members of the Special Committee.

In compliance with Law No. 6,404/76 and CVM Instruction nr. 319/99, a specialized company will be retained to audit the financial reports of Telemig Celular and of Telemig that will be used as a base to the merger of shares, as well as to provide financial advisory services for the elaboration of the appraisal reports of the three companies involved that shall be used as a parameter for establishing the exchange ratio for the shares on an arm's-length basis. Additionally, in accordance with article 264 of Law No. 6,404/76, Telemig, Telemig Celular and Vivo will have the specialized company calculate their respective net worth at market value, using the same criteria and on the same base date.

Once the appraisals and the necessary analyses are finalized and the recommendations of the Special Committees are issued to the Board of Directors of Telemig and Telemig Celular for them to take their resolutions, the three companies involved will disclose by means of a notice of material fact, the exchange ratio and the other terms and conditions proposed for the Corporate Restructuring by the Board of Directors.

The proposals of the Board of Directors will be subject to the approval of the shareholders at the Extraordinary Shareholders Meeting to be held for this purpose, in accordance with Law No. 6,404/76, CVM Instruction No. 319/99 and *Parecer de Orientação* CVM No. 35/08.

The shareholders of common and preferred shares of Telemig Celular and of the common shares of Vivo and Telemig who dissent to the merger of shares at the Extraordinary Shareholders Meeting will have, as of the date of that meeting, the right to withdraw from the respective companies and to be reimbursed for the shares of which they are legitimate holders. The value of the reimbursement will be timely disclosed at the same time as the other terms and conditions of the Corporate Restructuring.

We estimate that the Corporate Restructuring will be concluded in the second semester of 2009.

The Corporate Restructuring will be submitted to ANATEL for review, but its approval is not required to merge Telemig Celular into Telemig since this part of the Corporate Restructuring plan involves companies of the same economic group. Moreover, this merger is not subject to the approval of *CADE - Conselho Administrativo de Defesa Econômica*. The holding of the Extraordinary Shareholders Meeting that will consider the approval of the Corporate Restructuring is, however, subject to SEC regulations related to the trading of the ADRs of Telemig on the New York Stock Exchange.

Once the merger of Telemig Celular into Telemig is concluded, we will proceed, subject to the necessary corporate and regulatory approvals, to consider the implementation of the merger of Telemig into Vivo, as a wholly-owned subsidiary of Vivo, with the purpose of continuing the process of simplifying the corporate structure of the Vivo group companies without resulting in any alteration of its shareholding structure. With respect to this merger, it is necessary to receive the prior approval from ANATEL.

Dividends and Interest on Shareholders' Equity

In compliance with our by-laws, the general shareholders meeting on March 19, 2009 approved the payment of dividends on the preferred shares equal to 6% of our capital stock (approximately R\$1.10 per share, for a total amount of approximately R\$402.6 million) under the same conditions as the payment of dividends on common shares.

Such dividends, declared on the basis of the 2008 closing balance sheet to the holders of common and preferred shares, are made up by the interest on the shareholders' equity, as approved at a meeting of the Board of Directors of the Company, held on December 17, 2008, deducted in conformity with article 9 of Law 9249/95, in the amount of approximately R\$161.1 million which, net of income tax, results in approximately R\$136.9 million, and dividends in the amount of approximately R\$265.7 million.

This amount results in an aggregate of interest on shareholders' equity (*Juros Sobre Capital Próprio* or *JSCP*) plus net dividends of approximately R\$1.10 per common or preferred share. The amounts for *JSCP* and dividends shall be paid by December 30, 2009.

Capital Expenditures

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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, | | |
|----------------------------|-------------------------------|---------------------|---------------------|
| | 2008 ⁽¹⁾ | 2007 ⁽¹⁾ | 2006 ⁽¹⁾ |
| | (in millions of reais) | | |
| Switching equipment | 533.1 | 417.3 | 375.9 |
| Transmission equipment | 1,446.9 | 726.9 | 844.4 |
| Information technology | 286.5 | 267.2 | 414.8 |
| Others ⁽²⁾ | 1,730.9 | 494.3 | 468.8 |
| Total capital expenditures | 3,997.4 | 1,905.7 | 2,103.9 |

| State of São Paulo Areas 1 and 2 | Year ended December 31, | | |
|----------------------------------|-------------------------------|---------------------|---------------------|
| | 2008 ⁽¹⁾ | 2007 ⁽¹⁾ | 2006 ⁽¹⁾ |
| | (in millions of reais) | | |
| Switching equipment | 146.8 | 133.4 | 121.3 |
| Transmission equipment | 411.7 | 267.1 | 304.7 |
| Information Technology | 243.9 | 238.2 | 351.5 |
| Others ⁽²⁾ | 373.1 | 143.8 | 167.4 |
| Total capital expenditures | 1,175.5 | 782.5 | 944.9 |

| States of Rio de Janeiro and Espírito Santo Area 3 | Year ended December 31, | | |
|--|-------------------------------|---------------------|---------------------|
| | 2008 ⁽¹⁾ | 2007 ⁽¹⁾ | 2006 ⁽¹⁾ |
| | (in millions of reais) | | |
| Switching equipment | 65.3 | 86.4 | 65.0 |
| Transmission equipment | 223.7 | 115.3 | 164.1 |
| Information Technology | 2.3 | 5.6 | 12.9 |
| Others ⁽²⁾ | 305.3 | 106.5 | 90.3 |
| Total capital expenditures | 596.6 | 313.8 | 332.3 |

| States of Paraná and Santa Catarina Area 5 | Year ended December 31, | | |
|--|-------------------------------|---------------------|---------------------|
| | 2008 ⁽¹⁾ | 2007 ⁽¹⁾ | 2006 ⁽¹⁾ |
| | (in millions of reais) | | |
| Switching equipment | 11.8 | 56.2 | 30.5 |
| Transmission equipment | 131.2 | 89.8 | 70.8 |

| | | | |
|----------------------------|-------|-------|-------|
| Information Technology | 1.1 | 2.2 | 10.6 |
| Others ⁽²⁾ | 251.1 | 65.6 | 45.3 |
| Total capital expenditures | 395.2 | 213.8 | 157.2 |

Year ended December 31,

| State of Rio Grande do Sul Area 6 | 2008⁽¹⁾ | 2007⁽¹⁾ | 2006⁽¹⁾ |
|--|-------------------------------|---------------------------|---------------------------|
| | (in millions of reais) | | |
| Switching equipment | 119.7 | 69.1 | 89.8 |
| Transmission equipment | 22.3 | 73.8 | 43.5 |
| Information technology | 1.1 | 5.9 | 8.0 |
| Others ⁽²⁾ | 231.0 | 62.3 | 64.3 |
| Total capital expenditures | 374.1 | 211.1 | 205.6 |

Year ended December 31,

| Central Western and Northern regions Areas 7 and 8 | 2008⁽¹⁾ | 2007⁽¹⁾ | 2006⁽¹⁾ |
|---|-------------------------------|---------------------------|---------------------------|
| | (in millions of reais) | | |
| Switching equipment | 68.7 | 46.4 | 44.0 |
| Transmission equipment | 246.6 | 119.3 | 149.8 |
| Information Technology | 2.6 | 8.1 | 27.0 |
| Others ⁽²⁾ | 269.8 | 78.7 | 66.5 |
| Total capital expenditures | 587.7 | 252.5 | 287.3 |

| States of Bahia and Sergipe Area 9 | Year ended December 31, | | |
|------------------------------------|-------------------------|---------------------|---------------------|
| | 2008 ⁽¹⁾ | 2007 ⁽¹⁾ | 2006 ⁽¹⁾ |
| | (in millions of reais) | | |
| Switching equipment | 33.2 | 25.8 | 25.3 |
| Transmission equipment | 77.3 | 61.6 | 111.5 |
| Information technology | 1.2 | 7.2 | 4.8 |
| Others ⁽²⁾ | 120.5 | 37.4 | 35.0 |
| Total capital expenditures | 232.2 | 132.0 | 176.6 |

| Northeast region Area 10 | Year ended |
|-----------------------------------|-------------------------------------|
| | December 31, 2008 ⁽¹⁾ |
| Switching equipment | 19.3 |
| Transmission equipment | 212.5 |
| Information technology | 1.7 |
| Others ⁽²⁾ | 71.2 |
| Total capital expenditures | 304.7 |

| State of Minas Gerais Area 4 | Year ended |
|-----------------------------------|----------------------|
| | December 31, 2008 |
| Switching equipment | 68.3 |
| Transmission equipment | 121.6 |
| Information technology | 32.6 |
| Others ⁽²⁾ | 108.9 |
| Total capital expenditures | 331.4 |

(1) The financial information presented for 2006, 2007 and 2008 represents information from Vivo's consolidated financial statements in which Vivo has consolidated TSD, TLE, and CRT as from January 1, 2006.

(2) Consisting primarily of free handset rentals, network construction, furniture and fixtures, office equipment, store layouts, and an aggregate amount of R\$1,201.2 million in connection the acquisition in 2008 of our 3G licenses.

Our capital expenditure estimate for 2009 is approximately R\$2.6 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, Acre, Alagoas, Amapá, Amazonas, Bahia, Ceará, Espírito Santo, Goiás (also encompassing the area of Distrito Federal, or the Federal district), Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Paraíba, Paraná, Pernambuco, Piauí, Rio de Janeiro, Rio Grande do Sul, Rondônia, Roraima, Santa Catarina, São Paulo, Sergipe, Tocantins and Minas Gerais through its subsidiary Telemig Celular.

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. On December 31, 2008, Vivo S.A. had 14.2 million cellular lines in service in these areas, which represented a 16.9% increase from December 31, 2007, and a market share of approximately 37.4% in São Paulo.

In Area 3, Vivo S.A. uses the band A frequency range that covers 100% of the municipalities and 100% of the population in the states of Rio de Janeiro and Espírito Santo. On December 31, 2008, Vivo S.A. had 7.1 million cellular lines in service in this area, which represented a 19.4% net increase from December 31, 2007, and a market share of approximately 38.7% in those states.

In Area 4, Vivo S.A. through its holding of Telemig Celular uses a frequency range known as A band that covers 70.8% of the municipalities and 91.9% of the population in the state of Minas Gerais. On December 31, 2008, Telemig Celular had 4.6 million cellular lines in service in this area, which represented a 18.6% net increase from December 31, 2007, and a market share of approximately 28.7% in Minas Gerais.

In Area 5, Vivo S.A. uses a frequency range known as B band that covers 60.4% of the municipalities in the states of Paraná and Santa Catarina and 92.5% of the population of Paraná and Santa Catarina. On December 31, 2008, Vivo S.A. had 3.3 million cellular lines in service in this area, which represented a 17.5% net increase from December 31, 2007, and a market share of approximately 24.6% in those states.

In Area 6, Vivo S.A. uses the band A frequency range that covers 75.0% of the municipalities and 96.8% of the population in the state of Rio Grande do Sul. On December 31, 2008, Vivo S.A. had 4.2 million cellular lines in service in this area, which represented a 14.4% net increase from December 31, 2007, and a market share of approximately 42.8% 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 and B band that covers 47.2% of the municipalities in the states of Acre, Distrito Federal, Goiás, Mato Grosso, Mato Grosso do Sul, Rondônia, Tocantins, Amazonas, Amapá, Maranhão, Pará and Roraima which covers 81.7% of the population in these states. On December 31, 2008, Vivo S.A. had 8.2 million cellular lines in service in these areas, which represented a 22.6% net increase from December 31, 2007, and a market share of approximately 33.3% in those states.

In Area 9, Vivo S.A. uses the band A frequency range that covers 51.6% of the municipalities and 83.1% of the population in the States of Bahia and Sergipe. On December 31, 2008, Vivo S.A. had 3.0 million cellular lines in service in this area, which represented a 33.6% net increase from December 31, 2007, and a market share of approximately 28.6% in those states.

In Area 10, Vivo S.A. uses the band J frequency range that covers 2.2% of the municipalities and 24.4% of the population in the States of Ceará and Pernambuco. On December 31, 2008, Vivo S.A. had 0.3 million cellular lines in service in this area and a market share of approximately 1.7% in those states. Vivo S.A. initiated its operations in these states in October of 2008. In February 2009 Vivo initiated its operations in Alagoas and Paraíba, in March 2009 in Rio Grande do Norte and in April 2009 in Piauí.

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

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

Our Operations

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The following tables set forth information about Vivo'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, | | |
|--|--------------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Cellular lines in service at year-end (in thousands) | 14,197 | 12,142 | 10,684 |
| Contract customers | 2,671 | 2,125 | 1,803 |
| Prepaid customers | 11,526 | 10,017 | 8,881 |

| Year ended December 31, | | | |
|---|-------------|-------------|-------------|
| State of São Paulo Areas 1 and 2 | 2008 | 2007 | 2006 |
| Growth in cellular lines in service during year | 16.9% | 13.6% | 2.0% |
| Churn ⁽¹⁾ | 28.8% | 25.4% | 28.6% |
| Estimated population of concession areas (in millions) ⁽²⁾ | 40.8 | 41.2 | 40.6 |
| Estimated covered population (in millions) ⁽³⁾ | 40.8 | 41.2 | 40.6 |
| Percentage of population covered ⁽⁴⁾ | 100% | 100% | 100% |
| Penetration at year-end ⁽⁵⁾ | 92.8% | 71.0% | 59.6% |
| Percentage of municipalities covered | 100% | 100% | 100% |
| Market share ⁽⁶⁾ | 37.4% | 41.5% | 44.2% |

| Year ended December 31, | | | |
|---|-------------|-------------|-------------|
| States of Rio de Janeiro and Espírito Santo Area 3 | 2008 | 2007 | 2006 |
| Cellular lines in service at year-end (in thousands) | 7,100 | 5,947 | 4,920 |
| Contract customers | 1,608 | 1,391 | 1,343 |
| Prepaid customers | 5,492 | 4,556 | 3,577 |
| Customer growth during the year | 19.4% | 20.9% | 3.8% |
| Churn ⁽¹⁾ | 28.3% | 25.5% | 32.6% |
| Estimated population of Region at year-end (millions) ⁽²⁾ | 19.2% | 19.4 | 19.1 |
| Estimated covered population at year-end (millions) ⁽³⁾ | 19.5 | 19.4 | 19.1 |
| Percentage of population of Region covered at year-end ⁽⁴⁾ | 100% | 100% | 100% |
| Penetration at year-end ⁽⁵⁾ | 95.7% | 76.8% | 64.3% |
| Percentage of municipalities covered | 100% | 100% | 100% |
| Market share ⁽⁶⁾ | 38.7% | 39.9% | 39.9% |

| Year ended December 31, | | | |
|---|-------------|-------------|-------------|
| State of Minas Gerais Area 4 | 2008 | 2007 | 2006 |
| Cellular lines in service at year-end (in thousands) | 4,627 | 3,901 | 3,436 |
| Contract customers | 975 | 833 | 798 |
| Prepaid customers | 3,652 | 3,067 | 2,637 |
| Customer growth during the year | 18.6% | 13.5% | 2.7% |
| Churn ⁽¹⁾ | 45.6% | 36.8% | 39.1% |
| Estimated population of region at year-end (million) ⁽²⁾ | 19.9 | 19.7 | 19.5 |
| Estimated covered population at year-end (million) ⁽³⁾ | 18.3 | 17.1 | 16.4 |
| Percentage of population covered at year-end ⁽⁴⁾ | 91.9% | 84.4% | 86.9% |
| Penetration at year-end ⁽⁵⁾ | 80.8% | 67.6% | 55.6% |
| Percentage of municipalities covered | 70.8% | 73.6% | 66.1% |
| Estimated market share ⁽⁶⁾ | 28.7% | 29.1% | 31.6% |

Year ended December 31,

| States of Paraná and Santa Catarina Area 5 | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Cellular lines in service at year-end (in thousands) | 3,317 | 2,823 | 2,570 |
| Contract customers | 635 | 494 | 406 |
| Prepaid customers | 2,682 | 2,329 | 2,164 |
| Growth in cellular lines in service during year | 17.5% | 9.9% | (11.7)% |
| Churn ⁽¹⁾ | 31.3% | 34.5% | 44.1% |
| Estimated population of concession areas (in millions) ⁽²⁾ | 16.7 | 16.7 | 16.5 |
| Estimated covered population (in millions) ⁽³⁾ | 15.4 | 15.4 | 15.2 |
| Percentage of population covered ⁽⁴⁾ | 92.5% | 92% | 93% |
| Penetration at year-end ⁽⁵⁾ | 80.6% | 65.7% | 56.6% |
| Percentage of municipalities covered | 60.4% | 60.0% | 60.0% |
| Market share ⁽⁶⁾ | 24.6% | 25.8% | 27.6% |

Year ended December 31,

| State of Rio Grande do Sul Area 6 | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Cellular lines in service at year-end (in thousands) | 4,172 | 3,647 | 3,321 |
| Contract customers | 1,119 | 939 | 790 |
| Prepaid customers | 3,053 | 2,709 | 2,530 |
| Growth in cellular lines in service during year | 14.4% | 9.8% | (2.0)% |
| Churn ⁽¹⁾ | 24.0% | 24.1% | 27.5% |
| Estimated population of concession areas (in millions) ⁽²⁾ | 10.9 | 10.7 | 10.6 |
| Estimated covered population (in millions) ⁽³⁾ | 10.6 | 10.4 | 10.2 |
| Percentage of population covered ⁽⁴⁾ | 96.8% | 96.4% | 96% |
| Penetration at year-end ⁽⁵⁾ | 89.7% | 78.7% | 71.3% |
| Percentage of municipalities covered | 75.0% | 72.7% | 70.0% |
| Market share ⁽⁶⁾ | 42.8% | 43.1% | 43.8% |

Year ended December 31,

| Central Western and Northern regions Areas 7 and 8 | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Cellular lines in service at year-end (in thousands) | 8,233 | 6,713 | 5,912 |
| Contract customers | 1,128 | 899 | 836 |
| Prepaid customers | 7,105 | 5,814 | 5,075 |
| Growth in cellular lines in service during year | 22.6% | 13.6% | (13.3)% |
| Churn ⁽¹⁾ | 34.3% | 33.2% | 47.3% |
| Estimated population of concession areas (in millions) ⁽²⁾ | 35.6 | 35.3 | 34.6 |
| Estimated covered population (in millions) ⁽³⁾ | 29.1 | 28.7 | 28.0 |
| Percentage of population covered ⁽⁴⁾ | 81.7% | 81.5% | 81.0% |
| Penetration at year-end ⁽⁵⁾ | 69.4% | 56.0% | 47.3% |
| Percentage of municipalities covered | 47.2% | 46.4% | 46.0% |
| Market share ⁽⁶⁾ | 33.3% | 34.0% | 36.1% |

Year ended December 31,

| States of Bahia and Sergipe Area 9 | 2008 | 2007 | 2006 |
|---|-------------|-------------|-------------|
| Cellular lines in service at year-end (in thousands) | 2,956 | 2,212 | 1,647 |
| Contract customers | 420 | 399 | 331 |
| Prepaid customers | 2,536 | 1,813 | 1,316 |
| Customer growth during the year | 33.6% | 34.3% | 11.5% |
| Churn ⁽¹⁾ | 30.6% | 29.7% | 32.1% |
| Estimated population of region at year-end (million) ⁽²⁾ | 16.6 | 16.2 | 16.0 |
| Estimated covered population at year-end (million) ⁽³⁾ | 13.8% | 13.4% | 12.4% |
| Percentage of population covered at year-end ⁽⁴⁾ | 83.1% | 82.5% | 78.0% |
| Penetration at year-end ⁽⁵⁾ | 62.2% | 49.8% | 38.6% |

| States of Bahia and Sergipe Area 9 | Year ended December 31, | | |
|---------------------------------------|-------------------------|-------|-------|
| | 2008 | 2007 | 2006 |
| Percentage of municipalities covered | 51.6% | 50.2% | 45.0% |
| Estimated market share ⁽⁶⁾ | 28.6% | 27.4% | 26.6% |

| Northeast regions Area 10 | Year ended |
|---|----------------------|
| | December 31, 2008 |
| Cellular lines in service at year-end (in thousands) | 343 |
| Contract customers | 6 |
| Prepaid customers | 337 |
| Customer growth during the year | |
| Churn ⁽¹⁾ | 0.2% |
| Estimated population of region at year-end (million) ⁽²⁾ | 30.6 |
| Estimated covered population at year-end (million) ⁽³⁾ | 7.5 |
| Percentage of population covered at year-end ⁽⁴⁾ | 24.4% |
| Penetration at year-end ⁽⁵⁾ | 65.1% |
| Percentage of municipalities covered | 2.2% |
| Estimated market share ⁽⁶⁾ | 1.7% |

(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

Before November 1998, our network used only AMPS analog technology. After the privatization of the Telebrás System, we began to use CDMA and TDMA digital technologies. In 2006, we began the implementation of a GSM network. In 2007, we began the implementation of a WCDMA network. Digitalization offers certain advantages, such as greater network capacity and additional revenue through the sale of value-added services. We continue to increase our network capacity and coverage to improve our quality of service and to meet customer demand.

We provide voice and ancillary value-added services, including voicemail and voicemail notification, call forwarding, three-way calling, caller identification, short messaging, limitation on the number of used minutes, cellular chat room, and data service such as wireless application protocol service through which clients can access

WAP sites and portals. We offer direct access to the Internet through Data 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.

We offer wireless roaming services through agreements with local mobile service providers throughout Brazil and other countries, allowing our subscribers to make and receive calls while outside of our concession areas. We provide reciprocal roaming rights to the customers of the mobile service providers with which we have such agreements.

We also offer certain interactivity services with radio and television providers, allowing clients to listen to radio stations and watch TV channels at no additional cost.

In 2005, we launched:

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

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

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

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

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

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

In 2006 we launched:

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

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

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

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

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

Vivo ao Vivo new interface for Vivo GSM terminals;

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

Vivo Chip - a service menu on GSM SIM Cards;

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

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

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

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

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

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

In 2007 we launched:

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

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

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

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

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

Search and mobile marketing agreements signed with Yahoo;

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

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

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

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

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

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

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

In addition, in 2008 we launched:

TV Digital exclusive handsets offered by Vivo in one of Brazil's first offerings of no-pay TV services available from any location in Brazil;

Rede 3G a high-speed and quality-signal third-generation wireless network;

iPhone 3G the latest generation iPhone for which existing Vivo customers were given priority to purchase;

Vivo Windows Live access to Microsoft's Messenger, Hotmail and Spaces applications;

Vivo Residencial a telephone terminal for home use, similar to a traditional fixed line, but portable, with no installation required, and offering economical rates for all household users;

Vivo 4 em 1 combining four services in one package pay TV, fixed-line calling packages, post-paid wireless calling plans and 3G mobile service (available only in certain areas);

Vivo Play a leading digital music shop in Latin America, with more than 300,000 songs purchased monthly; and

Vivo Co-Piloto a leading navigation service available in 152 cities in Brazil and compatible with four smartphone models, that was honored by *InfoExame* magazine as the best mobile phone navigation service available in Brazil.

Our Region

Vivo provides mobile telecommunications services on the A, B, E, L and J band frequencies in all of the Brazilian states in addition to the *Distrito Federal*, the Federal district, representing a total of approximately 8.4 million square kilometers and a population of approximately 190.4 million people. Vivo became a national operator when, on September 2007, it acquired a license of 1.9 GHz (L band) to operate within 6 states located in the Northwest region (Alagoas, Ceará, Pernambuco, Piauí, Paraíba and Rio Grande do Norte), combined with the acquisition of Telemig, (as mentioned in Acquisition of Telepart, Telemig and Tele Norte).

On April 29, 2008, Vivo signed the Terms of Authorization for using the sub-ranges of radio frequency J, also known as Third Generation (or 3G) frequency, acquired as a result of the auction realized by ANATEL on December 18, 2007.

The band J lots acquired by Vivo are summarized in the table below:

| Band | width | Area | Region | Authorization Period (year) |
|------|-------|------------|---|-----------------------------|
| J | 10+10 | I | RJ, ES, BA e SE | 15+15 |
| J | 10+10 | II | PR, SC, RS, AC, DF, GO, MS, MT, RO e TO | 15+15 |
| J | 10+10 | III and IV | SP Capita/AM, AP, MA, PA, RR | 15+15 |
| J | 10+10 | V and VI | SP Interior/AL, CE, PB, PE, PI e RN | 15+15 |
| J | 10+10 | VII | Triângulo Mineiro | 15+15 |
| J | 10+10 | VIII | Paranaíba (MS) e Região de Itumbiara (GO) | 15+15 |
| J | 10+10 | IX | Região de Franca | 15+15 |
| J | 10+10 | X | MG sem triângulo mineiro | 15+15 |
| J | 10+10 | XI | Municípios de Londrina e Tamarana (PR) | 15+15 |

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

| Area | On December 31, 2008 | | | Last Available IBGE Data | | |
|----------------------|------------------------|--|---|---|--|---|
| | Frequency Range (Band) | Population (in thousands) ⁽¹⁾ | Percent of Brazil's population ⁽¹⁾ | GDP (in millions of reais) ⁽²⁾ | Percent of Brazil's GDP ⁽²⁾ | Per capita income (in reais) ⁽²⁾ |
| São Paulo state | A, L and J | 40,853 | 21.5% | 727,052 | 33.9% | 17,797 |
| Paraná state | A, L and J | 10,630 | 5.6% | 126,621 | 5.9% | 11,912 |
| Santa Catarina state | A, L and J | 6,109 | 3.2% | 85,295 | 4.0% | 13,962 |
| Goiás state | A, L and J | 5,891 | 3.1% | 50,536 | 2.4% | 8,579 |
| Tocantins state | A, L and J | 1,306 | 0.7% | 9,083 | 0.4% | 6,955 |

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| | | | | | | |
|--------------------------|------------|-------|------|--------|------|--------|
| Mato Grosso state | A, L and J | 3,022 | 1.6% | 37,466 | 1.7% | 12,398 |
| Mato Grosso do Sul state | A, L and J | 2,379 | 1.2% | 21,641 | 1.0% | 9,097 |
| Rondônia state | A, L and J | 1,522 | 0.8% | 12,902 | 0.6% | 8,477 |
| Acre state | A, L and J | 695 | 0.4% | 4,481 | 0.2% | 6,447 |
| Amapá state | B and J | 629 | 0.3% | 4,366 | 0.2% | 6,941 |
| Amazonas state | B and J | 3,414 | 1.8% | 33,359 | 1.6% | 9,771 |
| Maranhão state | B and J | 6,418 | 3.4% | 25,325 | 1.2% | 3,946 |
| Pará state | B and J | 7,396 | 3.9% | 39,150 | 1.8% | 5,293 |
| Roraima state | B and J | 423 | 0.2% | 3,178 | 0.2% | 7,513 |
| Federal District | A, L and J | 2,538 | 1.3% | 80,516 | 3.7% | 31,724 |

On December 31, 2008

Last Available IBGE Data

| Area | Frequency Range (Band) | Population (in thousands) ⁽¹⁾ | Percent of Brazil's population ⁽¹⁾ | GDP (in millions of reais) ⁽²⁾ | Percent of Brazil's GDP ⁽²⁾ | Per capita income (in reais) ⁽²⁾ |
|---------------------------|------------------------|--|---|---|--|---|
| Bahia state | A, L and J | 14,597 | 7.7% | 90,942 | 4.2% | 6,230 |
| Sergipe state | A, L and J | 2,036 | 1.1% | 13,422 | 0.6% | 6,952 |
| Rio de Janeiro state | A, L and J | 15,716 | 8.3% | 246,936 | 11.5% | 15,712 |
| Espírito Santo state | A, L and J | 3,456 | 1.8% | 47,190 | 2.2% | 13,654 |
| Rio Grande do Sul state | A, L and J | 10,875 | 5.7% | 144,344 | 6.7% | 13,273 |
| Alagoas state | L and J | 3,182 | 1.7% | 14,135 | 0.7% | 4,442 |
| Ceará state | L and J | 8,498 | 4.4% | 40,923 | 1.9% | 4,816 |
| Pernambuco state | L and J | 8,765 | 4.6% | 49,904 | 2.3% | 5,694 |
| Piauí state | L and J | 3,172 | 1.6% | 11,125 | 0.5% | 3,507 |
| Paraíba state | L and J | 3,802 | 2.0% | 16,864 | 0.8% | 4,436 |
| Rio Grande do Norte state | L and J | 3,163 | 1.6% | 17,862 | 0.8% | 5,647 |
| Minas Gerais state | A, E and J | 19,953 | 10.5% | 192,611 | 9.0% | 9,653 |
| Vivo | | 190,440 | 100% | 2,147,229 | 100% | 11,275 |

(1) According to the last revision published by IBGE in 2008.

(2) According to the most recent IBGE data (2005). Nominal Brazilian GDP was R\$2,147,229 million as of December 2005 calculated by IBGE.

Marketing and Sales

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

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

On December 31, 2008, Vivo possessed 331 sales outlets (90 in São Paulo, 50 in the states of Rio de Janeiro and Espírito Santo, 34 in the state of Rio Grande do Sul, 37 in the states of Paraná and Santa Catarina, 25 in the states of Bahia and Sergipe, 27 in the states of Minas Gerais, 3 in the states that make up the northwest regions of Brazil and 65 in the states that make up the midwestern and northern regions of Brazil). It also has an efficient network of 10,447 authorized retail and resales dealerships. Consequently, Vivo has maintained its market leadership position, with a total of 10,778 points of sale.

Prepaid telephone card recharging was available at 561,027 locations, including our own stores, dealers, lottery shops, physical and online card distributors, and at smaller shops, drugstores, newspaper stands, book stores, bakeries, gas stations, bars and restaurants. Online recharging is also provided by several banks' websites.

Customer Service

In 2008, ANATEL passed a regulation to improve the quality of call center services, together with new legislation on telephone number portability whereby customers can change the carrier and still maintain their original telephone numbers. We have been mentioned in the press as the best call center to meet the requirements of this new legislation, and the incorporation of the Telemig Celular call centers with ours allows us to benefit from additional capacity operating under our guidelines of higher quality and lower costs.

In 2009, we began a process to change our call center's CMS, the system responsible for the management of incoming calls. With the implementation of the Genesis platform from Alcatel, Vivo will have a more modern and efficient system.

Another important customer service focus in 2009 is a new directive whereby call centers can use the calls not only to attend to the needs of the customers, but also to offer promotions and other relevant services to them according to their profile. In this manner, the call centers will also be used to generate revenue for the company, thus increasing the aggregate value of our services.

In dealing with all these changes in regulations, systems and procedures, we became the top telecommunications company in ANATEL's ranking of mobile operators in Brazil.

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 digital and TDMA digital technologies. In 2006, we began to implement a GSM Network. In 2007, we began to implement a WCDMA 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, 2008, Vivo S.A.'s telecommunications network in the state of São Paulo, which provided CDMA digital, GSM digital and WCDMA digital services, covered 100% of the municipalities. Vivo S.A.'s network is connected primarily through radio transmission system and a fiber-optic of our own and leased mainly from Telecomunicações de São Paulo S.A., or Telesp. The network consists of cellular switches, base stations and other network elements such as voicemail, prepaid service, short message service, home location registers, signaling transfer point, PDSN and gateways. NEC do Brasil S.A., Nortel Networks Northern Telecom do Brasil, Motorola do Brasil Ltda., Lucent Technologies do Brasil, Ind. e Com. Ltda., Huawei do Brasil Telecomunicações Ltda. and Ericsson Telecomunicações S.A. are Vivo S.A.'s main suppliers in the state of São Paulo.

Vivo S.A. began its activities in the states of Paraná and Santa Catarina (Vivo PR/SC) in December 1998 and, until 2005, offered services only through CDMA digital technology. As of December 31, 2008, the telecommunications network in PR/SC, which provided CDMA digital, GSM digital and WCDMA digital services, covered 60.4% of the municipalities, or 92.55% of the population, in its region. The PR/SC network is primarily connected by radio transmission system and a fiber-optic network of its own and leased mainly from fixed operating companies (Brasil Telecom) and Copel Companhia Paranaense de Energia S.A.. The network consists of cellular switches, base stations and other network elements, such as home location registers, signaling transfer points and gateways. Motorola do Brasil Ltda. (presently Motorola Industrial Ltda. and Motorola Services Ltda.), Huawei do Brasil Telecomunicações Ltda., Alcatel Telecomunicações S/A, Ericsson Telecomunicações S.A. and NEC do Brasil S.A. are Vivo S.A.'s main suppliers in PR/SC.

As of December 31, 2008, Vivo S.A. in the midwestern and northern regions (CO/N) provided WCDMA digital, CDMA Digital, GSM digital, TDMA digital services and AMPS analog services (of which the last two have been gradually phased out), covering 47.17% of the municipalities, or 81.74% of the population in its region. Our network is connected primarily through radio transmission system and a fiber-optic and of our own and leased from incumbent wire line companies. The network consists of cellular switches, base-stations and other network elements such as voicemail, prepaid service, home location registers and signaling transfer points. 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, 2008, the telecommunications network of Vivo S.A. in Bahia and Sergipe (BA/SE) covered 51.63% of the municipalities, or 83.14% of the population, of its region. Its network provided WCDMA digital, CDMA digital and GSM digital services. The network is connected primarily through radio transmission system and a fiber-optic network 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 prepaid service, signaling transfer point, home location registers and gateways. NEC do Brasil S.A., Ericsson Telecomunicações S.A., Nortel Networks Northern Telecom do Brasil, Motorola Industrial Ltda., Motorola Services Ltda., Huawei do Brasil Telecomunicações Ltda. and Lucent Technologies do Brasil, Ind. e Com. Ltda. are Vivo S.A.'s main suppliers in BA/SE.

As of December 31, 2008, the telecommunications network of Vivo S.A. in the states of Rio de Janeiro and Espirito Santo covered 100% of the municipalities in its area. Its network provided WCDMA digital, CDMA digital and GSM digital services. This network is connected primarily through radio transmission and a fiber-optic system of our own and leased mainly from the incumbent wire line companies. The network consists of cellular switches, base stations and other communication devices such as voicemail, prepaid service, short message service, home location registers, signaling transfer points, PDSN and gateways. 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, 2008, Vivo S.A.'s network in the state of Rio Grande do Sul (RS) provided WCDMA digital, CDMA digital and GSM digital, covering 75.0% of the municipalities, or 96.83% of the population, of this region. The RS network is connected primarily through radio transmission and a fiber-optic system of our own and leased mainly from Brasil Telecom. The network consists of cellular switches, base stations and other communication devices such as signaling transfer point, 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.

As of December 31, 2008, Vivo S.A.'s network in the northeast regions (NE) provided WCDMA digital and GSM digital services, covering 2.21% of the municipalities, 24.38% of the population, of this region. The NE network is connected primarily through radio transmission and a fiber-optic system of our own and leased mainly from the incumbent wire line companies. The network consists of cellular switches, base stations and other communication devices such as signaling transfer point. Huawei do Brasil Telecomunicações Ltda., Ericsson Telecomunicações S.A. and NEC do Brasil S.A. are Vivo S.A.'s principal suppliers in NE.

As of December 31, 2008, Vivo S.A.'s network through its subsidiary Telemig Celular in the state of Minas Gerais (MG) provided WCDMA, GSM digital, TDMA digital services and AMPS analog services (of which the last two have been gradually phased out), covering 70.81% of the municipalities, 91.89% of the population, of this region. The MG network is connected primarily through radio transmission and a fiber-optic system of our own and leased mainly from the incumbent wire line companies. The network consists of cellular switches, base stations and other communication devices such as voicemail, prepaid service, short message service, home location registers and signaling transfer point. Nortel Networks Northern Telecom do Brasil, Huawei do Brasil Telecomunicações Ltda., and Ericsson Telecomunicações S.A. are Vivo S.A.'s principal suppliers in MG.

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, Brasilia and Minas Gerais. The network management center of São Paulo monitors the critical network operational parameters of the countrywide transmission backbone, third parties' networks, IP networks and service platforms. The network management center in Brasília monitors the critical network operational parameters in the Midwestern Region (CO), Rio de Janeiro, Espirito Santo, Rio Grande do Sul and Paraná/Santa Catarina. The network management center in Minas Gerais monitors the critical network operational parameters in the Northeastern region (NE), the Northern region (NO), São Paulo and Minas Gerais. These centers are able to identify abnormalities in both our network and in third parties' networks, using failure and signaling monitoring systems. In addition, quality and service standards are constantly monitored. The network management centers are integrated with maintenance and operations teams that maintain and operate cellular network elements, as well as cellular infrastructure and transmission, in addition to the radio network elements and computing bases, service platforms and communications backbones.

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

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

Sources of Revenue

We generate revenue from:

usage charges, which include measured service charges for calls, monthly fee 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 and ZAP, downloads and MMS services, which are charged only when the customer's plan does not include these services.

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

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

| Vivo | Year ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| | (in millions of reais) | | |
| Usage and additional charges and monthly fee | 10,014.0 | 8,000.8 | 7,319.8 |
| Sales of wireless devices and accessories | 3,258.1 | 3,105.7 | 2,742.6 |
| Interconnection | 6,140.3 | 5,109.3 | 4,338.1 |
| Other | 2,293.9 | 1,428.5 | 1,054.2 |
| Total gross operating revenue | 21,706.3 | 17,644.3 | 15,454.7 |
| Value-added and other indirect taxes | (4,295.5) | (3,385.9) | (3,094.1) |
| Sales and services discount and return of goods sold | (1,941.1) | (1,765.9) | (1,423.9) |
| Net operating revenues ⁽¹⁾ | 15,469.7 | 12,492.5 | 10,936.7 |

| State of São Paulo Areas 1 and 2 | Year ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2008 | 2007 | 2006 |
| | (in millions of reais) | | |
| Usage and additional charges and monthly fee | 3,241.9 | 2,958.4 | 2,601.3 |
| Sales of wireless devices and accessories | 1,259.0 | 1,174.9 | 1,029.3 |
| Interconnection | 2,118.1 | 1,945.1 | 1,813.5 |

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| | | | |
|--|-----------|-----------|-----------|
| Other | 787.9 | 536.3 | 369.2 |
| Total gross operating revenue | 7,406.9 | 6,614.7 | 5,813.3 |
| Value-added and other indirect taxes | (1,359.2) | (1,161.8) | (1,012.2) |
| Sales and services discount and return of goods sold | (649.8) | (683.4) | (560.2) |
| Net operating revenues | 5,397.9 | 4,769.5 | 4,240.9 |

Year ended December 31,

States of Rio de Janeiro and Espírito Santo Area 3 2008 2007 2006

(in millions of reais)

Year ended December 31,

| States of Rio de Janeiro and Espírito Santo Area 3 | 2008 | 2007 | 2006 |
|---|----------------|----------------|----------------|
| Usage and additional charges and monthly fee | 1,826.8 | 1,657.3 | 1,631.9 |
| Sales of wireless devices and accessories | 565.2 | 654.3 | 545.7 |
| Interconnection charges | 1,097.1 | 1,016.9 | 805.4 |
| Other | 368.2 | 254.4 | 176.2 |
| Total gross operating revenue | 3,857.3 | 3,582.9 | 3,159.2 |
| Value-added and other indirect taxes | (849.3) | (747.5) | (693.1) |
| Discounts granted and return of goods | (284.1) | (362.0) | (275.6) |
| Net operating revenues | 2,723.9 | 2,473.4 | 2,190.5 |

Year ended December 31,

| States of Paraná and Santa Catarina Area 5 | 2008 | 2007 | 2006 |
|--|-------------------------------|----------------|----------------|
| | (in millions of reais) | | |
| Usage and additional charges and monthly fee | 605.5 | 490.8 | 445.9 |
| Sales of wireless devices and accessories | 216.2 | 209.6 | 210.6 |
| Interconnection | 416.9 | 371.9 | 310.9 |
| Other | 184.2 | 128.4 | 104.2 |
| Total gross operating revenue | 1,422.8 | 1,200.7 | 1,071.6 |
| Value-added and other indirect taxes | (270.9) | (217.1) | (198.5) |
| Sales and services discount and return of goods sold | (111.5) | (106.0) | (91.9) |
| Net operating revenues | 1,040.4 | 877.6 | 781.2 |

Year ended December 31,

| State of Rio Grande do Sul Area 6 | 2008 | 2007 | 2006 |
|--|-------------------------------|----------------|----------------|
| | (in millions of reais) | | |
| Usage and additional charges and monthly fee | 1,013.3 | 861.1 | 830.2 |
| Sales of wireless devices and accessories | 240.8 | 238.5 | 209.1 |
| Interconnection charges | 544.1 | 481.0 | 395.3 |
| Other | 232.5 | 162.9 | 130.9 |
| Total gross operating revenue | 2,030.7 | 1,743.5 | 1,565.5 |
| Value-added and other indirect taxes | (427.3) | (351.6) | (364.9) |
| Discounts granted and return of goods | (129.2) | (121.3) | (95.9) |

| | | | |
|------------------------|---------|---------|---------|
| Net operating revenues | 1,474.2 | 1,270.6 | 1,104.7 |
|------------------------|---------|---------|---------|

Year ended December 31,

| Central Western and Northern regions Areas 7 and 8 | 2008 | 2007 | 2006 |
|---|-------------------------------|----------------|----------------|
| | (in millions of reais) | | |
| Usage and additional charges and monthly fee | 1,789.5 | 1,564.7 | 1,471.5 |
| Sales of wireless devices and accessories | 605.6 | 606.0 | 570.8 |
| Interconnection | 1,094.7 | 984.3 | 791.9 |
| Other | 402.4 | 261.0 | 213.4 |
| Total gross operating revenue | 3,892.2 | 3,416.0 | 3,047.6 |
| Value-added and other indirect taxes | (837.8) | (701.9) | (652.7) |

| Central Western and Northern regions Areas 7 and 8 | Year ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2008 | 2007 | 2006 |
| | (in millions of reais) | | |
| Sales and services discount and return of goods sold | (333.6) | (347.0) | (303.7) |
| Net operating revenues | 2,720.8 | 2,367.1 | 2,091.2 |

| States of Bahia and Sergipe Area 9 | Year ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2008 | 2007 | 2006 |
| | (in millions of reais) | | |
| Usage and additional charges and monthly fee | 547.9 | 468.5 | 397.9 |
| Sales of wireless devices and accessories | 186.0 | 222.4 | 177.1 |
| Interconnection charges | 348.5 | 310.1 | 221.1 |
| Other | 140.9 | 85.5 | 60.3 |
| Total gross operating revenue | 1,223.3 | 1,086.5 | 856.4 |
| Value-added and other indirect taxes | (253.3) | (206.0) | (172.7) |
| Discounts granted and return of goods | (96.0) | (146.2) | (96.6) |
| Net operating revenues | 874.0 | 734.3 | 587.1 |

| Northeast region Area 10 | Year ended |
|--|----------------------|
| | December 31, 2008 |
| Usage and additional charges and monthly fee | 4.3 |
| Sales of wireless devices and accessories | 28.9 |
| Interconnection charges | 1.5 |
| Other | 0.9 |
| Total gross operating revenue | 35.6 |
| Value-added and other indirect taxes | (5.2) |
| Discounts granted and return of goods | (12.4) |
| Net operating revenues | 18.0 |

State of Minas Gerais Area 4

Period from
April 1, 2008
to December

31, 2008

| | |
|--|----------------|
| Usage and additional charges and monthly fee | 986.3 |
| Sales of wireless devices and accessories | 156.4 |
| Interconnection charges | 519.4 |
| Other | 177.2 |
| Total gross operating revenue | 1,839.3 |
| Value-added and other indirect taxes | (292.5) |
| Discounts granted and return of goods | (324.5) |
| Net operating revenues | 1,222.3 |

(1) Includes the following amounts that have been eliminated upon consolidation:

| Vivo Intercompany net operating revenues | Year ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| | (in millions of reais) | | |
| Net operating revenues | (1.8) | | (58.9) |

Contract Customers

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

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

Areas 1 & 2 9 areas in the state of São Paulo.

Areas 7 & 8 18 areas, comprised of 9 areas in Brasilia and the states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins and 9 areas in the states of Amapá, Amazonas, Maranhão, Pará and Roraima

Area 5 9 areas, comprised of 6 areas in the state of Paraná and 3 areas in the state of Santa Catarina.

Area 9 6 areas, comprised of 5 areas in the state of Bahia and 1 area in the state of Sergipe.

Area 3 5 areas, comprised of 1 area in the metropolitan area of Rio de Janeiro, two areas in upstate Rio de Janeiro and two areas in the state of Espírito Santo.

Area 6 4 areas in the state of Rio Grande do Sul.

Area 4 8 areas in the state of Minas Gerais.

Area 10 9 areas in the states of Pernambuco, Alagoas, Paraíba, Rio Grande do Norte, Ceará and Piauí.

Interconnection Charges

We earn revenue from any call that originates from another cellular or fixed-line service provider network connecting to 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

Through our stores and dealers, we sell WCDMA GSM handsets and broadband cards compatible with WCDMA and CDMA EVDO technology (800MHz, 1.900MHz, 2.100MHz) . We have overlaid our TDMA network with a CDMA network and we have stopped selling TDMA handsets. Although we still have some customers using TDMA service, we have implemented a series of actions, such as providing discounts on digital handsets, discounts on monthly fees for digital services, digital handset rentals and free digital handsets, to encourage TDMA customers to transfer to WCDMA GSM service. Our current handset suppliers are Motorola, LG, Samsung, Nokia, SonyEricsson, Aiko, HTC, Palm, Apple, Semp-Toshiba, RIM (BlackBerry), Alcatel and Huawei.

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

Roaming Agreements

We provide international GSM roaming in over 200 destinations worldwide by means of over 500 roaming agreements. Additionally, we offer international CDMA roaming in the United States, Canada, China, Mexico, Venezuela, Puerto Rico, New Zealand, Dominican Republic and South Korea.

Taxes on Telecommunications Services and Wireless Device Sales

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

ICMS (*Imposto sobre Circulação de Mercadorias e Serviços*) is a state tax imposed at varying rates from 7% to 35% on certain revenues from the sale of goods and services, including telecommunications services.

COFINS (*Contribuição para Financiamento da Seguridade Social*) is a federal social contribution tax imposed on the gross operating revenue less discounts and returns. In December 2003, Law No. 10,883 was enacted, making such contribution noncumulative and increasing the rate from 3.0% to 7.6%, except in connection with telecommunication services where the rate continues to be 3.0% .

PIS (*Programa de Integração Social*) is a federal social contribution levied over the total revenues received by a company and its subsidiaries, with the deductions foreseen by the governing law. On December 2002, Law No. 10,637 came into force, making this contribution noncumulative and raising the rate from 0.65% to 1.65%, except for telecommunication services where the rate continues to be 0.65% .

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

FUNTEL (*Fundo para Desenvolvimento Tecnológico das Telecomunicações*) is a federal social contribution which corresponds to 0.5% of the net revenues generated by the telecommunication services (except those for interconnection services) and serves to stimulate technological development, the qualification of human resources, and job generation and to promote the access of small and medium companies to capital resources, so as to broaden the competitiveness of the Brazilian telecommunications industry.

FISTEL (*Fundo de Fiscalização das Telecomunicações*) is a federal tax applicable to telecommunications transmission equipment which serves to provide funds to cover the expenses incurred by the Federal Government in performing inspections of telecommunication services and in developing the means and improving the techniques necessary for carrying out these inspections. This change is divided in two parts: *Taxa de Fiscalização de Funcionamento* and *Taxa de Fiscalização de Instalação*. *Taxa de Fiscalização de Funcionamento* is based on the total number of clients at the end of the previous fiscal year. *Taxa de Fiscalização de Instalação* is based on (i) the net monthly additions (new clients minus disconnected ones) and (ii) the installation of new equipment (base radio stations) or system changes, as for example, increases in capacity.

Billing

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

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

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

Telemig bills its contract customers through monthly invoices providing details about minutes of calling time and the use of additional services. Six staggered billing cycles are used each month to smooth the billing and collection process. Telemig's billing policy stipulates that if a subscriber's payment is past due and a customer has not responded after receiving a payment request, service is suspended until full payment for all outstanding charges is received. Currently, if a contract subscriber's payment is more than 90 days past due, the subscriber's service is terminated, except for *Plano Controle* subscribers, whose service is terminated if payment is more than 78 days past due.

In 2009, Telemig will initialize the centralization process to conform its billing practices to our billing system (billing and prepaid).

Co-billing

ANATEL has defined the obligations surrounding co-billing service for long distance carriers in the Brazilian market, which has made possible collecting all types of calls and services in the billed in one telephone account. Similarly, it defined the basic rules for mobile companies' prepaid services, making national and international long-distance calls possible within this segment. Mobile companies charge long-distance operators for the services given for both segments (prepaid and billed). The settlement collection, where the physical and financial data are

provided, occurs monthly. Mobile companies only pass to the long-distance carriers the fees collected from the customer's billed segment and debited from the customer's prepaid segment. ANATEL authorizes the customer to select whichever co-billing service provider it prefers for its individual calls, whereas neither the mobile company nor the long distance carrier has discretion in this area.

Value Added Services (VAS)

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

Collection

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

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

Fraud Detection and Prevention

In 2008, Vivo reinforced its efforts and consolidated its processes and procedures to reduce cloning and subscription fraud to achieve its goals of reducing both the number of instances of fraud and the impact of fraud on Vivo's financial results. Cloning is a fraud that consists of duplicating the cellular signal of a bona fide customer, enabling the perpetrator of the fraud to make calls using the customer's signal. This occurs when one line is programmed into another device and used simultaneously with a customer account, but the charges are posted to the account of the true owner. We also implemented significant procedures to detect, prevent and reduce subscription fraud. Subscription fraud occurs when a person, typically using false or stolen documents, obtains cellular telecommunications service, and then incurs substantial charges that are billed to a customer who does not exist or who did not request the service.

Our processes for detecting both cloning fraud and subscription fraud have improved significantly. The number of cloning fraud cases decreased by 69.3% from December 2007 to December 2008. Financial costs associated with cloning fraud and subscription fraud were reduced by 45.4% when comparing 2007 with 2008.

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. (in 2008, the Brazilian Government published the 6654/2008 Decree of revision of the fixed-line general concession plan (*Plano Geral de Outorgas* or

PGO), allowing fixed-line concessionaires to operate in more than one region of the country. This change allowed Telemar Norte Leste S.A. (Telemar, or Oi) to buy Brasil Telecom).

Our principal cellular competitors in Northeast region 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 or OI*, in the region encompassing the states of Amazonas, Roraima, Pará, Amapá and Maranhão. Other competitors are Oi (Telemar mobile operator) and TIM.

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

In the Ceará, Pernambuco, Paraíba, Alagoas, Rio Grande do Norte and Piauí service areas, our principal cellular competitor is Oi (TNL PCS S.A.). Other cellular competitors are TIM (TIM Nordeste S.A.) and Claro. 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 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 Vivo-Rio Grande do Sul's region. Other cellular competitors are Brasil Telecom S.A. and TIM. The main fixed-line competitor in this area is Brasil Telecom.

In Minas Gerais, currently, there are four other wireless service providers operating within our authorization area. We face competition from the following operators: (a) TIM, the B band frequency range operator that launched its services in December, 1998 (TIM is primarily owned by Telecom Italia and operates in the entire State of Minas Gerais using TDMA, GSM and 3G technologies); (b) Oi, the D band operator that launched its services in June 2002 (Oi is a subsidiary of Tele Norte Leste Participações S.A. (Telemar) and operates in the entire State of Minas Gerais using GSM and 3G technology); (c) Claro, the E band operator that launched its services in the fourth quarter of 2005 (Claro is controlled by América Móvil and operates a GSM and 3G technology network); and, (d) CTBC Celular, an A band and 3G band operator (CTBC Celular is controlled by CTBC, a fixed-line operator and uses TDMA, GSM and 3G technologies).

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

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

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

Regulation of the Brazilian Telecommunications Industry

General

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

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

Concessions and Authorizations

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

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

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

SMP Regulation

In November 2000, ANATEL adopted certain regulations for the issuance of new licenses, which are authorizations to provide wireless communication services through SMP, personal mobile service, to compete with the then existing cellular operators in the various regions of Brazil. These regulations divided Brazil into three main regions covering the same geographic area as the concessions for the fixed-line telecommunication services.

ANATEL organized auctions for three new licenses for each of those regions. The new licenses provided that the new services would be operated in the 1800 MHz radio frequency bands which were denominated as the C band (which was later transformed into extension bands), the D band, E band and M band. These new licenses were auctioned by ANATEL and awarded during the first quarter of 2001, at the end of 2002, in September of 2004, in March of 2006 and in September of 2007. In September 2007, ANATEL organized auctions for fifteen new licenses in the 1900 MHz radio frequency bands which were denominated Band L. VIVO acquired thirteen spectrum licenses in band L. In December 2007, ANATEL organized auctions for thirty-six new licenses in the 1900-2100 MHz radio frequency bands (3G licenses) which were denominated bands F, G, I and J. VIVO acquired seven spectrum licenses in Band J and Telemig Celular acquired two spectrum licenses in Band J.

Under these new licenses:

services are to be provided using the 1800 MHz frequency bands (D band, E band and M band), 1900 MHz frequency bands (L band) and 1900-2100 MHz frequency bands (F band, G band, I band and J band);

each operator may optionally provide domestic and international long-distance services in its licensed area;

existing cellular service providers as well as new entrants into the Brazilian telecommunications market can bid for D band, E band, M band, L band, F band, G band, I band and J band licenses.

a cellular operator, or its respective controlling shareholders, may not have geographical overlap between licenses; and

current A band and B band cellular service providers can apply for an extra frequency range.

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

On February 3, 2003, TCO replaced its SMC Concession Contracts for Personal Mobile Service Agreements (*Termos de Autorização do Serviço Móvel Pessoal*, or SMP) in Regions I (sub-range of B frequencies) and II (sub-range of A frequencies) of the General Granting Plan (*Plano Geral de Outorgas*, or PGO). On December 10, 2002, Telerj Celular, Telest Celular, Telebahia Celular, Telergipe Celular, Celular CRT, Global Telecom and Telesp Celular replaced its SMC Concession Contracts for Personal Mobile Service Agreements, or SMP, in Regions I (sub-range of A frequencies), II (sub-range of A and B frequencies) and III (sub-range of A frequencies) of the General Granting Plan. On July 27, 2006, ANATEL published Act 59867 authorizing the incorporation of TCO, Teleacre, Telegoiás, Teleron, Telems, Telemat, NBT, Telerj, Telest, Telebahia, Telergipe, Celular CRT and TC by GT, as well as the transfer of the respective SMP service authorization titles and of the SMP radio-frequency rights-of-use titles. Act 59867 also provides for the automatic termination of the authorizations for Multimedia Communication Services (*Serviços de Comunicação Multimídia*, or SCM) of TCO, Teleacre, Telegoiás, Teleron, Telems, Telemat, NBT, Telerj, Telest, Telebahia, Telergipe, Celular CRT and TC, upon each of their respective incorporations.

In order to transfer our services to SMP, we were required to comply with several technical and operational conditions, including, among other things, the adoption of a carrier selection code for long-distance calls originating from our network. Under the General Telecommunications Law, all mobile telecommunications service providers must provide interconnection upon the request of any other mobile or fixed-line telecommunications service provider. Until June 30, 2004, SMP service providers could opt to establish a price cap or freely negotiate their interconnection charges. The conditions of the network usage fee negotiation are regulated by ANATEL. Thereafter, the terms and conditions of the interconnection have been freely negotiated between wireless and fixed-line operators, effective as of 2005, subject to compliance with regulations established by ANATEL. ANATEL submitted to public consultation new regulations on interconnection rules. ANATEL promulgated the following regulations on interconnection rules: the new General Regulation of Interconnection (*Regulamento Geral de Interconexão* Resolution number 410/2005, or RGI); the Regulation of Separation and Allocation of Costs (Resolution number 396/2005); the Regulation of Industrial Exploration of Dedicated Lines (*Exploração Industrial de Linha Dedicada* Resolution number 402/2005, or EILD); the Regulation of Remuneration of Use of SMP Providers Networks (Resolution number 438/2006); the Regulation of Fixed and Wireless Number Portability (Resolution number 460/2007, effective March 2009); the new Regulation of SMP (Resolution number 477/2007, effective February 13, 2008); the Regulation of Terms of Separation and Allocation of Costs (Resolutions numbers 480/2007, 483/2007 and 503/2008); the general plan of update of the regulation of the telecommunications in Brazil (*Plano Geral de Atualização da Regulamentação das*

Telecomunicações no Brasil - Resolution number 516/2008, or PGR); and related Invitation Document number 002/2007/SPV-ANATEL regarding the auction organized in December 2007 of new licenses for the 1900-2100 MHz radio frequency bands (3G licenses), denominated bands F, G, I and J, which states that, in the maximum allowed period of eighteen months from the publication of the Terms of Authorization (it occurred in 30 of April of 2008), the authorizations resulting from this auction will be combined with the existing SMP authorizations of the bid winners when pertaining to the same region of the general authorization plan of SMP. VIVO acquired spectrum licenses in band J in regions where it possesss SMP licenses. Moreover, the Invitation Document modifies the rule for the renewal of radio frequency licenses and includes in the calculation of the operating profits the profits of remuneration for the use of the SMP network together with the profits of the service plans.

In 2008, the Brazil Government published the 6654/2008 Decree of revision of the fixed-line general concession plan (the PGO), allowing fixed-line concessionaires to operate in more than one region of the country. This change allowed Telemar Norte Leste S.A. Telemar or Oi - to buy Brasil Telecom.

In 2007, ANATEL published Resolution 477/2007, effective on February 13, 2008, relating to alterations in the regulation of SMP, which has contributed to an increase in our operating costs. In the new regulation, ANATEL notes areas of vital importance for mobile business, such as the necessity for retail stores in the cities within an operator's coverage areas, increases in the validity periods of prepaid cards and limits on the period of time after which customers may leave service plans. These new regulations may have an adverse effect on our revenues and results of operations. In order to minimize the impacts resulting from these regulatory changes, we had already prepared ourselves during the last quarter of 2007, to meet and comply with the terms set forth by the new regulation, mainly those related to the customer service which affect procedures and required significant changes to our systems.

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 wire line long-distance services in the state of São Paulo and was awarded a license to provide these services nationwide, ANATEL will not award a wire line 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 wire line long-distance operators due to long-distance traffic originating and terminating on our network.

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

The new SMP licenses include the right to provide cellular services for an unlimited period of time but restrict the right to use the spectrum according to the schedules listed in the old licenses (Vivo-Rio Grande do Sul (A band) until 2022 (renewed in 2006); Vivo-Rio de Janeiro (A band) until 2020 (renewed in 2005); Vivo-Espírito Santo (A band) until 2023 (renewed in 2008); Vivo-Bahia (A band) and Vivo-Sergipe (A band) until 2023 (renewed in 2008); Vivo-São Paulo (A band) until 2023 or 2024, for the cities of Ribeirão Preto and Guatapar (renewed in 2008); Vivo-Paraná/Santa Catarina (B band) until 2013; Vivo-Distrito Federal (A band) until 2021, (renewed in 2006); Vivo-Acre (A band), Vivo-Rondnia (A band), Vivo-Mato Grosso (A band) and Vivo-Mato Grosso do Sul (A band) until 2024 (renewed in 2008); Vivo-Gois/Tocantins (A band) until 2023 (renewed in 2008); Vivo-Amazonas/Roraima/Amap/Par/Maranho (B band) until 2013; Telemig Celular (Minas Gerais) (A band) until 2023 (renewed in 2007) and Telemig Celular (for the cities where CTBC Telecom operates in the state of Minas Gerais) (E band) until 2020). Spectrum rights may be renewed only once over a fifteen-year period.

In September 2007, ANATEL organized auctions of new SMP licenses in the remaining radio frequency bands D and E , in the 1.8 GHz frequency band M , and fifteen licenses in the 1.9 GHz frequency band L , previously allocated to fixed operators. VIVO acquired thirteen spectrum licenses in band L . The following Terms of Authorization for band L have been signed: Vivo-Rio Grande do Sul (L band) until 2022 (renewed in 2006) or 2022 for the cities of the metropolitan area of Pelotas; Vivo-Rio de Janeiro (L band) until 2020 (renewed in 2005); Vivo-Esprito Santo (L band) until 2023 (renewed in 2008); Vivo-Bahia (L band) and Vivo-Sergipe (L band) until 2023 (renewed in 2008); Vivo-So Paulo (L band) until 2023 or 2024, for the cities of Ribeiro Preto and Guatapar (renewed in 2008) or 2022 for the cities where CTBC Telecom operates in the state of So Paulo; Vivo-Paran (excluding the cities of Londrina and Tamarana)/Santa Catarina (L band) until 2013; Vivo-Distrito Federal (L band) until 2021, (renewed in 2006); Vivo-Acre (L band), Vivo-Rondnia (L band), Vivo-Mato Grosso (L band) and Vivo-Mato Grosso do Sul (L band) until 2024 (renewed in 2008) or 2022 for the city of Paranaba of Mato Grosso do Sul; Vivo-Gois/Tocantins (L band) until 2023 (renewed in 2008) or 2022 for the cities where CTBC Telecom operates in the state of Gois and

Vivo-Alagoas/Ceará/Paraíba/Piauí/Pernambuco/Rio Grande do Norte (L band), until 2022. Spectrum rights may be renewed only once over a fifteen-year period.

In December 2007, ANATEL organized auctions for 36 new licenses in the 1900-2100 MHz radio frequency bands (3G licenses), denominated as bands F, G, I and J. Vivo was awarded seven spectrum licenses in band J and Telemig Celular was awarded two licenses. The following Terms of Authorization for J band have been signed: Vivo-Rio Grande do Sul (including the cities of the metropolitan area of Pelotas) (J band) until 2023; Vivo-Rio de Janeiro (J band) until 2023; Vivo-Espírito Santo (J band) until 2023; Vivo-Bahia (J band) and Vivo-Sergipe (J band) until 2023; Vivo-São Paulo (including the cities of Ribeirão Preto and Guatapar and the cities where CTBC Telecom operates in the state of So Paulo) (J band) until 2023; Vivo-Paran (including the cities of Londrina and Tamarana)/Santa Catarina (J band) until 2023; Vivo-Distrito Federal (J band) until 2023; Vivo-Acre (J band), Vivo-Rondnia (J band) until 2023; Vivo-Mato Grosso (J band) and Vivo-Mato Grosso do Sul (including the city of Paranaba) (J band) until 2023; Vivo-Gois (including the cities where CTBC Telecom operates in the state of Gois)/Tocantins (J band) until 2023; Vivo-Alagoas/Cear/Paraba/Piaui/Pernambuco/Rio Grande do Norte (J band), until 2023; Vivo-Amazonas/Roraima/Amap/Par/Maranho (J band) until 2023; Telemig Celular (including the cities where CTBC Telecom operates in the state of Minas Gerais) (J band) until 2023. Spectrum rights may be renewed only once over 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 Vivo involve obligations to meet some quality of service standards such as the system's ability to make and receive calls, call failure rates, the network's capacity to handle peak periods, failed interconnection of calls and customer complaints. ANATEL published the method for collecting these quality service standards data on April 23, 2003 (ANATEL Resolution No. 335/03).

Interconnection

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

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

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

Rate Regulation

With respect to our Basic Plan and certain roaming charges incurred in connection with alternative service plans, our authorizations continue to provide for a price cap mechanism to set and adjust rates on an annual basis. The cap is the value with the rate of inflation deducted from the productivity estimated by ANATEL. The price cap is revised annually to reflect the rate of inflation as measured by the IGP DI. However, mobile operators are able to freely set the rates for alternative service plans.

The initial price cap agreed to by ANATEL and us in our authorizations had been based on the previously existing or bidding prices, and was adjusted annually on the basis of a formula contained in our authorizations. The price cap has been revised to reflect the rate of inflation as measured by the IGP DI.

Other telecommunications companies that interconnect with and use our network must pay certain fees, primarily an interconnection fee. The interconnection fee is a flat fee charged per minute of use. The interconnection fee charged by us and other A and B band service providers was subject to a price cap stipulated by ANATEL. This price cap was valid until June 30, 2004 and, thereafter, the terms and conditions of the interconnection are freely negotiated among the operators, effective as of 2005, subject to ANATEL regulations. In 2005, ANATEL began permitting free negotiations for mobile interconnection, or VU-M, fees and by July 2005, local-fixed concessionaires and mobile operators had reached a provisional agreement with respect to VU-M fees for local calls, or VC-1 (the agreement guaranteed a 4.5% increase in fees). ANATEL approved that provisional agreement, and in March 2006, approved another provisional agreement for VU-M fees for long-distance calls, VC-2, VC-3 and international, among the same operators that made the VC-1 agreement. In July 2007, ANATEL approved a provisional agreement among the fixed line operators Telefônica, Telemar, Brasil Telecom, CTBC Telecom and Sercomtel and the mobile operators for interconnection fees for VC1, VC2 and VC3 calls that provides for an annual adjustment of 1.97143% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of 2.25356% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). In January 2008, ANATEL approved a provisional agreement among the fixed line long distance operator Embratel and the mobile operators for interconnection fees for VC2 and VC3 calls, taking into consideration the period since January 2004, that provides for an annual adjustment of 4.5% as of March 2006 and an annual adjustment of 1.97143% or 2.25356% as of July 2007. In July 2008, ANATEL approved a provisional agreement among the fixed line operators Telefônica, Telemar, Brasil Telecom, CTBC Telecom and Sercomtel and the mobile operators for interconnection fees for VC1, VC2 and VC3 calls that provides for an annual adjustment of 1.89409% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of 2.06308% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). In 2007, ANATEL developed a new model which will be in use starting with 2010 to determine values of reference of remuneration for use of mobile networks RVU-M of SMP providers having significant market power, which will be used in the case of arbitration by ANATEL of the value of VU-M. See SMP Regulation for more information on the status of this agreement.

Internet and Related Services in Brazil

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

C. Organizational Structure

As of December 31, 2008, our voting shares were indirectly controlled by two major shareholders: Portugal Telecom and Telefónica, through Brasilcel N.V., with 89.5% of our voting stock, 48.7% of our preferred shares representing 63.5% of our total capital stock. Portugal Telecom and Telefónica share their participation in Brasilcel in equal percentages after the Merger.

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

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

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

Acquisition of Telpart, Telemig and Tele Norte.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments. On April 3, 2008, Vivo announced that (i) all conditions precedent to the acquisition of Telemig were fulfilled, (ii) Vivo had paid the purchase price in the total amount of R\$1.23 billion, including R\$70.51 million in connection with the acquisition of subscription rights, and (iii) Vivo had acquired, as of that date, the direct control of Telemig. Later on, Vivo launched, through a subsidiary, tender offers for common and preferred shares of Telemig Participações and Telemig Celular. After the acquisition from Telpart, the completion of the tender offers and a corporate reorganization, Vivo became, as of December 19, 2008, a holder of 96.99% common shares and 36.99% preferred shares in Telemig Participações and 8.76% common shares and 6.58% preferred shares in Telemig Celular. See [Our History and Development Acquisition of Telpart, Telemig and Tele Norte](#) .

On December 20, 2007, Vivo signed a stock purchase agreement with Telemar for the sale of all the shares of Tele Norte that it was acquiring from Telpart under the terms of the stock purchase agreement dated August 2, 2007. This additional stock purchase agreement was signed to facilitate Vivo's acquisition of the shares of Telemig from Telpart. On April 3, 2008, Vivo transferred to Telemar all the shares of Tele Norte that it acquired from Telpart. See [Our History and Development Acquisition of Telpart, Telemig and Tele Norte](#) .

D. Property, Plant and Equipment

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

As of December 31, 2008, we had 58 cellular switches in São Paulo and other equipment installed in 11 owned spaces, one leased spaces and 16 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 5,350 base stations and other network equipment are installed in cell sites, administrative buildings and administrative facilities. In addition, in São Paulo we own one administrative building (approximately 3,760 square meters) and we lease nine administrative areas (approximately 78,244 square meters), four kiosks and 85 retail stores.

As of December 31, 2008, Vivo S.A., in the states of Paraná and Santa Catarina (PR/SC), had 18 cellular switches and other equipment installed in five 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). Our 2,138 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 5,272 square meters) and leases two administrative facilities (approximately 2,425 square meters), and 36 retail stores.

As of December 31, 2008, Vivo S.A. in the Midwest region (CO) had 23 cellular switches and other equipment installed in nine owned spaces,. In CO, Vivo S.A. leases most of the sites in which its cellular telecommunications network equipment is installed. The average term of these leases is five years. Its 2,173 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 seven administrative buildings (approximately 8,255 square meters), two warehouse spaces (approximately 1,800 square meters), and leases three administrative facilities (approximately 1,412 square meters) and 38 retail stores.

As of December 31, 2008, Vivo S.A. in the northern region had 19 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 766 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, Vivo S.A. leases six administrative facilities (approximately 4,790 square meters), one warehouse spaces (approximately 20 square meters) and 18 retail stores.

As of December 31, 2008, Vivo S.A. in the states of Bahia and Sergipe had 8 cellular switches and other equipment installed in two owned spaces and three shared spaces. Vivo S.A. leases most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is five years. Their 1,171 base stations were installed in cell sites, administrative buildings, administrative facilities and warehouses. In addition, Vivo S.A. owns one administrative building (approximately 19,455 square meters) and lease one administrative facility (approximately 610 square meters) and 23 retail stores throughout this region.

As of December 31, 2008, Vivo S.A. in the states of Rio de Janeiro and Espirito Santo had 22 cellular switches and other equipment installed in four owned spaces, two shared spaces and one leased space. Vivo S.A. leases most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is five years. Our 3,002 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, they have their own administrative buildings (approximately 2,500 square meters) and 1 retail store, and also lease an administrative building (approximately 42,398 square meters), 7 kiosks and 46 retail stores throughout this Region.

As of December 31, 2008, Vivo S.A. in the state of Rio Grande do Sul had 20 cellular switches and other equipment installed in three owned spaces, two leased spaces and nine shared spaces. Vivo S.A. leases most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is five years. Our 2,270 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, they have their own administrative building (approximately 1,170 square meters) and also lease an administrative building (approximately 4,239 square meters), five kiosks and 29 retail stores throughout this Region.

As of December 31, 2008, Vivo S.A. in the northeast region had two cellular switches and other equipment installed in two shared spaces. Vivo S.A leases most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is ten years. Our 768 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, they lease six administrative facilities (approximately 4,200 square meters), and seven retail stores throughout this Region.

As of December 31, 2008, Vivo S.A. in the state of Minas Gerais through its subsidiary Telemig Celular had 15 cellular switches and other equipment installed in four owned spaces and four leased spaces. Vivo S.A. leases most of the sites where their cellular telecommunications network equipment is installed. The average term of these leases is five years. Our 2,368 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, they lease two administrative building (approximately 11,687 square meters) and 26 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.

As a result of a change in Brazilian corporate law with respect to financial reporting (Law 11,638), certain changes in accounting criteria became effective for fiscal year 2008. Pursuant to a CVM resolution, we elected to apply these changes in accounting criteria retroactively to our financial statements with an effective date as of January 1, 2007. As a result, certain adjustments have been made to our 2007 financial statements to make them comparable to our 2008 financial statements. We have elected not to restate our financial statements for fiscal years prior to 2007. Please see Note 2 to our 2008 financial statements for a qualitative and quantitative analysis of the changes resulting from the new accounting criteria.

Overview

Our results of operations are principally affected by the following key factors.

Brazilian Political and Economic Environment

The Brazilian economy has experienced moderate growth during the last five years. According to the IBGE (*Instituto Brasileiro de Geografia e Estatística*), which uses a new methodology for national accounting, Brazil's GDP expanded 5.7% in 2004, 3.2% in 2005, 4.0% in 2006, 5.7% in 2007, and 5.1% in 2008.

Consumer prices, as measured by the Consumer Price Index, or the IPCA, published by the IBGE, registered an increase of 5.9% in 2008. Accordingly, growth in consumer prices was above the inflation target of 4.5% established by the Central Bank, but below the maximum target threshold of 6.5%. In 2006 and 2007, the increase had been of 3.1% and 4.5%, respectively. Inflation, as measured by the General Price Index, or the IGP-DI, calculated by the *Fundação Getúlio Vargas*, which includes wholesale retail and home-building prices, increased 9.1% in 2008, compared to 7.9% in 2007 and 3.8% in 2006.

As a result of this increasing inflation, the Central Bank raised interest rates beginning in the second quarter of 2008, and consequently, the Selic rate - the Central Bank's overnight lending rate - increased during the course of 2008 from 11.25% to 13.75%.

Brazil ended the year of 2008 with a trade balance surplus of US\$24.8 billion, compared to US\$40 billion in 2007. Exports increased by 17% to US\$197.9 billion, while imports increased by 43.5% to US\$173.1 billion. Financial inflows into the country increased significantly, with foreign direct investments of US\$45.1 billion, compared to US\$34.6 billion in 2007. The good performance of external accounts allowed international reserves to increase by US\$26.5 billion to a record level of US\$206.8 billion.

Public finance corresponded to the target of 4.1% of GDP for primary surplus. Net public debt, as a proportion of GDP, decreased in 2008 to 35.8% from 42.0% in 2007. In contrast to prior years, the depreciation of the national currency in 2008 did not generate greater public debt. This was due, in part, to a higher level of international reserves accumulated by the country as compared to the public debt, together with Brazil's becoming an international creditor rather than a debtor. As a result, Brazil's sovereign debt received an investment grade rating from Standard & Poor's and Fitch in March and April of 2008.

Despite the favorable ratings, the lack of liquidity in international credit markets and a higher level of risk aversion in the investment community led to an increase in country risk in 2008, as compared to 2007. The JP Morgan Emerging Markets Bond Index Plus (EMBI + Brazil), which tracks total returns for traded external debt instruments in the emerging markets, increased during the second half of 2008, reaching a 479 basis points in December, the highest level since September 2004.

As a result, the *real* depreciated against the U.S. dollar by 31.9% in 2008. During 2007, however, the Brazilian *real* continued its path of appreciation observed since 2004 primarily due to the decrease in country risk that year. The exchange rate was R\$1.77 to US\$1.00 as of December 31, 2007, compared to R\$2.14 to US\$1.00, as of December 31, 2006 and R\$2.34 to US\$1.00, as of December 31, 2005. The appreciation of the *real* in this context is also related to the devaluation of the U.S. dollar against other currencies.

Our business is directly affected by trends in the global economy and the Brazilian economy. If the Brazilian economy enters a period of continued recession, then demand for telecommunications services is likely to decline. Similarly, depreciation of the Brazilian *real* against the U.S. dollar could reduce the purchasing power of Brazilian

consumers and negatively affect the ability of our customers to pay for our telecommunications services.

Inflation

The table below shows the Brazilian general price inflation (according to the IGP-DI and the IPCA) for the years ended December 31, 2004 through 2008:

| | Inflation Rate (%) as Measured by IGP-DI (1) | Inflation Rate (%) as Measured by IPCA (2) |
|-------------------|--|--|
| December 31, 2008 | 9.1 | 5.9 |
| December 31, 2007 | 7.9 | 4.5 |
| December 31, 2006 | 3.8 | 3.1 |
| December 31, 2005 | 1.2 | 5.7 |
| December 31, 2004 | 12.1 | 7.6 |

(1) Source: IGP-DI, as published by the *Fundação Getúlio Vargas*.

(2) Source: IPCA, as published by the *Instituto Brasileiro de Geografia e Estatística*.

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 financial position and results of operations reported under Brazilian GAAP are described in Note 3 to our consolidated and combined financial statements. A description of the differences in accounting policies between Brazilian GAAP and U.S. GAAP is included in Notes 39 and 40 to our consolidated 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 financial statements, if our actual experience differs from management's assumptions and estimates. The following is a discussion of our critical accounting policies, including some of the variables, assumptions and sensitivities underlying the estimates relating to:

- goodwill impairment;
- revenue recognition;
- depreciation of property, plant and equipment;
- impairment of long-lived assets;
- provisions for contingencies;

- deferred income taxes; and
- financial instruments.

Goodwill impairment

Under Brazilian GAAP, the amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows. Under U.S. GAAP, pursuant to SFAS No. 142 – Goodwill and Other Intangible Assets – goodwill 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 goodwill in the reporting unit by performing a hypothetical purchase accounting calculation. If the implicit value of the goodwill exceeds its 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, 2008 and 2007.

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

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by different factors such as the complex information technology required, high volume of transactions, fraud and piracy, accounting regulations, management's determination of collectability, 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 and amortization of certain intangible assets are calculated on a straight-line method over the estimated useful lives of the underlying assets, which consider historical information available to us, as well as known industry trends. Determination of estimated useful lives of property, plant and equipment involves significant judgment and includes considerations of, among other issues, our expected usage of the asset and technical improvements that might require us to replace certain assets before the end of their estimated useful lives. A change in the estimate may cause us to accelerate depreciation and amortization or may require an impairment of the asset.

Impairment of long-lived assets

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

A determination of the fair value of an asset requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and 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.

Provision 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 Brazilian GAAP and 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***Merger of the Vivo Companies***

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

Participações S.A. and has become the holding company of TCO and of the subsidiaries TLE, TSD and Celular CRT.

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

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

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

The Extraordinary 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 Shareholders Meeting held on February 22, 2006. Upon completion of the corporate restructuring, the name GT was changed to Vivo S.A.

Acquisition of Telpart, Telemig and Tele Norte.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments. On April 3, 2008, Vivo announced that (i) all conditions precedent to the acquisition of Telemig were fulfilled, (ii) Vivo had paid the purchase price in the total amount of R\$1.23 billion, including R\$70.51 million in connection with the acquisition of subscription rights, and (iii) Vivo had acquired, as of that date, the direct control of Telemig. Later on, Vivo launched, through a subsidiary, tender offers for common and preferred shares of Telemig Participações and Telemig Celular. After the acquisition from Telpart, the completion of the tender offers and a corporate reorganization, Vivo became, as of December 19, 2008, a holder of 96.994% of the common shares and 36.990% of the preferred shares in Telemig Participações and an indirect interest of 95.258% of the common shares and 36.054% of the preferred shares in Telemig Celular. See Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte .

On December 20, 2007, Vivo signed a stock purchase agreement with Telemar for the sale of all the shares of Tele Norte that it was acquiring from Telpart under the terms of the stock purchase agreement dated August 2, 2007. This additional stock purchase agreement was signed to facilitate Vivo's acquisition of the shares of Telemig from Telpart. On April 3, 2008, Vivo transferred to Telemar all the shares of Tele Norte that it acquired from Telpart. See Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte .

Proposed Corporate Restructuring and Deregistration of Telemig and Telemig Celular

On March 23, 2009, in compliance with and for the purpose of Instructions CVM Nr. 319/99 and 358/02, the Board of Directors of Vivo, Telemig, and Telemig Celular approved to submit to the shareholders of all three companies the proposal for a corporate restructuring arising from the merger of the shares of Telemig Celular into Telemig and of Telemig into Vivo, with the objective of making Telemig Celular into a wholly-owned subsidiary of Telemig and making Telemig into a wholly-owned subsidiary of Vivo (Corporate Restructuring). See Item 4.A. Information on the Company Our History and Development.

Results of Operations for 2008, 2007 and 2006 for Vivo

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

Statement of Operations (consolidated)

| | Year ended December 31, | | | Percent change | |
|--|-------------------------|-----------|-----------|----------------|-----------|
| | 2008 | 2007 | 2006 | 2008-2007 | 2007-2006 |
| | (in millions of reais) | | | | |
| Net operating revenue | 15,469.7 | 12,492.5 | 10,936.7 | 23.8 | 14.2 |
| Cost of services and goods | (8,141.5) | (6,623.3) | (5,564.2) | 22.9 | 19.0 |
| Gross profit | 7,328.2 | 5,869.2 | 5,372.5 | 24.9 | 9.2 |
| Operating expenses: | | | | | |
| Selling | (4,104.4) | (3,532.8) | (3,751.1) | 16.2 | (5.8) |
| General and administrative | (1,204.3) | (1,207.2) | (1,099.7) | (0.2) | 9.8 |
| Other operating expenses, net | (469.9) | (509.4) | (319.5) | (7.8) | (59.4) |
| Total operating expenses | (5,778.6) | (5,249.4) | (5,170.3) | 10.1 | 1.5 |
| Operating income before financial expense, net | 1,549.6 | 619.8 | 202.2 | 150.0 | 206.5 |
| Net financial expenses | (637.7) | (462.8) | (748.0) | 37.8 | (38.1) |
| Operating income (loss) | 911.9 | 157.0 | (545.8) | 480.6 | (128.8) |
| Net non-operating expense | | | (289.0) | | |
| Net income (loss) before income and social contribution taxes and minority interests | 911.9 | 157.0 | (834.8) | 480.6 | (118.8) |
| Income and social contribution taxes | (469.5) | (256.8) | 859.1 | 82.8 | (129.9) |
| Minority interests | (52.7) | | (8.0) | | |
| Net Income (loss) | 389.7 | (99.8) | 16.3 | (490.5) | (712.3) |

Operating Revenues

Our operating revenues consist of the following:

usage charges, which include charges for outgoing calls, monthly fee, 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 fee, 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 14.5% increase in the number of contract customers to 7.1 million in 2008, from 6.2 million in 2007. The 2007 figure represented a 12.7% increase from 5.5 million in 2006. Similarly, net additions generated a 33.8% increase in the number of prepaid customers to 36.4 million in 2008, from 27.2 million in 2007. The 2007 figure represented a 15.7% increase from 23.5 million in 2006.

ANATEL authorizes cellular operators to increase tariffs based upon the prior twelve-month period's cumulative inflation, measured by the IGP-DI variation from February to January of each year. Accordingly, changes in our revenues from year to year include the effects of tariff increases which were approximately 2.1% in 2008, 2.0% in 2007 and 2.0% in 2006 determined on a weighted average basis.

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

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

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

The following table sets forth the components of our net operating revenues for the periods presented.

| | Year ended December 31, | | | Percent change | |
|---|-------------------------|-----------|-----------|----------------|-----------|
| | 2008 | 2007 | 2006 | 2008-2007 | 2007-2006 |
| | (in millions of reais) | | | | |
| Usage, additional call and monthly fee | 10,014.0 | 8,000.8 | 7,319.8 | 25.2 | 9.3 |
| Interconnection charges | 6,140.3 | 5,109.3 | 4,338.1 | 20.2 | 17.8 |
| Sales of wireless devices and accessories | 3,258.1 | 3,105.7 | 2,742.6 | 4.9 | 13.2 |
| Other | 2,293.9 | 1,428.5 | 1,054.2 | 60.6 | 35.5 |
| Gross operating revenue | 21,706.3 | 17,644.3 | 15,454.7 | 23.0 | 14.2 |
| Value-added and other indirect taxes | (4,295.5) | (3,385.9) | (3,094.1) | 26.9 | 9.4 |
| Discounts granted and return of goods | (1,941.1) | (1,765.9) | (1,423.9) | 9.9 | 24.0 |
| Net operating revenues | 15,469.7 | 12,492.5 | 10,936.7 | 23.8 | 14.2 |

The following table sets forth the impact on net operating revenues of consolidating Telemig for the months of April through December 2008.

**Period from April
31 to
December 31, 2008**

(in millions of reais)

| | |
|---|---------|
| Usage, additional call and monthly fee | 986.3 |
| Interconnection charges | 519.4 |
| Sales of wireless devices and accessories | 156.4 |
| Other | 177.2 |
| Gross operating revenue | 1,839.3 |
| Value-added and other indirect taxes | (292.5) |
| Discounts granted and return of goods | (324.5) |

**Period from April
31 to
December 31, 2008**

(in millions of reais)

| | |
|------------------------|---------|
| Net operating revenues | 1,222.3 |
|------------------------|---------|

Net operating revenues increased by 23.8% to R\$15,469.7 in 2008 and from R\$12,492.5 million in 2007, which in turn represented a 14.2% increase from R\$10,936.7 million in 2006. The increase in 2008 reflects the consolidation of R\$1,222.3 million of net operating revenues attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) net operating revenues increased 14.0% to R\$14,247.4 million in 2008, from R\$12,492.5 million in 2007, primarily due to an increase in revenues from additional call charges and monthly fee and interconnection charges. The growth in 2007 reflects mainly an increase in revenues from additional call charges and monthly fee, and sales of wireless devices and accessories.

Usage, additional call and monthly fee. Revenues from usage charges increased by 25.2% to R\$10,014.0 million in 2008, from R\$8,000.8 million in 2007, which in turn represented a 9.3% increase from R\$7,319.8 million in 2006. The increase in 2008 reflects the consolidation of R\$986.3 million of usage, additional call and monthly fee attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) usage charges increased 12.8% to R\$9,027.7 million in 2008, from R\$8,000.8 million in 2007. The growth in usage charges in 2008 was mainly due to an increase of 34.2% in our customer base to 44,945 million. The growth in usage charges in 2007 was mainly due to an increase of 15.1% in our customer base to 33.5 million.

Interconnection charges. Revenues from interconnection charges increased by 20.2% to R\$6,140.3 million in 2008, from R\$5,109.3 million in 2007, which in turn represented a 17.8% increase from R\$4,338.1 million in 2006. The increase in 2008 reflects the consolidation of R\$519.4 million of interconnection charges attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) interconnection charges increased 10.0% to R\$5,620.9 million in 2008, from R\$5,109.3 million in 2007. The increase in interconnection charges in 2008 was principally due to an increase in mobile to mobile calls, concurrent with the growth in the number of terminals in use and the static number of fixed-line telephones. The increase in interconnection charges in 2007 was principally due to the end of the partial Bill & Keep rule in July 2006. The effect of the partial Bill & Keep system under ANATEL's Personal Mobile Service (*Serviço Móvel Pessoal*, or SMP) regime is described in Item 3 Key Information.

Sales of wireless devices and accessories. Revenues from sales of wireless devices and accessories increased by 4.9% to R\$3,258.1 million in 2008 from R\$3,105.7 million in 2007, which in turn represented a 13.2% increase from R\$2,742.6 million in 2006. The increase in 2008 reflects the consolidation of R\$156.4 million attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) sales of wireless devices and accessories decreased 0.1% to R\$3,101.7 in 2008, from R\$3,105.7 million in 2007. The decrease in 2008, in spite of a higher volume of sales was due to disproportionately higher sales of wireless handsets with GSM technology which have a lower average retail price. The increase in 2007 was mainly due to the increase in our customer base, described above, which resulted in part from promotional campaigns to acquire new customers and the launch of GSM technology.

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\$753.3 million (excluding Telemig), R\$693.6 million and R\$521.8 million in 2008, 2007 and 2006, respectively.

Other. Revenues from other services increased 60.6% to R\$2,293.9 million in 2008 from R\$1,428.5 million in 2007, which in turn represented a 35.5% increase from R\$1,054.2 million in 2006. The increase was principally due to an increase in our customer base and an increase in the use of data-related services by our customers, including text message services, or SMS, wireless Internet services and other value-added services. The consolidation of revenues from other services of Telemig for the months of April through December 2008 had a positive impact of R\$177.2 million.

Value-added and other indirect taxes. Value-added and other indirect taxes increased 26.9% to R\$4,295.5 million in 2008 from R\$3,385.9 million in 2007, which in turn represented a 9.4% increase from R\$3,094.1 million in 2006. The increase in 2008 (excluding Telemig) was mainly due to an increase in gross operating revenue. The increase in 2007 was principally due to an increase in gross operating revenue, particularly in revenue from usage charges, interconnection and sales of wireless devices and accessories. The consolidation of value-added and other indirect taxes of Telemig for the months of April through December 2008 had a positive impact of R\$292.5 million. The effective rate of taxes on gross operating revenues varies depending on the composition of our revenues, since the interconnection charges are not subject to ICMS. Accordingly, value-added taxes and other indirect taxes corresponded to 19.8% (20.1% excluding Telemig), 19.2% and 20.0% of our gross operating revenues in 2008, 2007 and 2006, respectively.

Discounts and return of goods sold. Discounts and returns increased by 9.9% in 2008 to R\$1,941.1 million, from R\$1,765.9 million in 2007, which in turn represented a 24.0% increase from R\$1,423.9 million in 2006. Discounts and returns corresponded to 8.9% (8.1% excluding Telemig), 10.0% and 9.2% of our gross operating revenues in 2008, 2007 and 2006, respectively. The increase in 2008 reflects the consolidation of R\$324.5 million attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) discounts and return of goods sold decreased 8.5% to R\$1,616.6 million in 2008, from R\$1,765.9 million in 2007 was mainly due to the decrease in discounts on wireless devices as a result of the increase in the base of customers who purchase wireless devices with GSM technology, which have a lower average cost. The increase in 2007 was principally due to increases in discounts on wireless devices and accessories in response to aggressive competition from other providers.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for 2008, 2007 and 2006, as well as the percentage change from the previous year.

| | Year ended December 31, | | | Percent change | |
|---|-------------------------|-----------|-----------|----------------|-----------|
| | 2008 | 2007 | 2006 | 2008-2007 | 2007-2006 |
| | (in millions of reais) | | | | |
| Cost of goods sold | (2,441.9) | (2,096.8) | (1,898.3) | 16.5 | 10.5 |
| Depreciation and amortization | (1,669.5) | (1,378.9) | (1,327.5) | 21.1 | 3.9 |
| Supplies, outside services other | (551.3) | (491.6) | (517.9) | 12.1 | (5.1) |
| Interconnection charges | (2,146.7) | (1,618.2) | (785.0) | 32.7 | 106.1 |
| Rent, insurance, condominium fees, and leased lines | (555.8) | (436.1) | (429.3) | 27.4 | 1.6 |
| Personnel | (120.1) | (102.9) | (88.7) | 16.7 | 16.0 |
| Taxes | (656.2) | (498.8) | (517.5) | 31.6 | (3.6) |
| Cost of services and goods | (8,141.5) | (6,623.3) | (5,564.2) | 22.9 | 19.0 |

Cost of services and goods increased by 22.9% in 2008 to R\$8,141.5 million, from R\$6,623.3 million in 2007, which in turn represented a 19.0% increase from R\$5,564.2 million in 2006. The increase in 2008 reflects the consolidation of R\$739.5 million of cost of services and goods attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) cost of services and goods increased 11.8% to R\$7,402.0 million in 2008, from R\$6,623.3 million in 2007 was mainly due to an increase in interconnection costs and depreciation and amortization costs. The increase in 2007 was principally due to an increase in interconnection costs resulting from the

end of the Bill & Keep rule in July 2006, an increase in the cost of goods sold and the depreciation and amortization costs, partially offset by a reduction in the cost of third party services. Gross margin (gross profit as a percent of net revenues) corresponded to 47.4% (47.0% excluding Telemig), 47.0% and 49.1% in 2008, 2007 and 2006, respectively.

Cost of goods sold. Cost of wireless devices and accessories increased 16.5% to R\$2,441.9 million in 2008, from R\$2,096.8 million in 2007, which in turn represented a 10.5% increase from R\$1,898.3 million in 2006. The increase in 2008 reflects the consolidation of R\$192.5 million of cost of goods sold attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) cost of goods sold increased 7.3% to R\$2,249.4 in 2008, from R\$2,096.8 million in 2007. The increase in 2008 was mainly due to the increase of the base customers who purchase handheld devices with GSM technology, which have a lower average cost, but which have sold in generally higher volumes. The increase in 2007 was mainly due to the increase in the proportion of additional customers buying our wireless devices, offset by the sale of GSM equipment at prices lower than the acquisition price of CDMA equipment and lower than the prices we paid to manufacture the GSM equipment.

Depreciation and amortization. Depreciation and amortization expenses increased 21.1% to R\$1,669.5 million in 2008, from R\$1,378.9 million in 2007, which in turn represented an increase of 3.9% from R\$1,327.5 million in 2006. In 2008, the consolidation of depreciation and amortization expenses of Telemig for the months of April through December 2008 had a negative impact of R\$151.6 million. The increase in 2008 (excluding Telemig) was mainly due to the accelerated depreciation of TDMA and CDMA technologies and to the digital ERBs, investments made in the period and increases in the amortization in GSM and 3G licences. The increase in 2007 was principally due to investments and completion of projects, in particular the expansion and coverage of our network, the amortization of intangible goods such as software, and a switch to GSM technology.

Supplies, outside services and other. Cost of materials and third-party services increased 12.1% to R\$551.3 million in 2008, from R\$491.6 million in 2007, which in turn represented a decrease of 5.1% from R\$517.9 million in 2006. The increase in 2008 reflects the consolidation of R\$45.1 million attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) supplies, outside services and other increased 3.0% to R\$506.2 million in 2008, from R\$491.6 million in 2007. The increase in 2008 was mainly due to an increase in the third-party services, mainly in plant maintenance and public services. The decrease in 2007 was principally due to a decrease in the provision for losses from interconnection adjustments, partially offset by an increase in the third-party services.

Interconnection charges. Interconnection charges increased 32.7% to R\$2,146.7 million in 2008, from R\$1,618.2 million in 2007, which in turn represented an increase of 106.1% from R\$785.0 million in 2006. The increase in 2008 reflects the consolidation of R\$211.8 million of interconnection charges attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) interconnection charges increased 19.6% to R\$1,934.9 million in 2008, from R\$1,618.2 million in 2007. The increase in 2008 is due to an increase in our customer base and in outgoing off net call traffic. The increase in 2007 is due to the end of the "Bill & Keep" rule in July 2006 and an increase in total call traffic.

Rent, insurance, condominium fees, and leased lines. Rent, insurance, condominium fees, and leased lines expenses increased 27.4% to R\$555.8 million in 2008, from R\$436.1 million in 2007, which in turn represented an increase of 1.6% from R\$429.3 million in 2006. The increase in 2008 (excluding Telemig) was mainly due to an increase in lease payments for shared retail space and in the utilization of the circuits. The increase in 2007 was principally a result of increases in lease payments for shared retail space and in the utilization of the circuits.

Personnel. Personnel expenses increased 16.7% to R\$120.1 million in 2008, from R\$102.9 million in 2007, which in turn represented a 16.0% increase from R\$88.7 million in 2006. The increase in 2008 reflects the consolidation of R\$12.6 million attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) personnel expenses increased 4.5% to R\$107.5 million in 2008, from R\$102.9 million in 2007, mainly due to an increase in salaries under the terms of our collective bargaining agreement, which we renegotiate annually. The increase in 2007 was principally due to an increase in salaries under the terms of our collective bargaining agreement, and to training program costs.

Taxes. Taxes increased 31.6% to R\$656.2 million in 2008, from R\$498.8 million in 2007, which in turn represented a 3.6% decrease from R\$517.5 million in 2006. In 2008, the increase was primarily attributable to the consolidation of Fistel and other taxes of Telemig for the months of April through December 2008 in the amount of R\$53.1 million. The increase in 2008 was mainly due to an increase in FISTEL, due to an increase in the customer base. The decrease in 2007 was principally due to the decrease in FISTEL taxes which are calculated based on the total number of clients at the end of the previous fiscal year. As of July 2006, the Company had an adjustment in its customer base and consequently the amount of FISTEL taxes paid in 2006 was higher than in 2007. Overall, the customer base was larger in 2005 compared to the end of 2006.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the years ended December 31, 2008, 2007 and 2006, as well as the percentage change from the prior year.

| | Year ended December 31, | | | Percent change | |
|-------------------------------------|-------------------------|-----------|-----------|----------------|-----------|
| | 2008 | 2007 | 2006 | 2008-2007 | 2007-2006 |
| | (in millions of reais) | | | | |
| Selling expenses | (4,104.4) | (3,532.8) | (3,751.1) | 16.2 | (5.8) |
| General and administrative expenses | (1,204.3) | (1,207.2) | (1,099.7) | (0.2) | 9.8 |
| Other net operating expenses | (469.9) | (509.4) | (319.5) | (7.8) | (59.4) |
| Total | (5,778.6) | (5,249.4) | (5,170.3) | 10.1 | (1.5) |

Vivo's operating expenses increased 10.1% to R\$5,778.6 million in 2008, from R\$5,249.4 million in 2007, which in turn represented a 1.5% increase from R\$5,170.3 million in 2006. The increase in 2008 reflects the consolidation of R\$375.4 million of operating expenses attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) operating expenses increased 2.9% to R\$5,403.2 million in 2008, from R\$5,249.4 million in 2007. The increase in operating expenses in 2008 was principally due to an increase in selling expenses that were partially offset by a reduction in general and administrative expenses. The increase in operating expenses in 2007 was principally due to the increase in other net operating expenses, while general and administrative expenses were partially offset by a reduction in selling expenses.

Selling expenses. Selling expenses increased 16.2% to R\$4,104.4 million in 2008, from R\$3,532.8 million in 2007, which in turn represented a 5.8% decrease from R\$3,751.1 million in 2006. In 2008, the consolidation of selling expenses of Telemig for the months of April through December 2008 had a negative impact of R\$290.1 million. The increase in 2008 (excluding Telemig) was principally due to an increase in third-party costs, mainly costs related to distribution and client care, and an increase in customer loyalty program costs and depreciation and amortization. The decrease in 2007 was principally due to a 49.2% decrease of debtors in default that totaled R\$365.7 million in 2007, an increase in third-party costs, especially in the customer loyalty program and cost of distribution, and an increase in depreciation and amortization, partially offset by a reduction in public services. Allowance for doubtful accounts were 1.4%, 2.1% and 4.7% of gross revenues for 2008, 2007 and 2006, respectively.

General and administrative expenses. General and administrative expenses decreased by 0.2% to R\$1,204.3 million in 2008, from R\$1,207.2 million in 2007, which in turn represented a 9.8% increase from R\$1,099.7 million in 2006. In 2008, the consolidation of general and administrative expenses of Telemig for the months of April through December 2008 had a negative impact of R\$95.2 million. The decrease in 2008 (excluding Telemig) was principally due to a decrease in third-party costs, mainly due to consulting fees. The increase in 2007 was principally due to the increase in third-party costs, especially consulting and general structure, offset partially by a reduction in depreciation and amortization and leasing and insurance costs.

Other net operating expenses. The net amount of other operating expenses decreased by 7.8% to R\$469.9 million in 2008, from R\$509.4 million in 2007, which in turn represents a 59.4% increase from R\$319.5 million in 2006. The decrease in 2008 reflects the consolidation of R\$9.9 million of other net operating revenues attributable to Telemig for the months of April through December 2008. Vivo's (excluding Telemig) other net operating expenses decreased 5.8%

to R\$479.8 in 2008, from R\$509.4 million in 2007. The decrease in 2008 was principally due the reversal of provisions, partially offset by the increase in goodwill amortization. The increase in 2007 was principally due to an increase in the provision for contingencies and a reduction in recovered expenses.

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, 2008, 2007 and 2006.

| | Year ended December 31, | | | Percent change | |
|---|-------------------------|---------|---------|----------------|-----------|
| | 2008 | 2007 | 2006 | 2008-2007 | 2007-2006 |
| | (in millions of reais) | | | | |
| Financial income | 304.2 | 186.0 | 286.8 | 63.5 | (35.1) |
| Exchange gains (losses) | (920.1) | 297.5 | 323.0 | (409.3) | (7.9) |
| Gains (losses) on foreign currency derivative contracts | 519.5 | (509.2) | (764.3) | (202.0) | (33.4) |
| Financial expenses | (541.3) | (437.1) | (593.5) | 23.8 | (26.4) |
| Total | (637.7) | (462.8) | (748.0) | 37.8 | (38.1) |

Net financial expenses reflect, 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 29 to our financial statements. Our net financial expenses increased 37.8% to R\$637.7 million in 2008, from R\$462.8 million in 2007, which in turn represents a 38.1% decrease from R\$748.0 million in 2006. The increase in 2008 was principally due to the net debt generated in the acquisition of Telemig and recognition of financing charges in connection with our new 3G licenses. In addition, PIS/COFINS expenses on the allocation of interest on shareholders' equity increased by R\$13.9 million and the effective interest rate increased to 12.4% in 2008 from 11.8% in 2007. The decrease in 2007 was principally due to the reduction in net indebtedness, due to a large inflow of operating cash and long term financing with lower interest rates, as well as to the decrease in the interest rates during the period (11.8% in 2007 and 15.0% in 2006).

As of December 31, 2008, all of our foreign exchange indebtedness of approximately R\$2,442.1 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 loss of R\$688.3 million in our foreign currency-denominated debt (a gain of R\$296.1 million in 2007 and R\$335.0 million in 2006), which was offset by gains in our currency and interest rate derivatives contracts of R\$519.5 million in 2008 (a loss of R\$509.4 million in 2007 and R\$764.3 million in 2006).

Net non-operating Expense

The net non-operating expense was R\$20.8 million in 2007, which represented a 92.8% decrease from R\$289.0 million in 2006. In 2006, we recorded a provision for loss in property, plant and equipment in the amount of R\$278.0 million as a result of our analysis of the recoverability of assets related to the technologies. The decrease in 2007 reflects the absence of the provision for loss in property, plan and equipment. For 2008 and 2007, due to a change in Brazilian accounting rules, this line item was eliminated and is now accounted for as an operating expense.

Income and Social Contribution Taxes Income (Expense)

We recorded expenses from income and social contribution taxes in the amount of R\$469.5 million in 2008, an increase of 82.8% from an expense of R\$256.8 million in 2007, which in turn represented a decrease of 129.9% from an income of R\$859.1 million that we recorded in 2006. The increase in 2008 is related to higher net income before income and social contribution taxes compared to 2007. The shift from income in 2006 to expense in 2007 resulted from the Corporate Restructuring process and the effect of tax credits recorded in 2006. See Note 31 to our financial

statements.

Minority Interest

The minority interest recorded for the year ended December 31, 2008 was in the amount of \$52.7 million and represented the minority interest in Telemig for the months of April through December 2008. In 2007, there was no minority interest recorded for Vivo due to the completion of the corporate restructuring process which commenced in October 2006. See "Merger of the Vivo Companies". The minority interest recorded for the year ended December 31, 2006 was in the amount of R\$8.0 million and represented the minority interest in TCO in 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.A. Information of the Company Our History and Development Corporate Restructuring of Our Operating Subsidiaries, during 2007, we completed corporate restructurings to simplify our corporate legal structure and create a single legal operating company. This resulted in changes to our management structure and operating segments. By the end of the year ended December 31, 2006, we had one operating segment, cellular telecommunications services. Consequently, no separate segment information has been presented.

B. Liquidity and Capital Resources

Sources of Funds

Vivo generated cash flow from operations of R\$3,800.4 million, R\$3,196.7 million and R\$3,100.2 million in 2008, 2007 and 2006, respectively.

Vivo had net cash used in financing activities of R\$964.8 million in 2008. Although Vivo obtained new loans in the aggregate amount of R\$3,289.4 million in that period, these were partially offset by loan repayments of R\$1,756.6 million and net settlements on derivatives contracts of R\$541.0 million.

Vivo had R\$4,883.3 million in long-term loans and financing as of December 31, 2008. Vivo's R\$3,119.8 million in short-term indebtedness as of December 31, 2008 consisted primarily of funding from financial institutions. As of December 31, 2008, Vivo had a working capital (current assets minus current liabilities) deficit of R\$452.6 million compared to a working capital deficit of R\$73.4 million as of December 31, 2007.

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.

On January 20, 2004, Telemig Celular issued US\$80 million of 8.75% unsecured senior note units due 2009. The notes units were offered and sold in offshore transactions in accordance with Regulation S under the Securities Act and to qualified institutional buyers (QIBs) in the United States under Rule 144A of the Securities Act. Interest payments on the Telemig Celular notes are made semi-annually. As of December 31, 2008, there was R\$195.3 million aggregate principal amount of notes outstanding. The notes were paid in January of 2009.

In compliance with the terms of the personal mobile service providing agreement, resulting from public bid No. 001/2007, the State of Minas Gerais, through the State Secretary of Economic Development, has undertaken to subscribe debentures issued by Telemig Celular in the scope of the *Minas Comunica* Program, through the use of resources from the Fund of Universalization of the Access to Telecommunication Services, or FUNDOMIC. According to the program, Telemig Celular will provide cellular phone coverage to 134 locations within the State of Minas Gerais (those with area codes No. 34, 35 and 38). In December 2007, as consideration from the certification obtained from the State Secretary of Economic Development from serving 15 locations, Telemig Celular issued 621 non convertible debentures from the first series of the first issuance in the total amount of R\$6.2 million. At December 31, 2008, for the service at 77 locations, 3,190 debentures were issued in the third series of the first issue, valued at R\$31.9 million, thus completing the program for providing service to 134 locations within the State of Minas Gerais. At December 31, 2008, the updated amounts of the first, second and third series of the debentures were R\$6.6 million,

R\$18.3 million and R\$32.0 million, respectively. The outstanding balance is adjusted to inflation according to the IPCA plus 0.5% per year.

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.

We financed the acquisition of our 3G license through financing available from ANATEL. This allowed us to maintain our cash position during turbulent market conditions and extend our debt profile. The cost for the financing was set by reference to the IST plus monthly interest of 1.0%. The debt is set to be repaid in six equal annual installments, with maturity dates at 36, 48, 60, 72, 84 and 96 months from April 29, 2008 (the date of authorization of our license).

On May 9, 2008, the Board of Directors of the Company approved the issue and offer of 22 unsecured promissory notes in the value of R\$25.0 million each, totaling R\$550.0 million. On October 29, 2008, the offer was registered with the CVM and issued on November 10, 2008, with maturity date on May 9, 2009, bearing interest of 115.0% of the daily CDI rate, as disclosed by the Custody and Settlement Agency – CETIP. The proceeds from this offer were used in an increase of the capital stock of TCO IP for settlement of commercial promissory notes due on November 10, 2008, in the amount of R\$530.0 million.

On June 27, 2008, the Board of Directors of the Company approved the issue and offer of 50 unsecured promissory notes in the value of R\$10.0 million each, totaling R\$500.0 million. On July 25, 2008, the offer was registered with the CVM and issued on July 29, 2008, with maturity date on July 24, 2009, bearing interests of 106.5% of the daily CDI rate, as disclosed by CETIP. The proceeds from this offer were used for settlement of the principal amount of the debt represented by the first issue of Company debentures.

In October 2008, the Company signed a credit facility with the *Banco do Nordeste do Brasil (BNB)* in the amount of R\$389.0 million, through the Northeast Constitutional Fund. This new financing shall be used for expansion of the network already existing in the states of Bahia, Sergipe and Maranhão and for implementing a new network in the states of Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas.

On December 17, 2008, the Board of Directors of the Company approved the second public issuance by the Company of plain and non-convertible debentures, unsecured, unregistered and in a single series. The single par value of the debenture shall be R\$210,000,000.00 on the issuance date. The term of the debenture shall be of 360 days, counted from the issuance date, and maturing on January 11, 2010.

Uses of Funds

Our principal uses of funds are for capital expenditures, servicing our debt and payment of dividends and interest on shareholders' equity. Our capital expenditures (including capitalized interest) amounted to R\$3,997.4 million, R\$1,905.7 million and R\$2,103.9 million in 2008, 2007 and 2006, respectively. Payment of debt and derivative instruments consumed cash flows of R\$2,737.1 million, R\$2,473.0 million and R\$3,602.2 million in 2008, 2007 and 2006, respectively. Dividends and interest on shareholders' equity payments consumed cash flows of R\$54.2 million, R\$17.5 million and R\$63.2 million in 2008, 2007 and 2006, respectively.

Capital Expenditures

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

| Vivo | Year ended December 31, | | |
|------------------------|-------------------------|-------|-------|
| | 2008 | 2007 | 2006 |
| | (in millions of reais) | | |
| Switching equipment | 533.1 | 417.3 | 375.9 |
| Transmission equipment | 1,446.2 | 729.9 | 844.4 |

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| | | | |
|----------------------------|---------|---------|---------|
| Information technology | 286.5 | 267.2 | 414.8 |
| Others ⁽¹⁾ | 1,730.9 | 494.3 | 468.8 |
| Total capital expenditures | 3,997.4 | 1,905.7 | 2,103.9 |

(1) Consisting primarily of wireless devices provided to customers for free in connection with signing new contracts, 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\$3,997.4 million were invested during the year ended December 31, 2008, which included investment in the GSM/EDGE network and in the current CDMA/EV-DO network. This amount represented 25.8% of our net operating revenues.

Our planned capital expenditures for 2009 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 was approved at the general shareholders meeting held on March 19, 2008. We intend to pay these expenditures with funds generated by operations and our available borrowing capacity.

Payments of Dividends to Shareholders

The holders of preferred shares are entitled to exercise voting rights since the 2004 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. For the fiscal year ended December 31, 2008, the Board of Directors Meeting held on February 12, 2009 approved the payment of dividends in the amount of R\$402.6 million, which is sufficient to meet the minimum dividend required by law. As a result, holders of Vivo's preferred shares will no longer have voting rights equal to those of the holders of common shares. According to the approval granted at the Board of Directors Meeting held on February 12, 2009 and at the General Meeting of Shareholders held on March 19, 2009, the dividends will be paid as of December 30, 2009 at which time voting rights on the preferred shares will cease. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Dividend Policy and Dividends Payment of Dividends.

Debt

As of December 31, 2008, Vivo's total debt position was as follows:

| Debt | Amount Outstanding as of December 31, 2008 |
|---------------------------------------|---|
| | (in millions of reais) |
| Financing from financial institutions | 6,807.0 |
| Financing of ANATEL (3G) | 1,196.1 |
| Total debt | 8,003.1 |
| Long-term debt ⁽¹⁾ | 4,883.3 |
| Short-term debt | 3,119.8 |

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

As of December 31, 2008, Vivo's total debt was R\$8.0 billion, of which R\$2.4 billion, or 31%, was denominated in foreign currencies and therefore exposed to currency fluctuations. Of that amount, R\$1,092.6 million was denominated in U.S. dollars (US\$467.5 million), R\$1,340.0 million was denominated in yen (¥51,937.3 million), and R\$9.5 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 2008, we incurred financial expense from foreign currency derivative transactions of R\$203.3 million against financial income from monetary and foreign exchange variations of R\$632.8 million. On December 31, 2008, we had derivative contracts that covered 99.6% of our foreign currency-denominated debt. The unrealized losses (net of unrealized gains on foreign exchange derivatives contracts) at December 31, 2008 were R\$429.3 million.

We are exposed to interest rate risk as a consequence of our floating rate debt. On December 31, 2008, approximately 64.7% of our interest-bearing liabilities bore interest at floating rates (IPCA, IST, CDI, IGPM and TJLP). Accordingly, our financing expenses will increase if market interest rates rise. On December 31, 2008, all of our foreign currency derivatives contracts bore interest payments linked to the Brazilian CDI rate. We protected against the risk of interest rates increasing by entering into derivative contracts in the total amount R\$226.2million. The CDI rates as of December 31, 2008 and 2007 were 13.62% and 11.12%, 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, 2008 totaled R\$1,431.9 million. In accordance with our contractual obligations, there are several economic and financial covenants and ratios that must be maintained annually. As of December 31, 2008, Vivo met all relevant economic and financial covenants and ratios. Vivo S.A. has indebtedness and financing with the Europe Bank of Investments, which as of December 31, 2008 totaled R\$741.3 million. On that same day, various economic and financial covenants and ratios were met by Vivo S.A.

U.S. GAAP Reconciliation

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, which differ in significant respects from U.S. GAAP. Net income (losses) for 2008, 2007 and 2006 were R\$508.1 million, R\$(109.6) million and R\$(460.5) million under U.S. GAAP, compared to net income (losses) of R\$389.7 million, R\$(99.8) million and R\$16.3 million, respectively, under accounting practices adopted in Brazil. Shareholders' equity at December 31, 2008, 2007 and 2006 was R\$9,358.0 million, R\$9,024.9 million and R\$9,126.2 million, respectively, under U.S. GAAP, compared to R\$8,267.5 million, R\$8,296.3 million and R\$8,370.8 million, respectively, under accounting practices adopted in Brazil.

See Notes 39 and 40 to our audited consolidated financial statements for a description of the principal differences between the Brazilian GAAP and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net income/loss and total shareholders' equity.

New Accounting Pronouncements

Recently Adopted Standards

We adopted several accounting pronouncements effective December 31, 2008 and January 2007 which are reported herein and which are discussed in our financial statements.

In December 2008, the Financial Accounting Standard Board (FASB) issued FASB Staff Position (FSP) FASB Interpretation (FIN) 46(R)-8, Disclosures about Variable Interest Entities (FSP FIN 46(R)-8). FSP FIN 46(R)-8 requires enhanced disclosures about a company's involvement in VIEs. The enhanced disclosures required by this FSP are intended to provide users of financial statements with a greater understanding of: (i) the significant judgments and assumptions made by a company in determining whether it must consolidate a VIE and/or disclose information about its involvement with a VIE; (ii) the nature of restrictions on a consolidated VIEs assets reported by a company in its statement of financial position, including the carrying amounts of such assets; (iii) the nature of, and changes in, the risks associated with a company's involvement with a VIE; (iv) how a company's involvement with a VIE affects the company's financial position, financial performance, and cash flows. This FSP was effective for the year ended December 31, 2008 and had no impact on our 2008 financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement was effective for the year ended December 31, 2008.

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 our choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which we have 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 was effective for the year ended December 31, 2008 and had no impact on our 2008 financial statements as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

In September 2006, the FASB issued SFAS 158, which requires companies to (i) fully recognize, as an asset or liability, the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans; (ii) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; (iii) measure the funded status of defined benefit pension and other postretirement benefit plans as of the date of the company's fiscal year end; and (iv) provide enhanced disclosures. The provisions of SFAS 158 were effective for the year ended December 31, 2006, except for the requirement to measure the funded status of retirement benefit plans on our fiscal year end, which was effective for the year ended December 31, 2008. Since the Company's measurement date was already December of each year, this change had no impact on our 2008 consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require any new fair value measurements. This statement is initially effective for financial statements issued for fiscal years beginning after November 15, 2007 (calendar year 2008), and is to be applied prospectively as of the beginning of the year in which it is initially applied. For all nonrecurring fair value measurements of nonfinancial assets and liabilities, the statement is effective for fiscal years beginning after November 15, 2008 (calendar year 2009). Since we have not changed our current practice, this change had no impact on our 2008 consolidated financial statements. See Note 40 to our financial statements.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective for use on December 31, 2008 for all financial assets and liabilities recognized or disclosed at fair value in our 2008 consolidated financial statements on a recurring basis (at least annually). The adoption of FSP FAS 157-3 had no impact on our 2008 financial statements.

Recently Issued Standards

We expect to apply the following recently issued accounting pronouncements to our future financial statements.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plans. This guidance is intended to ensure that an employer meets the objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of the following: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for the year ending December 31, 2009. As FSP FAS 132(R)-1 only requires enhanced disclosures, management anticipates that the adoption of FSP FAS 132(R)-1 will not have an impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. This FSP is effective prospectively for intangible assets acquired or renewed after January 1, 2009. We do not expect FSP 142-3 to have a material impact on our accounting for future acquisitions of intangible assets.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133 (SFAS 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (i) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (ii) the disclosure of derivative features that are credit risk-related; and (iii) cross-referencing within footnote disclosures to enable financial statement users to locate important information about derivative instruments. As SFAS 161 only requires enhanced disclosures, management anticipates that the adoption of SFAS 161 will not have an impact on our consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which states that SFAS No. 13, Accounting for Leases, (SFAS 13) and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13 are excluded from the provisions of SFAS 157, except for assets and liabilities related to leases assumed in a business combination that are required to be measured at fair value under SFAS No. 141, Business Combinations, (SFAS 141) or SFAS No. 141 (revised 2007), Business Combinations, (SFAS 141(R)).

Also in February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective beginning January 1, 2009. We are still in the process of evaluating the impact that SFAS 157 will have on our nonfinancial assets and liabilities not valued on a recurring basis (at least annually).

In December 2007, the FASB also issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51. This statement clarifies that a non-controlling (minority) interest in a Operating Subsidiary is an ownership interest in the entity that should be reported as equity in our financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and non-controlling interest, with disclosure on the face of the consolidated income statement of the amounts attributed to the parent and to the non-controlling interest. This statement will be effective prospectively for fiscal years beginning after December 15, 2008 (calendar year 2009), with presentation and disclosure requirements applied retrospectively to comparative financial statements. We are currently evaluating the provisions of this statement.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), Business Combinations. Statement 141(R) establishes principles and requirements for how an acquiring entity in a business combination recognizes and measures the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. This statement will be effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (calendar year 2009). The impact of the adoption of SFAS 141R on our consolidated financial position and results of operations will largely be dependent on the size and nature of the business combinations completed after the adoption of this statement.

In November 2008, the Emerging Issues Task Force issued EITF No. 08-6, Equity Method Investment Accounting Considerations (EITF 08-6) that addresses how the initial carrying value of an equity method investment should be

determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, how an equity method investee's issuance of shares should be accounted for, and how to account for a change in an investment from the equity method to the cost method. EITF 08-6 shall be effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years.

EITF 08-6 shall be applied prospectively with early application prohibited. The adoption of EITF 08-6 is not expected to have a material impact on our consolidated financial condition or results of operations.

In November 2008, the Emerging Issues Task Forces issued EITF No. 08-7, Accounting for Defensive Intangible Assets (EITF 08-7) that addresses the determination of the unit of accounting and subsequent measurement of intangible assets acquired, including intangible assets acquired in a business combination, in situations in which the acquiror does not intend to actively use the asset but intends to hold the asset to prevent its competitors from obtaining access to the asset (a defensive intangible asset). EITF 08-7 shall be effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the adoption of EITF 08-7 on the Company's consolidated financial position, results of operations will largely be dependent on the size and nature of the business combination completed after the adoption of this statement.

C. Research and Development

Vivo maintains partnerships with the Universidade Federal do Rio Grande do Sul (UFRGS) and with Pontifícia 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. We also rely on the research and development of our third-party suppliers.

D. Trend Information

In 2008, 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, 2008, 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, 2008:

| | 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⁾ | 5,441.7 | 1,640.6 | 245.2 | - | 3,556.0 |
| 3G Licenses | 1,196.1 | - | 199.4 | 398.7 | 598.1 |

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| | | | | | |
|---|----------|---------|---------|---------|---------|
| Operating leases | 5,656.6 | 559.1 | 1,108.0 | 1,102.6 | 2,886.9 |
| Total contractual cash obligations ⁽²⁾ | 12,294.5 | 2,199.7 | 1,353.2 | 1,102.6 | 7,639.0 |

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

(2) Excludes pension fund obligations.

In addition, we have a rental commitment with Telecomunicações de São Paulo S.A., or Telesp, a related party, in an annual amount of R\$139.3 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 2012. The Board of Directors hold regular quarterly meetings, and the chairman 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 19, 2009 |
| Shakhaf Wine | Vice Chairman | March 19, 2009 |
| Luis Miguel da Fonseca Pacheco de Melo | Director | March 19, 2009 |
| Félix Pablo Ivorra Cano | Director | March 19, 2009 |
| Ignacio Aller Malo | Director | March 19, 2006 |
| Rui Manuel de Medeiros D Espiney Patrício | Director | March 19, 2009 |
| Carlos Manuel Mendes Fidalgo Moreira Cruz | Director | March 19, 2009 |
| José Guimaraes Monforte | Director | March 19, 2009 |
| António Gonçalves de Oliveira | Director | March 19, 2009 |

Set forth below are brief biographical descriptions of our directors.

Luis Miguel Gilpérez López, born on December 7, 1959 is Chairman of Vivo, Telemig Celular Participações and Telemig Celular S.A., 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.

Shakhaf Wine, born on June 13, 1969, Member of the Board of Directors and Executive Committee of Portugal Telecom S.G.P.S. since April 2009. President and Chairman of Portugal Telecom Brasil S.A. since April 2005. Member of the board of directors of Brasilcel N.V. since March 2004 and Vice Chairman of the board since August 2008. President of the Control Committee of Brasilcel N.V. since 2006. Member of the board of directors of Vivo Participações S.A. since March 2004 and Vice Chairman of the board since August 2008. Vice Chairman of the board of directors Telemig Participações S.A. since August 2008. Vice Chairman of the board of directors Telemig Celular S.A. since April 2008. Member of the board of directors of Mobitel S.A. since June 2006 and Chairman of the Board since August 2008. Member of the board of directors of PT Multimédia.com Brasil Ltda. since April 2005 and member of the board of directors of Universo Online S.A. since July 2005. Previously Mr. Wine was a board member at PT Investimentos Internacionais Consultoria Internacional S.A., PT Participações SGPS S.A., PT Móveis

- Serviços de Telecomunicações SGPS S.A., PT Ventures SGPS S.A., Africatel Holdings B.V., Telesp Celular Participações, S.A., Tele Centro Oeste Celular Participações, S.A., Tele Sudeste Celular Participações, S.A., Celular CRT Participações S.A. and Banco1.Net S.A. Before joining Portugal Telecom in 2003, Mr. Wine was 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. Previously he was Senior Associate Director of the Latin American and Telecommunications groups of Deutsche Morgan Grenfell from 1993 until 1998, also based in London. Mr. Wine was a foreign exchange trader and dealer for the Brazilian Central Bank at Banco Icatu S.A. between 1991 and 1993. He holds a degree in Economics from the Pontifícia Universidade Católica do Rio de Janeiro.

Luis Miguel da Fonseca Pacheco de Melo, born on April 29, 1966, is a member of the Board of Directors of Vivo and Telemig Celular Participações S.A.. He has served as CFO of Portugal Telecom, SPGS, SA since April 2006 and as Chairman of the Board of Directors of Previsão - Fund Managers Society SA since 2007. He has been a member of the Board of Directors of Africatel Holdings BV, since 2007, a member of the Board of Directors of PT-PRO - Administrative Services and Management Shared SA since 2003. He was Executive Director of PT-Multimedia - Services for Telecommunications and Multimedia SGPS from June 2002 to 2006, a member of the Board of Directors of TV Cabo Portugal S.A, from 2002 to 2006 and a member of the Board of Directors of Lusomundo Audiovisual S.A. from 2002 to 2006. He served as a member of Board of Directors of Lusomundo Cinemas S.A. from 2002 to 2006, member of the Board of Directors of PT Contents S.A. from 2002 to 2006, member of the Board of Directors of PT SGPS S.A. cable TV from 2002 to 2006 and member of the Board of Directors of Sport TV from June 2002 to November 2005. He was a manager of Lusomundo España SL, from 2003 to 2006, the Executive Director of BES Investment, a company of Banco Espirito Santo Group, and one of its largest shareholders, from 1998 to 2002 and a director of UBS Warburg from 1994 to 1998. Mr. Fonseca received a degree in Civil Engineering at the Technical Institute and an MBA from IESE in Barcelona.

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, Telemig Celular Participações S.A. and Telemig Celular S.A.. 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. and Telemig Celular 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, Telemig Celular Participações S.A., 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 postgraduate degree in Political Economics from University of Lisbon 1956 and Business Administration from Fundação Getúlio Vargas (São Paulo) 1975.

Carlos Manuel Mendes Fidalgo Moreira Cruz born in October 16, 1966, has served as the Director of Finance Directorate of Portugal Telecom, SGPS, since 2001. He has served as Director of Portugal Telecom International Finance BV since 2002 and Director of PT International Investments since 2006. He has served as Director of PT Ventures since 2006, Director of PT Moveis since 2006, Director of TPT Timor s Public Telecommunications S.A since 2006, Director of MTC Mobile Telecommunications Ltd. (Namíbia) since 2007, Director of MTC Macau s Telecommunications Company since 2007, Director of Teledata (Moçambique) since 2007 and Director of Medi Telecom. He is a Member of the Board of Auditors of Brasilcel, Member of the Board of Directors of Africatel Holdings BV and has been a Director of Directel International Telephone Lists Ltd, Director of PT Services since 2006 and Director of Forecast since 2007. Mr. Fidalgo was a member of the Portuguese Privatizations Commission from 1999 to 2001, an Advisor of the Secretary of State for Economics and Finance from 1996 to 1998, an Assistant of Financial Strategy 1996 to 2001 in the MBA Program - IEP / EGP and served as an Assistant Corporate Finance and Macroeconomics at the University of Porto from 1987 to 1996, an Assistant Business Evaluation from 1994 to 1997 in IESF, Mr. Fidalgo was also Analyst Assistant of the Mergers & Acquisitions Department of BPI from 1990 until 1994.

José Guimarães Monforte, born on July 6, 1947, is currently a member of the Board of Directors and Audit Committee of Vivo since June of 2007 and member of the Board of Directors of Telemig Celular Participações S.A.,

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

Antonio Gonçalves de Oliveira, born on May 4, 1944, is currently a member of the Board of Directors and Audit Committee of Vivo since July 2005, and a member of the Board of Directors of TCP, since March 2001. Mr. Gonçalves de Oliveira was a member of the Boards of Directors and Audit Committees of TSD, TLE, TCO and Celular CRT, since July 2005 and until February 2006. He is a member of the Board of Auditors of COELBA - Companhia de Eletricidade da Bahia, since April, 2006 at the appointment of *Caixa de Previdência dos Funcionários do Banco do Brasil*, a large Brazilian pension fund and shareholder of COELBA, President of AAMAC - Associação de Amigos do Museu de Arte Contemporânea da USP, an important participant in the contemporary cultural scene (2004/2006) and member of the council of representatives of FIESP (Federation of Industries of the state of Sao Paulo) (2003/2007). Mr. Gonçalves de Oliveira is also a member of the Social and Economic Development Council of the Brazilian Government, a board member of the Small and Medium Company Working Group sponsored by the Brazilian Government, the vice president of the Brazilian Businessmen's Association for Market Integration (ADEBIM), a member of the orientation and steering council of Banco do Povo do Estado de São Paulo and President of the decision council of the National Employee Association of Banco do Brasil (ANABB). From 1991 to 1995, he served as director of the Latin American Sociology Association and from 1993 to 1994 he served as the executive coordinator of the Small and Medium Company National Movement (MONAMPE). He holds a degree in Social Sciences from the University of São Paulo, Brazil, and a master's degree in Communication Sciences from the same university.

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

Board of Executive Officers

Our by-laws provide for a Board of Executive Officers with six positions, each elected by the Board of Directors for a term of three years. Our Board of Executive Officers currently has six members. In the absence or temporary inability to perform his duties, the Chief Executive Officer will be replaced by the Executive Vice President of Finance, Planning and Control. In the case of a vacancy in any position on the Board of Executive Officers, the respective replacement shall be appointed by the Board of Directors; in case of any inability, the Chief Executive Officer shall choose a replacement for that officer among the remaining officers. One officer may be elected for more than one position on the Board of Executive Officers, but the members of the Board of Executive Officers cannot be elected to the Board of Directors. The Board of Directors may remove executive officers from office at any time.

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 |
| Hugo Mattos Janeba | Executive Vice President of Marketing and Innovation | June 25, 2008 |
| Javier Rodríguez García | Vice President of Networks | April 12, 2006 |
| Ercio Alberto Zilli | Vice President of Regulatory Matters | February 12, 2009 |

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

Roberto Oliveira de Lima, born on April 1, 1951, is Chief Executive Officer since April 12, 2006 of Vivo, Vivo S.A., Telemig Celular Participações S.A., Telemig Celular 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., Telemig Celular Participações S.A., Telemig Celular 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 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 the Vice President of Networks Vivo, Vivo 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 Compañía 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.

Hugo Mattos Janeba, born on December 16, 1965, has been the Vice-President Executive of Marketing and Innovation of Vivo and Vivo S.A. since June 25, 2008. He was the Image and Communications Officer of Vivo S.A. from October 2006 to June 2008 and of Telesp Celular S.A., Telerj Celular S.A., Telest Celular S.A., Telebahia Celular S.A., Telergipe Celular S.A., Celular CRT S.A. and Global Telecom S.A. from February 2003 to October 2006, having launched the Vivo brand in April 2003. From November 1999 to January 2003, he was Telesp Celular S.A.'s Marketing Officer. From November 1992 to October 1999, he held the position of Marketing Manager at PepsiCo/Elma Chips. He was Product Manager at Tambrands of Brazil from September 1991 to November 1992. Mr. Janeba also held different positions at Colgate Palmolive from July 1986 to September 1991. Mr. Janeba has a bachelors degree in Industrial Design from Universidade Mackenzie, São Paulo, Brazil, and also holds an MBA from the Business School of São Paulo, Brazil/Toronto University, Canada. He holds a specialization in Branding from Kellogg School of Management at Northwestern University in the United States.

Ercio Alberto Zilli, born in August 30, 1953, serves as the Vice President of Regulation of Vivo. He was Executive Chairman of Acel from August 2006, Director of Regulation of Telemar Oi from August 1998 to June 2006 and was a Special Advisor of the Minister of Communications from March 1995 to July 1998. He had different functions in Telebrás (first engineer, then manager of division, advisor to the Board of Directors, head of department and assistant to the Vice-President of engineering, supplier relations and business planning and control) from May 1977 to February 1995. He was an Engineer for NEC in Brazil from February 1975 until May 1977 and a Technical Assistant in Dentel - National Department of Telecommunications from January 1974 to January 1975. Mr Zilli holds a degree in Electronic Engineering from the University of Brasilia, Brazil (1974) and has completed courses for extension and improvement in technical areas in UnB, Unicamp, FGV, and in Management in Canada (at the Telecommunications Executive Management Institute of Canada).

Fiscal Board

Brazilian Corporate Law requires us to have a Fiscal Board (*Conselho Fiscal*) which is composed of three to five members elected at the General Shareholders Meeting. The Fiscal Board 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 fiscal board consists of three members and three alternates and meets quarterly. Our Fiscal Board is elected annually at the annual general shareholders meeting.

The Fiscal Board 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 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 provide an opinion on the financial statements for the fiscal year.

The Fiscal Board holds regular meetings every three months and special meetings when called by the Chairman of the Board of Directors or by any two member of the Fiscal Board.

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

| Name | Position | Date Appointed |
|--------------------------------|-----------------|-----------------------|
| Ortogamis Bento ⁽¹⁾ | Member | March 19, 2009 |

Paula Bragança França Mansur ⁽²⁾

Chairwoman

March 19, 2009

| Name | Position | Date Appointed |
|--|-----------|----------------|
| Fabiana Faé Vicente Rodrigues ⁽²⁾ | Member | March 19, 2009 |
| José Luis de Castro Neto ⁽¹⁾ | Alternate | March 19, 2009 |
| Ademir José Mallmann ⁽²⁾ | Alternate | March 19, 2009 |
| João Renato Pierre ⁽²⁾ | Alternate | March 19, 2009 |

(1) Appointed by our preferred shareholders.

(2) Appointed by our controlling shareholder.

B. Compensation

For the year ended December 31, 2008, we paid our directors and executive officers, and the directors and executive officers of our subsidiary, as compensation an aggregate amount of R\$19.23 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 Fiscal Board, above, and Item 9.C. The Offer and Listing Markets 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

On December 31, 2008, we had 8,386 full-time employees. From April 2008, the number of employees includes the employees of Telemig Celular (2,560 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, | | |
|--|--------------|-------|-------|
| | 2008 | 2007 | 2006 |
| Total number of employees (including trainees) | 8,386 | 5,600 | 5,896 |
| Number by category of activity: | | | |
| Technical and operations area | 2,350 | 1,755 | 1,865 |
| Sales and marketing | 2,773 | 2,061 | 2,117 |
| Finance and administrative support | 1,689 | 1,316 | 1,330 |
| Customer service | 1,574 | 468 | 584 |

Employees are represented by unions of workers in telecommunications companies of their states. We negotiate new collective-bargaining agreements every year with the labor unions. The collective-bargaining agreements currently in force include an average wage increase of approximately 6% and an increase of around 7% in benefits.

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, 2009.

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. Pension benefits of members of SISTEL vested by the same time their retirement benefits vested under the government-provided retirement plan. 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 *TCPREV*, *TCOPREV*, *VISÃO CELULAR* and *CELPREV Telemig Celular*, new private pension plans for our employees. Unlike SISTEL's defined benefits plan, the plans *TCPREV* and *Visão Celular* call for defined contributions by our operating subsidiaries, as sponsors, and by our employees, as participants. *TCOPREV* is a variable contribution plan.

As of February 2, 2007, the board approved for the management of Vivo to transfer the following plans from Fundação SISTEL de Seguridade Social to the institution Visão Prev Sociedade de Previdência Complementar (VISÃO PREV): PBS Telesp Celular, *TCPREV*, PBS Tele Centro Oeste Celular, *TCOPREV*, PBS Telesudeste Celular, Visão Telerj Celular, Visão Telest Celular, PBS Teleleste Celular, Visão Telebahia Celular, Visão Telergipe Celular and Visão Celular CRT. These eleven plans were transferred gradually to VISÃO PREV from May 2, 2007 until December 31st, 2007.

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

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

As of December 31, 2008, 51.56% 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, 2008, 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, 2008:

| Name | Number of common shares owned | Percentage of outstanding common shares | Number of preferred shares owned | Percentage of outstanding preferred shares |
|---|--|--|---|---|
| Brasilcel | 55,719,376 | 41.5 | 91,087,513 | 38.9 |
| Sudestecel Partic Ltda ⁽¹⁾ | 22,547,496 | 16.8 | 1,169,552 | 0.5 |
| TBS Celular Partic Ltda ⁽¹⁾ | 17,204,638 | 12.8 | 291,449 | 0.1 |
| Portelcom Partic. S.A. ⁽¹⁾ | 19,193,624 | 14.3 | 4,206,362 | 1.8 |
| Tagilo Partic. Ltda ⁽¹⁾ | 3,015,261 | 2.2 | 5,656,432 | 2.4 |
| Avista Partic. Ltda ⁽¹⁾ | 2,407,614 | 1.8 | 11,653,452 | 5.0 |
| All directors and executive officers as a group | 8 | (2) | 434 | (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 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.

Roaming: Some international roaming services are provided by Telecomunicações Móveis Nacionais. TMN and Several Companies related to the Telefonica Group in the Company's network.

Technical assistance: Refers to the provision of corporate management advisory and business consultancy services by Portugal Telecom, SGPS, S.A., and technical assistance provided by Telefônica S.A., Telefônica International S.A. and TBS Celular Participações S.A., based on a formula proposed in the contracts that includes the variation of the LAIR (Profit Before Income tax) and the variation of the preferred and ordinary shares and that determines a coefficient to be applied upon the performance of services. In the case of the operation of the branch office in the Rio Grande Do Sul, the contract foresees only one 1% fixture on the performance of services. The above referred contracts were terminated on August 4, 2008.

Corporate services: These are passed on to the subsidiary at the cost incurred for these services.

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Call-center services: Provided by Atento Brasil S.A. and Mobitel S.A. Dedic to users of the telecommunications services of the subsidiary, contracted for 12 months and renewable for the same period.

Systems development and maintenance services: Provided by Portugal Telecom Inovação Brasil S.A. and Telefônica Pesquisa e Desenvolvimento do Brasil Ltda.

Operating logistical services, accounting and financial assistance: Provided by Telefônica Serviços Empresariais do Brasil Ltda.

Voice content portal service provider: Provided by Terra Network Brasil S.A.

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

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

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

Legal Matters

We are party to several administrative and legal proceedings that, if decided adversely, could have a material adverse effect on our business, financial condition and results of operations. We have recorded provisions in our financial statements equivalent to the full amount of the estimated losses associated with those claims where the likelihood of an unfavorable outcome is deemed probable by our legal counsel. However, we do not record provisions in those instances where the likelihood of an unfavorable outcome is deemed possible or remote by our legal counsel. Below is a summary of our material pending administrative and legal proceedings:

Civil

Consumer s rights

We are a party to several law suits brought against us by individual consumers or civil associations representing consumers rights that allege our failing to properly provide our products and services. None of these lawsuits are individually material. Based on the opinion of our counsel, we believe that probable losses with respect to these claims total approximately R\$151.7 million, an amount for which we have made provisions, and that possible losses with respect to these claims total approximately R\$459.6 million.

We are a party to several civil claims and we have made provisions for these claims sufficient to meet probable losses. We believe that probable losses with respect to these civil claims total approximately R\$128.5 million, a decrease of R\$22.3 million in 2008.

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 total amount of approximately R\$15.4 million. Based on the opinion of our counsel, we believe that the likelihood of unfavorable outcomes with respect to these claims is probable.

Breakup of Telebrás

Telebrás, our legal predecessor, was a defendant in a number of administrative and legal proceedings and was subject to various claims and contingencies. Under the terms of the Telebrás breakup, the liability for any claims arising out of acts committed by Telebrás prior to the effective date of the breakup remains with Telebrás, except for labor and tax claims (for which Telebrás and the companies incorporated as a result of the breakup are jointly and severally liable by operation of law) and any liability for which specific accounting provisions have been assigned to us or one of the other companies incorporated as a result of the breakup of Telebrás. In addition, the legality of the breakup of Telebrás had been challenged in numerous legal proceedings, some of which have 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 other new holding companies incorporated in connection with the privatization of the telecommunications companies offset certain tax debts against the premiums paid by their controlling shareholders. A claim was filed on December 16, 1999 against new holding companies, including Vivo and TCO, seeking relief in the form of the annulment of the administrative acts that recognized these offsets. Although we believe that the restructuring was implemented in accordance with Brazilian law, we believe, based on the opinion of outside counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible. We would be required to pay all the taxes that were offset against goodwill. We are unable to determine at this time the extent of any potential liabilities with respect to this claim.

Ownership of Caller ID

Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda., a Brazilian company, filed on November 20, 2001 lawsuits against 23 wireless telecommunications operators, including Telesp Celular Participações and its subsidiaries. The lawsuits allege that those operators violated patent number 9202624-9, related to *Equipamento Controlador de Chamadas Entrantes e do Terminal do Usuário*, or Caller ID, granted to Lune by the Brazilian Intellectual Property Agency INPI, on September 30, 1997. Lune calls on the operators to cease to provide Caller ID services and seeks payment from them for the unauthorized use of the Caller ID system in an amount equivalent to the payment of fees received by such operators for use of the Caller ID system. However, Lune's right to use patent number 9202624-9 was suspended by a federal judge in response to a lawsuit filed against Lune and INPI by *Ericsson Telecomunicações S.A.*, *TC* and *Telerj Celular* (formerly Vivo subsidiaries prior to our corporate restructuring) 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 subsidiaries, 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, except for class actions against Telemig Celular, for which the likelihood of an unfavorable outcome with respect to this claim is considered remote, based on the opinion of outside counsel.

Litigation Relating to the Charging of a Monthly Subscription Fee

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

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

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

Difference in Shares

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

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

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

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

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

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

VU-M

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

Tax-Related

State Taxes - ICMS

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

precedents) that the likelihood of an unfavorable outcome with respect to this claim is remote. Moreover, we believe that the predecessor companies would be liable to our subsidiary for any tax liability arising from the retroactive application.

In the states of Distrito Federal, Acre, Pará, Mato Grosso do Sul, Mato Grosso, Goiás, Roraima, Rondônia, Tocantins and Amazonas, Vivo S.A. received tax assessments totaling R\$109.2 million as of December 31, 2008, in connection with: i) the ICMS tax applied to occasional or complementary services that do not constitute telecommunications services; ii) the ICMS tax applied to international calls made from Brazil; iii) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets used in providing communications services and/or exempt or untaxed outgoing goods; iv) the ICMS tax applied to non-remunerated provisions of telecommunications services consisting of the donation of credits to be used in the prepaid service plan; v) failure to include in the ICMS calculation base fines and arrears interest charged to defaulting clients; vi) alleged failure to comply with supplementary obligations; and vii) other taxes relating to the sale of goods.

In the state of Paraná, Vivo S.A. received tax assessments totaling R\$7.3 million as of December 31, 2008, compared to R\$4.0 million as of December 31, 2007, in connection with late payment of the ICMS tax.

In the state of Bahia, Vivo S.A. received tax assessments totaling R\$43.0 million as of December 31, 2008, in connection with: i) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets, electric power and switching services resulting from the provision of untaxed communications services; ii) failure to reverse ICMS credits relative to handsets provided for rental and free leases ; iii) late payment of the ICMS tax in the period from February to March 1998; iv) application of the ICMS tax on complementary communications services; v) failure to reverse ICMS credit in relation to long distance and call centers; and vi) the ICMS tax applied to sign-up fees.

In the state of Sergipe, Vivo S.A. received tax assessments totaling R\$35.4 million as of December 31, 2008, in connection with: i) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets, electric power and switching services resulting from the provision of untaxed communications services; ii) failure to reverse ICMS credits in relation to handsets provided for rental and free leases ; iii) application of the ICMS tax on provision of handsets on consignment; and iv) the ICMS tax applied to complementary communications services.

In the state of Espírito Santo, Vivo S.A. received tax assessments totaling R\$7.0 million as of December 31, 2008, in connection with: i) incorrect ICMS credits and ii) failure to write up trade notes.

In the state of Rio de Janeiro, Vivo S.A. received tax assessments totaling R\$150.3 million as of December 31, 2008, in connection with: i) application of the ICMS tax to complementary communications services; ii) application of the ICMS tax on sign-up fees; iii) application of the ICMS tax to calls originating from administrative and test terminals; iv) application of the ICMS tax to services provided to other telecommunications operators for clients not eligible for an exemption; v) application of the ICMS tax on international calls; vi) failure to reverse proportionally an ICMS tax credit on the acquisition of fixed assets; vii) application of the ICMS tax on the provision of unpaid telecommunications services; viii) application of the ICMS tax to electric power; and ix) disallowance of ICMS tax incentives referring to cultural projects and fines.

In the state of Rio Grande do Sul, Vivo S.A. received tax assessments totaling R\$28.0 million as of December 31, 2008, in connection with: (i) application of the ICMS tax to international calls; (ii) late payment of the ICMS tax; and (iii) application of the ICMS tax on electric power.

In the state of São Paulo, Vivo S.A. received tax assessments totaling R\$118.7 million as of December 31, 2008, in connection with: (i) incorrect ICMS tax credits; (ii) an incorrect credit received in relation to values posted as extemporary credits; (iii) ICMS credits for values reversed due to customer complaints; and (iv) ICMS on discounts deemed as unconditioned.

In the state of Santa Catarina, Vivo S.A. received tax assessments totaling R\$3.9 million as of December 31, 2008, in connection with (i) appropriation of income tax credit in excess of the limit permitted in the tax laws, relating to

entries of goods the exit of which is entitled to the benefit of reduction of the tax calculation base; and (ii) fine for noncompliance with a legal obligation.

Telemig Celular has a judicial discussion in course with regard to the ICMS levied on contractual fine, which proceedings are awaiting decision by the court of appeals. At December 31, 2008 the amount is R\$7.5 million.

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

Based on the opinion of our external legal counsel, in the states of Rio de Janeiro, São Paulo, Amazonas and Rondonia, Vivo S.A. recorded a provision of R\$23.6 million as of December 31, 2008, to cover potential losses from tax-related actions currently in administrative and judicial court.

Federal Taxes

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

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

We believe based on the opinion of our legal counsel, and in consideration of recent decisions of the Supreme Court of Brazil, that the likelihood of an unfavorable outcome with respect to the calculation methodology is remote (especially since one of our subsidiaries has already obtained a favorable decision in November 2007), but with respect to the contribution rates an unfavorable outcome is possible. However, we do not believe an unfavorable outcome would have a material adverse effect on our financial condition and results of operations. As of December 31, 2008, an amount of R\$10.4 million was recorded by the Company after it made escrow deposits of R\$2.5 million.

In the state of São Paulo, an action was brought against Vivo S.A. (lawsuit No. 19515,000,700/2003-97) claiming that, in January and February of 2000, Vivo had offset COFINS against unwarranted credits received from a deduction that was in excess of the permitted one-third of the amount due under COFINS in 1999 from the amount due under CSLL. The Company recorded a provision in the amount of R\$24.7 million on the accounts as of December 31, 2008, after making an escrow deposit in the same amount.

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 Vivo S.A.. 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.

In the state of São Paulo, Vivo S.A. received tax assessments (lawsuits No. 19515,000701/2003-28 and No. 19515,000699/2003-97) amounting to R\$8.6 million as of December 31, 2008, compared to R\$2.7 million in 2007, as a result of the increase in PIS and COFINS calculation bases. The lawsuits are in administrative court awaiting the decision of the Court of Special Appeal.

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In the state of Bahia, Vivo S.A. received a COFINS assessment of R\$9.7 million as of December 31, 2008, in connection with losses incurred on derivative operations performed to determine the calculation base for the contribution. The assessment is awaiting judgment in the second administrative instance.

In the state of Rio de Janeiro, Vivo S.A. received tax assessments amounting to R\$148.5 million as of December 31, 2008, in connection with: i) the use of part of the negative CSLL (federal social contribution on income) calculation base determined by the Company in 1997, which originated from a partial spin-off; ii) alleged underpayment of IRPJ (income tax) and CSLL due to the fact that the inspectors did not approve the deductibility of certain expenses; iii) alleged underpayment of IRRF (withholding tax) on overseas remittances; and iv) changes to the IRPJ and CSLL calculation bases resulting from the reduction in the Company's declared tax loss. There are proceedings based on these assessments currently ongoing in the administrative court.

Vivo Participações is involved in an administrative discussion related to the purported underpayment of IRRF on remittances abroad. The total amount thereof at December 31, 2008 is R\$20.9 million.

In May 2007, the Company faced tax foreclosures totaling R\$29.9 million as of December 31, 2008 in connection with the tax authorities' refusal to compensate the negative balance of IRPJ (income tax) for fiscal year 2000. The DRF - *Delegacia da Receita Federal* (Regional Brazilian Internal Revenue Service) - did not approve some expenditures included in the Company's income tax return and cancelled the balance of IRPJ credits used to offset the tax, thus leading to the accumulation of debt. The decision of the first judicial instance is pending. About the same matter, Vivo Participações filed an action for annulment seeking the reversal of the tax delinquency notice, which is in course before the Federal Courts in São Paulo.

Vivo S.A. assumed the tax assessments received by its former subsidiary TLE amounting to R\$64 million as of December 31, 2008, charged on underpayment in connection with the excess of investments in tax incentives paid to FINOR, FINAN or FUNRES (tax incentives in Brazil) as calculated during the review of the Company's income tax return. The decision of second judicial instance is pending.

Telemig Celular is involved in an administrative discussion due to purported underpayment of IRPJ, including application of fine and denial of the request for refund and deduction of credits ascertained by the subsidiary in consequence of the overpayments of estimated IRPJ. In all the cases, the discussion is in progress in the administrative sphere and a final decision by Taxpayers Council is awaited. At December 31, 2008, the amount is R\$37.0 million.

Tax delinquency notices were issued against Vivo for IRPJ, CSLL, COFINS and IRRF, the main matters under controversy being: (i) undue deduction of tax losses of non-operating nature from operating profit calculated in a subsequent period; (ii) purported underpayment of taxes; (iii) non-confirmation of withholding income tax on financial statements in DIRF; (iv) separate fine on the amount booked/declared and the amount paid. At December 31, 2008, the total amount came to R\$42.1 million (R\$44.5 million on December 31, 2007).

Vivo is involved in administrative and judicial discussions about the underpayment of IRPJ, CSLL, PIS and COFINS, having in consideration the unlawful proportional credit of the taxes and disregard about the occurrence of voluntary disclosure. Vivo is involved in discussions solely related to the occurrence of the voluntary disclosure of these taxes. In December 2008 the amount in question totals R\$189 million (R\$17.2 million on December 31, 2007)

Vivo is involved in an administrative discussion related to tax delinquency notices the main matters thereof being: (i) non-deductibility of the expense of interest on shareholders' equity (*Juros Sobre Capital Próprio*), having in consideration the noncompliance information shown in the DIRF for the amounts of income tax (IR) withheld at source for the beneficiaries of the financial income; (ii) purported underpayment of IRPJ and CSLL estimates; and (iii) adjustments to the tax calculation bases of IRPJ and CSLL. The discussions related to the above mentioned proceedings are in progress in the administrative sphere. At December 31, 2008, the amount in question was R\$90.8 million (R\$83.2 million on December 31, 2007).

Vivo is involved in administrative and judicial discussions seeking to reverse the debt balance related to tax debts for IRPJ, CSLL, PIS, COFINS and IRRF. This refers to debts activated in the SIEF system by reason of statements provided by the particular (DCOMP Statement of Tax Deduction and PER/DCOMP Statement of Tax Deduction electronically sent), not confirmed by the Federal Revenue Service of Brazil. The discussions are awaiting the end of the administrative discussion and final judgment in the judicial sphere. At December 31, 2008 the amount in question was R\$197.9 million (R\$97.2 million on December 31, 2007).

Vivo Participações is involved in administrative and judicial discussions seeking to reverse the debt balance related to tax debts for IRPJ, CSLL, PIS, COFINS and IRRF. This refers to debts activated in the SIEF system by reason of

statements provided by the particular (DCOMP Statement of Tax Deduction and PER/DCOMP Statement of Tax Deduction electronically sent), not confirmed by the Federal Revenue Service of Brazil. The discussions are awaiting the end of the administrative discussion and final judgment in the judicial sphere. At December 31, 2008 the amount in question was R\$3.7 million.

In the state of Rio Grande do Sul, Vivo S.A. was subject to a tax assessment for alleged IRPJ and CSLL debts of R\$299.1 million as of December 31, 2008, and for the allegedly unwarranted amortization of the goodwill on acquisition of the interests of Companhia Riograndense de Telecomunicações (CRT) in fiscal years 1997 and 1998. This assessment is pending judgment in the administrative court.

Telemig Participações filed writs of mandamus requesting the court to declare its right not to be assessed IRRF (Withholding Income Tax) at source on its receipts of interest on shareholders' equity of its subsidiary (Telemig Celular). Based on the opinion of its legal counsels, the referred lawsuits are classified as possible loss; however, once this refers to a legal obligation under the terms of CVM Resolution No. 489/2005, a provision was booked and deposits have been made in court, totaling R\$19.8 million on December 31, 2008.

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. In 2008, Vivo S.A. recorded a provision in the amount of R\$80.7 million, after it made escrow deposits amounting to R\$44.3 million.

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 former subsidiaries and Telemig Celular have filed writs of mandamus questioning the legality of this contribution and have been granted a favorable decision which has suspended our liability for the contribution.

We believe, based on the opinion of counsel, that the likelihood of an unfavorable outcome with respect to this claim is possible.

At December 31, 2008, the amount involved for VIVO is R\$225.5 million and for Telemig Celular is R\$33.1 million.

FUNTTEL

Vivo S.A. and Telemig Celular filed a writ of mandamus directly to the Managing Chairman of the board of FUNTTEL and the Temporary Secretary of the Ministry of Communications in order to enforce its right to calculate and pay contributions to FUNTTEL, as per the provisions of Law No. 10,052 of November 28, 2000, without including in the calculation amounts received as transfers entitled to interconnection and use of the network integration resources, as expressed in article 6, paragraph 4 of Decree n. 3,737 of January 30, 2001. The Company obtained a favorable judicial decision related to this issue. As of December 31, 2008, the amount of the contributions involved is R\$106.1 million for Vivo and R\$19.2 million for Telemig.

FISTEL

TFI

Vivo holds authorizations, which were granted by the Public Authorities by means of the Instrument of Authorization, for the exploitation of the Personal Mobile Service, for an indeterminate term; and other authorizations for using the radiofrequencies on a primary character, for the remainder of the term of the first license, renewable for further fifteen years.

At the time of the renewal of the validity term for use of the radiofrequencies in connection with the exploitation of the personal mobile service, ANATEL collects the Installation Inspection Fee TFI referring to the issuance of new licenses assessed on the radio-base stations, mobile stations and radio-links.

Such collection results from the understanding, by ANATEL, that art. 9, item III of Resolution No. 255 would be applicable to this case, in such manner that the extension of term would be a taxable event of the TFI. Because it considers that the collection of TFI on mobile stations is undue, Vivo has administrative discussions in course with the ANATEL, which are awaiting decision.

At December 31, 2008, the amount in question is R\$827.0 million (R\$282.0 million on December 31, 2007).

Telemig Celular, also because it considers that the collection of TFI on the mobile stations is undue, upon receiving the official letter granting the extension of the term, together with the collection form for payment of the referred fee, it filed a motion to deny, which is awaiting judgment. In the understanding of the Management and of its legal consultants, there are possible chances of success in these proceedings. At December 31, 2008, the total amount in question was R\$108.8 million.

Telecommunications Inspection Fee

Telemig Celular filed a Writ of Mandamus challenging its liability for the payment of the inspection fees on mobile stations not owned by it, and started booking a provision and effecting a deposit in court for the amounts referring to the TFF Operation Inspection Fee and to the TFI Installation Inspection Fee. The case is awaiting decision by the TRF Court of the 1st Region.

Telemig Celular's legal counsels consider the chances of losses in these lawsuits to be possible. However, because this is a legal obligation under the terms of CVM Resolution No. 489/2005, the controlled company has booked a provision for this contingency. The provision recorded at December 31, 2008 was in the amount of R\$324.8 million, with corresponding deposits in court in the same amount.

Local Taxes - Litigation Related to ISS on use of network

The municipalities of Salvador (in the state of Bahia) and Porto Alegre (in the state of Rio Grande do Sul) filed administrative proceedings against Telebahia Celular and Celular CRT in order to collect amounts allegedly due as a services tax (ISS). The municipalities claim that the payments received in consideration of the use of our network could be considered compensation under a lease of a movable asset, and that therefore these payments should be subject to the application of ISS. Based on the opinion of our legal counsel, we believe that Telebahia Celular and Celular CRT will be successful in its defense in these proceedings and accordingly we have not made any provisions. As of December 31, 2008, the amount involved is R\$56.9 million.

In addition, other municipalities throughout the country (in the states of Amazonas, Mato Grosso, Mato Grosso do Sul, Paraná, Rio de Janeiro, Rio Grande do Sul, Roraima, Espírito Santo and São Paulo) require the payment by VIVO of the ISS services tax for the main purposes of providing telephone complementary services, advertising, licenses and subscriptions. There is no ISS withholding over consulting services. As of December 31, 2008, the amount involved is R\$32.9 million.

Other taxes, rates and contributions

On December 31, 2008, an amount of R\$3.0 million was recorded, related to the following assessments issued by tax authorities. Based on the opinion of the legal consultants there are possible chances of success in these

proceedings.

As of December 31, 2008, a provision of R\$22.850 million was recorded for various tax lawsuits related to the discussions of ISS, IRPJ, INSS, ICMS and PIS/COFINS.

Other Litigation

We are a party to several labor claims for which we have recorded provisions of R\$38.3 million considered sufficient to meet probable losses in these cases. During the year ended December 31, 2008, no significant labor claims classified as having the potential to incur probable losses were initiated. No significant changes have occurred in the proceedings reported since the last fiscal year. With respect to proceedings in which the possibility of loss is classified as possible, the amount involved is R\$193.5 million.

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

Dividend Policy and Dividends

We may pay our shareholders both dividends and interest on shareholders' equity which is a form of distribution that is tax deductible in Brazil. We did not pay dividends or interest on shareholders' equity for the years ended December 31, 2005 and 2004 because we recorded a net loss for each of those years. On December 21, 2007, we paid dividends with respect to fiscal year ended December 31, 2006 in the amount of R\$16.8 million, which was insufficient to meet the minimum dividend required by law. For the fiscal year ended December 31, 2007, we were unable to pay minimum dividends, because we had net losses. For the fiscal year ended December 31, 2008, the Board of Directors Meeting held on February 12, 2009 approved to pay dividends in the amount of R\$402.6 million, which is sufficient to meet the minimum dividend required by law. As a result, holders of Vivo's preferred shares will no longer have voting rights equal to those of the holders of common shares. According to the approval granted at the Board of Directors Meeting held on February 12, 2009 and at the General Meeting of Shareholders held on March 19, 2009, the dividends will be paid as of December 30, 2009 at which time voting rights on the preferred shares will cease.

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 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 GAAP, which differs from other financial statements such as our consolidated financial statements included in this annual report.

Priority and Amount of Preferred Dividends

Our by-laws provide for a minimum noncumulative dividend of (i) 6% of the amount obtained by dividing the amount of subscribed capital by the number of our shares and (ii) 3% of the amount obtained by dividing shareholders equity by the number of our outstanding shares, whichever is greater. As a result of such provision, holders of our preferred shares are entitled to receive, in any year, distributions of cash dividends prior to the holders of our common shares receiving any distribution of cash dividends in such year. In addition, distributions of cash dividends in any year are made:

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

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

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

Payment of Dividends

We are required by Brazilian Corporate Law and by our by-laws to hold an annual shareholders meeting by April 30 of each year, at which, among other things, an annual dividend may be declared by a decision of our shareholders on the recommendation of our board of directors. The payment of annual dividends in any given year is based on the financial statements prepared for the preceding fiscal year ending December 31. Under Brazilian Corporate Law, dividends are required to be paid within 60 days of the annual shareholders meeting, or on the date determined at a shareholders meeting, but in any case prior to the end of the fiscal year in which such dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which time unclaimed dividends revert back to us. Because our shares are issued in book-entry form, dividends will be credited to the 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 2008 other than as already discussed in other sections of this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Brazilian private equity and debt are traded on BOVESPA, which is the trading market for our common and preferred shares. Our preferred shares began trading on the Brazilian stock exchanges on September 21, 1998. In the United States, our preferred shares trade in the form of ADSs that each represent 1 preferred share as of December 31, 2008 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*:

Stock prices per share are impacted by the reverse stock split at the ratio of 4:1, concluded on October 13, 2008.

| | New York Stock Exchange US\$ per ADS | | São Paulo Stock Exchange R\$ per 1 preferred shares | |
|-------------------------------------|--|-------|---|-------|
| | High | Low | High | Low |
| Year ended | | | | |
| December 31, 2004 | 35.76 | 21.52 | 110.56 | 64.00 |
| December 31, 2005 | 30.08 | 12.48 | 77.52 | 28.00 |
| December 31, 2006 | 16.36 | 9.12 | 46.96 | 19.77 |
| December 31, 2007 | 23.92 | 13.64 | 42.60 | 28.40 |
| December 31, 2008 | 29.48 | 8.25 | 48.96 | 18.43 |
| Year ended December 31, 2007 | | | | |
| First quarter | 17.00 | 13.64 | 35.36 | 28.40 |

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| | | | | |
|----------------|------|-------|-------|-------|
| Second quarter | 20.8 | 14.36 | 40.00 | 28.92 |
|----------------|------|-------|-------|-------|

| | New York Stock Exchange US\$ per ADS | | São Paulo Stock Exchange R\$ per 1 preferred shares | |
|-------------------------------------|--|-------|---|-------|
| | High | Low | High | Low |
| Third quarter | 21.44 | 14.88 | 41.00 | 30.00 |
| Fourth quarter | 23.92 | 18.52 | 42.60 | 33.76 |
| Year ended December 31, 2008 | | | | |
| First quarter | 27.12 | 17.80 | 45.12 | 31.15 |
| Second quarter | 29.48 | 22.76 | 48.96 | 37.18 |
| Third quarter | 25.44 | 15.32 | 40.93 | 30.59 |
| Fourth quarter | 16.80 | 8.25 | 32.66 | 18.43 |
| Quarter ended | | | | |
| March 31, 2009 | 16.87 | 13.05 | 38.70 | 29.45 |
| Month ended | | | | |
| October 31, 2008 | 16.80 | 8.25 | 32.66 | 18.43 |
| November 30, 2008 | 12.72 | 8.71 | 28.95 | 21.44 |
| December 31, 2008 | 14.99 | 10.90 | 36.30 | 26.69 |
| January 31, 2009 | 15.00 | 13.19 | 34.29 | 29.45 |
| February 29, 2009 | 16.53 | 14.08 | 38.70 | 32.04 |
| March 31, 2009 | 16.87 | 13.05 | 38.00 | 30.55 |
| April 2009 (through April 20) | 15.57 | 13.50 | 33.95 | 30.50 |

B. Plan of Distribution

Not applicable.

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

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

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

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

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

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

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

The BOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 31, 2008, the aggregate market capitalization of the 392 companies listed on the BOVESPA was equivalent to approximately R\$1,375.3 billion (US\$588.5 billion). By comparison, as of December 31, 2008, the aggregate market capitalization of the 3,507 companies (including U.S. and non-U.S. companies) listed on the NYSE was approximately US\$10.2 trillion. 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 2008, the combined daily trading volumes on BOVESPA averaged approximately US\$3,119.3 million. See Item 3.D. Key Information Risk Factors Risks Relating to Our Securities The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of our ADSs.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, by the *Conselho Monetário Nacional*, or CMN, the National Monetary Council and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law No. 6,385, as amended, known as the Brazilian Securities Law, and by Law No. 6,404, as amended, known as the Brazilian Corporate Law.

Law No. 10,303 of December 31, 2001 amended the Brazilian Corporate Law and the Brazilian Securities Law. Consequently, some major modifications resulted for the businesses of the publicly traded companies. Among the changes, Law No. 10,303, along with Executive Order No. 8 and Decree No. 3.995, all dated October 31, 2001, provided that the CVM was to have the scope of its authority and autonomy altered and expanded. The CVM, which is the agency in charge of regulating the market, now handles some functions that were reserved to the Banco Central, for example, the regulation and organization of the futures and commodities markets. Other modifications include changes in the proportion of common and preferred shares (these changes apply solely to companies incorporated after the enactment of the new law), new rules for the issuance of debentures and the exercise of the right of withdrawal, enhanced duties and powers for the members of the Board of Auditors and the Board of Directors, and the ability of publicly traded companies to make publications available over the Internet. Also provided is the pooling agreement, the so-called block voting, by which the shareholders agree during a prior meeting on the direction of the votes that will be cast at the general meetings. The purpose of this kind 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.

On December 11, 2008, the CVM issued CVM Deliberation No. 560, which deals with disclosures regarding related parties relationships in their accounting aspects, and it is applicable to financial statements for the year ended December 31, 2008. The disclosure requirements under this CVM Deliberation are disclosed in our financial statements.

On December 26, 2008, the CVM opened to public comment the draft of a new instruction to replace the CVM Instruction No. 202/93. The main objectives of the draft are: i) consolidating the rules regarding registration for issuing securities, so that the procedures of registration, suspension and cancellation are identical for all issuers; ii) establishing three categories of issuers of securities according to the kinds of securities admitted to trading and the markets in which such securities are admitted: (a) issuing equity/stock market the draft allows the trading of any securities in any market, (b) issuing capital-counter the draft authorizes the trading of securities issued in the capital markets desk, organized or not, and trading of debt securities and collective investment of the issuer in any regulated market of securities, and (c) issuing public debt and investment the draft authorizes the negotiation of the debt securities and collective investment in any regulated markets; iii) establishing systems to provide appropriate information to each of the aforementioned market categories; iv) improving the quality of information periodically provided by issuers of securities and the manner of presentation to facilitate understanding of such information by the investor; v) ensuring a uniform standard of information is regularly provided by issuers of securities and those that are occasionally published in prospectuses for public offerings of securities distribution; and vi) making it possible that certain issuers, provided they meet certain prerequisites, have their applications for registration of offers of distribution approved more quickly. The deadline for sending suggestions and comments concerning the draft is March 30, 2009. The draft provides that the standards resulting from the public comments will come into force on January 1, 2010.

On December 3, 2008, Provisional Executive Act No. 449 (*Medida Provisória n.º 449*) was issued and, among other things, amended numerous provisions of the Brazilian corporate law, specifically in accounting aspects, such as bookkeeping, evaluation of assets criteria and the structure of financial results. Among the changes, it modified the definition of an affiliate. *Medida Provisória n.º 449/08* states that a company shall be considered affiliated when the investor has significant influence, or holds or exercises the power to participate in the decisions pertaining to financial or operating policies of the investee, without controlling it.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

Registration

Our amended and restated by-laws were registered with the Public Registry of the state of São Paulo, or JUCESP, No. 112.111. /09-9 on March 27, 2009, 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 19, 2009, and were registered with the Public Registry of the state of São Paulo, or JUCESP, N° 112.111/09 -9 on March 27, 2009.

Objectives and Purposes

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

exercise control of operating companies which provide cellular mobile telecommunications services, personal mobile services and other services in conformity with the concessions, authorizations and permissions that have been granted to us;

promote, through our subsidiary or controlled companies, the expansion and implementation of telecommunications services within our concessions, authorizations and permissions;

promote, carry out and direct the financing of capital from internal or external sources to be used by us or our controlled companies;

promote, carry out and encourage study and research activities aimed at the development of the telecommunications sector;

perform, through our subsidiary and affiliated companies, specialized technical services related to the telecommunications sector;

promote, encourage, carry out and coordinate, through our subsidiary or controlled companies, the development and training of personnel necessary to perform activities in the telecommunications sector;

carry out and promote the import of goods and services for the operations of our subsidiary and controlled companies;

execute other activities connected or related to our objective;

participate in the equity capital of other companies; and

trade equipment and materials necessary or useful for providing telecommunications services.

Directors

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

the board of directors has the power to approve investments and acquisition of assets, assume any obligation and execute contracts not included in the budget for an amount exceeding R\$300 million, the public issuance of promissory notes, and the acquisition of our shares for cancellation or deposit with a custodian; and

the board of directors has the power to apportion the global remuneration set forth by the shareholders meeting between the directors and the executive officers.

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

age limits for retirement of directors; and

anti-takeover mechanisms or other procedures designed to delay, defer or prevent changes in our control.

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

a director's power to vote on proposals in which the Director is materially interested;

a director's power to vote compensation to himself 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.A. Financial Information Consolidated Statements and Other Financial Information Dividend Policy and Dividends, and Item 8.A. Financial Information Consolidated Statements and Other Financial Information 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 one or two other Brazilian newspapers, as determined by the shareholders, at least thirty days prior to the meeting, but would not generally require any other form of notice. The execution of agreements with related parties, under terms and conditions more burdensome for the Company than market terms for agreements of the same nature shall require prior approval by the General Meeting of Shareholders, with due regard, in any case, to the provisions in Article 117 of Law 6,404/76.

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

We did not pay dividends or interest on shareholders' equity for the years ended December 31, 2005 and 2004 because we recorded a net loss for each of those years. On December 21, 2007, we paid dividends with respect to fiscal year ended December 31, 2006 in the amount of R\$16.8 million which was insufficient to meet the minimum dividend required by Brazilian Corporate Law. For the fiscal year ended December 31, 2007, we were unable to pay minimum dividends because we had net losses. As a result, holders of Vivo's preferred shares now have the same voting rights as the holders of common shares until we pay minimum dividends. For the fiscal year ended December 31, 2008, the Board of Directors Meeting held on February 12, 2009 approved to pay dividends in the amount of R\$402.6 million, which is sufficient to meet the minimum dividend required by law. As a result, holders of Vivo's preferred shares will no longer have voting rights equal to those of the holders of common shares. According to the approval granted at the Board of Directors Meeting held on February 12, 2009 and at the General Meeting of Shareholders held on March 19, 2009, the dividends will be paid as of December 30, 2009 at which time voting rights on preferred shares will cease.

Meeting of Shareholders

According to Brazilian law, shareholders must be previously summoned in order for a general ordinary or extraordinary shareholders meeting to be convened. The summons must be published in the state official gazette and one or two other Brazilian newspapers, as determined by the shareholders, at least 15 days prior to the meeting's scheduled date. If the meeting is not convened for some reason, a second summons must be published at least eight days before the second date specified for the meeting.

On first call, meetings may only be convened 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 convened 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 convened regardless of quorum.

Preemptive Rights

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

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

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

Right of Redemption

Brazilian Corporate Law provides for the right of redemption to minority shareholders under certain circumstances.

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

change the preference of our preferred shares or to create a class of shares having priority or preference over our preferred shares, except if such actions are expressly permitted in the by-laws at the time of their adoption by our shareholders;

change the preference of our preferred shares, any right they carry, their amortization or redemption rights, or to create a class of shares having priority or preference over our preferred shares;

reduce the mandatory distribution of dividends;

change our corporate purposes;

transfer all of our shares to another company in order to make us a wholly owned subsidiary of that company;

approve the acquisition of another company, the price of which exceeds certain limits set forth in Brazilian Corporate Law;

participate in a group of companies if certain liquidity standards are not met according to the Brazilian Corporate Law as amended by Law No. 10,303/01;

merge or consolidate us with another company if certain liquidity standards are not met according to the Brazilian Corporate Law as amended by Law No. 10,303/01; and

cisão, or split-up, Vivo Participações S.A., according to the Brazilian Corporate Law, as amended by Law No. 10,303/01, in any of the following situations: (i) reduction of minimum dividends; (ii) participation in a group of companies; or (iii) change of our corporate purposes, except in case the company receiving our assets has a corporate purpose substantially identical to ours.

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

Unless otherwise provided in our by-laws, which is not the case, shares are redeemable at their book value, determined on the basis of the last annual balance sheet approved by the shareholders. If the shareholders meeting

giving rise to redemption rights occurs more than 60 days after the date of the last annual balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet that is as of a date within 60 days of such shareholders meeting.

Form and Transfer

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

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

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

Regulation of Foreign Investment and Exchange Controls

There are no restrictions on ownership of our preferred shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to restrictions under foreign investment legislation which generally require, among other things, that the relevant investment be registered with the Central Bank and the CVM.

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

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

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

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

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

Securities and other financial assets held by non-Brazilian investors pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will. See [Taxation Brazilian Tax Considerations](#) for more information.

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

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

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

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

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

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

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

Under Brazilian law, whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restriction on the remittance of foreign currency

abroad and on the conversion of Brazilian currency into foreign currencies. Such restrictions may hinder or prevent the custodian or holders who have exchanged ADSs for underlying preferred shares from converting distributions or the proceeds from any sale of such shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad.

C. Material Contracts

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

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

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, Cajurú, Cássia dos Coqueiros, Colômbia, Franca, Guaiúba, Guará, Ipuã, Ituverava, Jardinópolis, Miguelópolis, Morro Agudo, Nuporanga, Orlândia, Ribeirão Corrente, Sales de Oliveira, Santa Cruz da Esperança, Santo 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 was renewed in 2008 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 Guatarapá 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 was renewed in 2008 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 was renewed in 2008 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 Telemahia Celular to provide SMP services until December 15, 2008. It was renewed in 2008 for an additional term of fifteen years upon payment of 2% of Telergipe Celular's net revenues from usage charges in its region in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, Telergipe Celular was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby.

On December 10, 2002, Telerj Celular entered into an authorization agreement with ANATEL, acting as a representative of the Brazilian government, which enables it to provide personal cellular services (SMP) in the state of Rio de Janeiro. The authorization replaces the concession agreement entered into with ANATEL on November 4, 1997, and authorizes Telerj Celular to provide SMP services until November 30, 2005. It was renewed in 2008 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 was renewed in 2008 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 was renewed in 2006 for an additional term of fifteen years upon payment of 2% of TCO's net revenues from usage charges in the region described above in the year prior to the year when payment is due, and every two years during the extension period. In consideration for the authorization, TCO was required to pay R\$9.0 thousand. The authorization is a legal requirement for providing telecommunication services in the region covered thereby. TCO's subsidiaries also entered into authorization agreements with ANATEL under similar terms.

On April 25, 2003, TCP acquired 64.03% of the voting capital stock of TCO for approximately R\$1.505 billion, corresponding to R\$19.48719845 per each lot of 1,000 shares acquired. TCO is an A band operator providing cellular telecommunications services in the Federal District of Brazil, as well as in the Brazilian states of Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and Tocantins. The agreement also included the acquisition of TCO's B band subsidiary NBT, which provides cellular telecommunications service in the Brazilian states of Amapá, Amazonas, Maranhão, Pará and Roraima.

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

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments. On April 3, 2008, Vivo announced that (i) all conditions precedent to the acquisition of Telemig were fulfilled, (ii) Vivo had paid the purchase price in the total amount of R\$1.23 billion, including R\$70.51 million in connection with the acquisition of subscription rights, and (iii)

Vivo had acquired, as of that date, the direct control of Telemig. See Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte .

On December 20, 2007, Vivo signed a stock purchase agreement with Telemar for the sale of all the shares of Tele Norte that it was acquiring from Telpart under the terms of the stock purchase agreement dated August 2, 2007. This additional stock purchase agreement was signed to facilitate Vivo's acquisition of the shares of Telemig from Telpart. On April 3, 2008, Vivo transferred to Telemar all the shares of Tele Norte that it acquired from Telpart. See Item 4.A. Information on the Company Our History and Development Acquisition of Telpart, Telemig and Tele Norte .

In October 2008 the Company signed a credit facility with the *Banco do Nordeste do Brasil (BNB)* in the amount of R\$389.0 million, through the Northeast Constitutional Fund. This new financing shall be used for expansion of the network already existing in the States of Bahia, Sergipe and Maranhão and for implementing a new network in the States of Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco and Alagoas.

D. Exchange Controls

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

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

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

Under Resolution 2,689, of the CMN, foreign investors registered with the CVM may buy and sell Brazilian securities, including our preferred shares, on the Brazilian stock exchange. Registration is available to qualified foreign investors, which principally include foreign financial institutions, legal entities and individuals. Resolution 2,689 also extends favorable tax treatment to registered investors. See Taxation Brazilian Tax Considerations.

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

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

Registered Capital

Amounts invested in our preferred shares by a non-Brazilian holder who qualifies under Resolution 2,689 and obtains registration with the CVM, or by the depositary representing an ADS holder, are eligible for registration with the Central Bank. This registration which must be done before the first investment on Brazilian stock exchanges (the amount so registered is referred to as registered capital) allows the remittance to and outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our preferred shares. The registered capital per preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per preferred share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (i) the average price of a preferred share on the Brazilian stock exchange on which the most preferred shares were traded on the day of withdrawal or (ii) if no preferred shares were traded on that day, the average price on the Brazilian stock exchange on which the most preferred shares were traded in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average market rates quoted by the Central Bank on these dates.

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

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

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

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

E. Taxation

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

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

Brazilian Tax Considerations

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

Taxation of Dividends

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

Distributions of Interest on Shareholders' Equity

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

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

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

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

Taxation of Gains

Gains realized outside Brazil by a U.S. holder or other non-Brazilian holder on the disposition of property located in Brazil, including preferred shares, to another non-Brazilian holder are subject to Brazilian tax. In this case, gains would be subject to a 15% withholding tax rate, except if the beneficiary is located in a low-tax jurisdiction, as defined by Brazilian law, in which case the applicable rate would be 25%.

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

Gains realized by a U.S. holder or other non-Brazilian holder on dispositions of preferred shares in Brazil or in transactions with Brazilian residents may be free of Brazilian tax, or may be taxed at a rate of 25% or 15%, depending on the circumstances.

- Gains on the disposition of preferred shares obtained upon cancellation of ADSs are not taxed in Brazil if the disposition is made and the proceeds are remitted abroad within five business days after cancellation, unless the investor is a resident of a jurisdiction that, under Brazilian law, is deemed to be a tax haven.
- Gains realized on preferred shares through transactions with Brazilian residents or through transactions in Brazil off of the Brazilian stock exchanges are generally subject to be taxed at a rate of 15%.
- Gains realized on preferred shares through transactions on Brazilian stock exchanges are generally subject to tax at a rate of 15%, unless the investor is entitled to tax-free treatment for the transaction under Resolution 2,689 of the National Monetary Council Regulations, described immediately below.

Resolution 2,689, which as of March 31, 2000 superseded the Annex IV Regulations that previously provided tax benefits to foreign investors, extends favorable tax treatment to a U.S. holder or non-Brazilian holder of preferred shares who has (i) appointed a representative in Brazil with power to take action relating to the investment in preferred shares, (ii) registered as a foreign investor with the CVM and (iii) registered its investment in preferred shares with the Central Bank. Under Resolution 2,689 securities held by foreign investors must be maintained under the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the CVM. In addition, the trading of securities is restricted under Resolution 2,689 to transactions on Brazilian stock exchanges or qualified over-the-counter markets. The preferential treatment generally afforded under Resolution 2,689 and afforded to investors in ADSs is not available to residents of tax havens. All preferred shares underlying ADSs qualify under Resolution 2,689.

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

Gain on the disposition of preferred shares is measured by the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost of the shares sold, measured in Brazilian currency, without any correction for inflation. Although the matter is not free from doubt, there are arguments to sustain the position that the acquisition cost of shares registered as an investment with the Central Bank is calculated on the basis of the foreign currency amount registered with the Central Bank. See Exchange Controls Registered Capital.

Gains realized by a U.S. holder and other non-Brazilian holder upon the redemption of preferred shares will be treated as gains from the disposition of such preferred shares to a Brazilian resident occurring off of a stock exchange and will accordingly be subject to be taxed at a rate of 15%. In case the non-Brazilian holder is domiciled in a tax haven jurisdiction, the applicable rate would be 25%.

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

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to the preferred shares will be treated differently for Brazilian tax purposes depending on (i) whether the sale or assignment is made by the depositary or the investor and (ii) whether the transaction takes place on a Brazilian stock exchange. Gains on sales or assignments made by the 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.

Tax on Financial Transactions

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

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

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

Temporary Contribution on Financial Transactions (CPMF Tax)

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

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

U.S. Federal Income Tax Considerations

The following are the material U.S. federal income tax consequences to U.S. Holders described herein of owning and disposing of preferred shares or ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities. The discussion applies only if you hold preferred shares or ADSs as capital assets for tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

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

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

This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the depository and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

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

- a citizen or individual resident of the United States;

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

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

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

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

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

Taxation of Distributions

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

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

Subject to applicable limitations that may vary depending upon your circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Brazilian income taxes withheld from dividends on preferred shares or ADSs will be creditable against your U.S. federal income tax liability. The rules governing foreign tax credits are complex and, therefore, you should consult your tax adviser regarding the availability of foreign tax credits in your particular circumstances. Instead of claiming a credit, you may, at your election, deduct such Brazilian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale and Other Disposition of Preferred Shares or ADSs

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of preferred shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if you held the preferred shares or ADSs for more than one year. The amount of your gain or loss will equal the difference between your tax basis in the preferred shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. Consequently, if a Brazilian withholding tax is imposed on the sale or disposition of preferred shares or ADSs, and you do not receive significant foreign source income from other sources, you 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, your 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 in Brazil.

Passive Foreign Investment Company Rules

The Company believes that it was not a passive foreign investment company (PFIC) for U.S. federal income tax purposes for its 2008 taxable year. If the Company were a PFIC for any taxable year during which you held preferred shares or ADSs, gain you recognize on a sale or other disposition (including certain pledges) of the preferred shares or ADSs would be allocated ratably over your holding period for the preferred shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the amount allocated to such taxable year. Similar rules would apply to any distribution in respect of preferred shares or ADSs in excess of 125% of the average of the annual distributions on preferred shares or ADSs that you receive during the preceding three years or your holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment) of the preferred shares or ADSs. You should consult your tax adviser to determine whether any such elections are available and, if so, what the consequences of the alternative treatments would be in your particular circumstances.

Information Reporting and Backup Withholding

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

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

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

F. Dividends and Paying Agents

On December 21, 2007, we paid dividends with respect to fiscal year ended December 31, 2006 in the amount of R\$16.8 million, which was insufficient to meet the minimum dividend required by Brazilian Corporate Law. For the fiscal years ended December 31, 2008 and 2007, we were unable to pay minimum dividends because we had net losses.

G. Statement of Experts

Not applicable.

H. Documents on Display

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

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

We also file financial statements and other periodic reports with the CVM. Copies of our annual report on Form 20-F and documents referred to in this annual report and our by-laws will be available for inspection upon request at our offices at Avenida Doutor Chucri Zaidan, 860, 04583-110, São Paulo, SP, Brazil.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. We are exposed to foreign currency exchange rate risk because certain of our costs (mostly interest on debt, capital expenditures and the purchase of wireless devices) are all or partially denominated in currencies (primarily the U.S. dollar and the Yen) other than those in which we earn revenues (primarily the *real*). Similarly, we are subject to market risk resulting from changes in interest rates that may affect the cost of our financing. We have entered into derivative instruments, such as foreign currency swaps, to manage our exchange rate risk. We do not hold or issue derivative or other financial instruments for trading purposes. See Note 32 to our financial statements for a sensitivity analysis of our risk variables and derivative instruments.

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, 2008. 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, 2008. 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, 2008, our internal control over financial reporting was adequate and effective, based on those criteria.

Our independent registered public accounting firm, Ernst & Young Auditores Independentes S.S., has issued an attestation report on the effectiveness of our internal controls over financial reporting as of December 31, 2008. The report on the audit of our internal control over financial reporting is included herewith.

(c) Attestation Report of the Registered Public Accounting Firm

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

controls over financial reporting as of December 31, 2008. The attestation report appears on page F-3.

(d) Changes in Internal Control over Financial Reporting

We have made no change to our internal control over financial reporting for the year ended 2008 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 held on April 7, 2009, our Directors determined and designated that José Guimarães Monforte is an audit committee financial expert within the meaning of this Item 16A.

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. (Ernst Young) for the years ended December 31, 2008 and 2007. The chart below sets forth the total amount billed to us by Ernst Young for services performed in the years 2008 and 2007, respectively, and breaks down these amounts by category of service:

| | For year ended December 31, | |
|--------------------|------------------------------------|-------------|
| | 2008 | 2007 |
| | (in thousands of reais) | |
| Audit fees | 6,535 | 4,146 |
| Audit-related fees | 729 | 306 |
| Tax fees | - | 176 |
| Total | 7,264 | 4,628 |

Audit Fees

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

Audit-related Fees

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

Tax Fees

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

Pre-Approval Policies and Procedures

The audit committee approves all audit, audit-related services, tax services and other services provided by Ernst Young. Any services provided by Ernst Young 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 2008 and 2007, none of the fees paid to Ernst Young 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 Markets Committees Audit Committee and Audit Committee Additional Requirements.

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

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

Independence of Directors and Independence Tests

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

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

Executive Sessions

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

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

Committees

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

Audit Committee and Audit Committee Additional Requirements

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

The function of our audit committee is to oversee the:

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

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

Disclosure Committee and Disclosure Policy

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

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

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

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

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

Shareholder Approval of Equity Compensation Plans

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

Corporate Governance Guidelines

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

Code of Business Conduct and Ethics

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

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 | <u>By-laws (<i>Estatuto Social</i>) of Vivo Participações S.A. English translation. (1)</u> |
| 2.1 | <u>Deposit Agreement dated as of July 21, 1998, as amended and restated as of November 2, 1998, as further amended and restated as of July 28, 2008.</u> |
| 2.2 | Note Purchase Agreement relating to the issuance by <i>Telesp Celular Participações S.A.</i> of 416,050,488.19 of floating rate notes due 2004, dated November 28, 2001, among Portugal Telecom International Finance B.V., <i>Telesp Celular Participações S.A.</i> and Citibank N.A. London. (2) |
| 2.3 | Agency Agreement relating to the issuance by <i>Telesp Celular Participações S.A.</i> of 416,050,488.19 of floating rate notes due 2004, dated November 28, 2001, among Citibank N.A. London and <i>Telesp Celular Participações S.A.</i> (2) |
| 2.4 | Shareholders Agreement dated as of February 6, 2001, among DDI Corporation, <i>Inepar Telecomunicações S.A.</i> , ITX Corporation and <i>Telesp Celular Participações S.A.</i> (2) |
| 2.5 | First Amendment to the Shareholders Agreement of Global Telecom S.A. dated August 14, 2001, among <i>Telesp Celular Participações S.A.</i> , KDDI Corporation (formerly known as DDI Corporation), <i>Inepar Telecomunicações S.A.</i> and ITX Corporation together with an English translation. (2) |
| 4.1 | Authorization Term of the Personal Mobile Service entered by ANATEL and <i>Telesp Celular Participações S.A.</i> 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 <i>Tele Centro Oeste Celular Participações S.A.</i> English translation. (4) |
| 4.4 | |

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Authorization Term of the Personal Mobile Service entered by ANATEL and *Telebahia Celular S.A.* English translation. (5)

4.5 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telegipe Celular S.A.* English translation. (5)

4.6 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telerj Celular S.A.* English translation. (6)

| | |
|-------------|---|
| 4.7 | Authorization Term of the Personal Mobile Service entered by ANATEL and <i>Telesp Celular S.A.</i> English translation. (6) |
| 4.8 | Agreement between <i>Telesp Celular Participações S.A.</i> and <i>Fixcel S.A.</i> dated as of April 25, 2003 for the acquisition of 64.03% of the voting capital stock of <i>Tele Centro Oeste Celular Participações S.A.</i> English Summary. (1) |
| 4.9 | Consulting Agreement (<i>Instrumento Particular de Prestação de Serviços de Consultoria</i>) dated as of January 7, 1999, between <i>Telesp Celular S.A.</i> and Portugal Telecom S.A., currently Portugal Telecom S.G.P.S. S.A. (2) |
| 4.10 | Supply Agreement (<i>Contrato de Fornecimento</i>) dated as of August 27, 2001, between Global Telecom S.A. and Motorola do Brasil Ltda. English summary. (2) |
| 4.11 | Financing Agreement (<i>Contrato de Financiamento</i>) dated July 19, 2001, among the Brazilian Social and Economic Development Bank (Lender), Global Telecom S.A. (Borrower) and <i>Telesp Celular S.A.</i> (Guarantor) English summary. (2) |
| 4.12 | Financing Agreement (<i>Contrato de Financiamento</i>) dated July 19, 2001, among <i>Banco Bradesco S.A.</i> and <i>Banco Alfa de Investimento S.A.</i> (Lenders) and Global Telecom S.A. (Borrower) and <i>Telesp Celular S.A.</i> (Guarantor) English summary. (2) |
| 4.13 | Protocol of Merger of Shares and Merger of Companies and Instrument of Justification among <i>Telesp Celular Participações S.A.</i> and <i>Tele Centro Oeste Celular Participações S.A.</i> , <i>Tele Sudeste Celular Participações S.A.</i> , <i>Tele Leste Celular Participações S.A.</i> and <i>Celular CRT Participações S.A.</i> dated December 4, 2005. (7) |
| 4.14 | Agreement dated as of August 4, 2006 among <i>Vivo Participações S.A.</i> , Ericsson and Huawei English summary. (1) |
| 4.15 | Stock Purchase Agreement dated as of August 2, 2007 among <i>Telpart Participações S.A.</i> and <i>Vivo Participações S.A.</i> (8) |
| <u>4.16</u> | <u>Credit facility dated as of October 30, 2008 among <i>Vivo Participações S.A.</i> and <i>Banco do Nordeste do Brasil S.A.</i></u> |
| 6.1 | Statement regarding computation of per share earnings. (9) |
| <u>8.1</u> | <u>List of Subsidiaries.</u> |
| <u>11.1</u> | <u>Code of Ethics</u> |
| <u>12.1</u> | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>12.2</u> | <u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>13.1</u> | <u>Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>13.2</u> | <u>Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

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

(2) Incorporated by reference to *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.

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(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 our Form F-4 filed with the Commission on December 16, 2005.

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

(9) Incorporated by reference to Note 39(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: April 22, 2009

Vivo Participações S.A.

*Consolidated Financial Statements
for the Years Ended December 31, 2008, 2007 and
2006 and Report of Independent Registered Public
Accounting Firm*

ERNST & YOUNG Auditores Independentes S.S.

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Definitions:

BR CL - Accounting principles in accordance with Brazilian Corporate Law.

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Vivo Participações S.A. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, cash flows and value added for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vivo Participações S.A. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations, changes in their financial position, their cash flows and their value added for the years then ended, in conformity with accounting practices adopted in Brazil, which differ in certain respects from accounting principles generally accepted in the United States of America. Information related to the nature and effect of such differences is presented in Notes 39, 40 and 41 to the consolidated financial statements.

As mentioned in Note 2.b, the Company adopted new accounting practices effective in Brazil for the year ended December 31, 2008, and therefore, the financial statements for the year ended December 31, 2007, presented herein for the purposes of comparison were restated, except as to the statement of value added related to the year ended December 31, 2007, in accordance with NPC (Accounting Procedures and Rules) No. 12 – Accounting Policies, Changes in Accounting Estimates and Errors. As allowed by CPC (Accounting Practices and Committee) Technical Pronouncement No. 13 – First Time Adoption of Law No. 11,638/07 and Provisional Executive Act No. 449/08, the financial statements for the year ended December 31, 2006 have not been restated for the new accounting practices.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Vivo Participações S.A.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 30, 2009, except for internal control over financial reporting related to Notes 39, 40 and 41 to the consolidated financial statements, as to which the date is March 31, 2009, expressed an unqualified opinion thereon.

São Paulo, January 30, 2009, except as to Notes 39, 40 and 41, as to which the date is March 31, 2009.

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

Luiz Carlos Passetti
Partner

Drayton Teixeira de Melo
Partner

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Report of Independent Registered Public Accounting Firm

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

We have audited Vivo Participações S.A.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Vivo Participações S.A.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Vivo Participações S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Vivo Participações S.A. as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, cash flows and value added for the years then ended and our report dated January 30, 2009, except for Notes 39, 40 and 41, as to which the date is March 31, 2009, expressed an unqualified opinion thereon.

São Paulo, January 30, 2009, except for internal control over financial reporting related to Notes 39, 40 and 41 to the 2008 consolidated financial statements, as to which the date is March 31, 2009.

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

Luiz Carlos Passeti
Partner

Drayton Teixeira de Melo
Partner

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Vivo Participações S.A.

1. We have audited the accompanying consolidated statements of operations, change in shareholders' equity and cash flows of Vivo Participações S.A. (a Brazilian corporation) for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3. In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated results of its operations, the changes in shareholders' equity and cash flows of the Company for the year ended December 31, 2006, in conformity with accounting practices adopted in Brazil.

4. 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 39 to the consolidated financial statements.

5. As discussed in Note 2(b) to the consolidated financial statements and as prescribed by CVM Resolution N°565, the Company has set the transition date for the adoption of the new accounting practices introduced by Law 11.638/07 as January 1, 2007. Accordingly, the financial statements for the year ended December 31, 2006 have not been adjusted to reflect the changes in the accounting practices adopted in Brazil.

/s/ Deloitte Touche Tohmatsu
Auditores Independentes

April 27, 2007
São Paulo, Brazil

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais)

| | Note | December 31, 2008 | 2007 |
|--|------|----------------------|-------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 4 | 2,182,913 | 2,190,990 |
| Short-term investments pledged as collateral | | 41,487 | 32,359 |
| Trade accounts receivable, net | 5 | 2,578,498 | 2,178,745 |
| Inventories | 6 | 778,704 | 376,624 |
| Advances to suppliers | - | 1,550 | 832 |
| Recoverable taxes | 7 | 1,238,124 | 709,812 |
| Deferred income taxes | 31 | 1,120,523 | 912,177 |
| Derivative contracts | 10 | 347,448 | 1,530 |
| Prepaid expenses | 8 | 316,622 | 228,922 |
| Other assets | 9 | 321,384 | 197,578 |
| Total current assets | | 8,927,253 | 6,829,569 |
| Noncurrent assets: | | | |
| Long-term assets: | | | |
| Long-term portion of investments pledged as collateral | | 47,335 | 27,108 |
| Recoverable taxes | 7 | 905,896 | 744,511 |
| Deferred income taxes | 31 | 1,814,426 | 1,668,893 |
| Derivative contracts | 10 | 285,303 | 8,965 |
| Prepaid expenses | 8 | 80,206 | 59,870 |
| Other assets | 9 | 46,402 | 26,623 |
| Goodwill | 11 | 1,424,278 | 667,369 |
| Goodwill on merged subsidiary, net | 15 | 16,151 | 24,578 |
| Property, plant and equipment, net | 12 | 7,183,908 | 6,316,855 |
| Intangible assets, net | 13 | 2,998,553 | 1,666,352 |
| Deferred assets, net | 14 | 55,393 | 58,833 |
| Total noncurrent assets | - | 14,857,851 | 11,269,957 |
| TOTAL ASSETS | - | 23,785,104 | 18,099,526 |

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

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais)

| | Note | December 31, 2008 | 2007 |
|--|------|----------------------|------------|
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Payroll and related accruals | 16 | 185,471 | 173,472 |
| Trade accounts payable | 17 | 3,726,324 | 3,069,308 |
| Taxes payable | 18 | 785,603 | 577,935 |
| Loans and financing | 19 | 3,098,346 | 1,453,700 |
| Debentures | 19 | 21,502 | 539,912 |
| Interest on shareholders' equity and dividends payable | - | 545,864 | 22,219 |
| Reserve for contingencies | 20 | 91,136 | 81,395 |
| Derivative contracts | 10 | 105,352 | 438,876 |
| Other liabilities | 22 | 820,233 | 546,169 |
| Total current liabilities | - | 9,379,831 | 6,902,986 |
| Noncurrent liabilities: | | | |
| Long-term liabilities: | | | |
| Taxes payable | 18 | 263,572 | 183,890 |
| Loans and financing | 19 | 3,826,385 | 1,391,857 |
| Debentures | 19 | 1,056,923 | 1,000,000 |
| Reserve for contingencies | 20 | 102,947 | 118,009 |
| Derivative contracts | 10 | 97,971 | 10,292 |
| Other liabilities | 22 | 202,144 | 196,153 |
| Total noncurrent liabilities | - | 5,549,942 | 2,900,201 |
| Minority Interest | | 587,804 | - |
| Shareholders' equity: | | | |
| Capital stock | 23 | 6,710,526 | 6,347,784 |
| Treasury shares | 23 | (11,070) | (11,070) |
| Capital reserves | 23 | 708,574 | 1,071,316 |
| Income reserves | 23 | 859,497 | 889,547 |
| Retained earnings | - | - | (1,238) |
| Total shareholders' equity | - | 8,267,527 | 8,296,339 |
| | | 23,785,104 | 18,099,526 |

**TOTAL LIABILITIES, MINORITY INTEREST
AND SHAREHOLDERS EQUITY**

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, 2008 , 2007 AND 2006
(In thousands of Brazilian reais, except earnings (loss) per share)

| | Note | 2008 | 2007 | 2006 |
|--|------|-------------|-------------|-------------|
| Years Ended December 31, | | | | |
| NET OPERATING REVENUE | 24 | 15,469,664 | 12,492,494 | 10,936,714 |
| COST OF SERVICES AND GOODS SOLD | 25 | (8,141,499) | (6,623,290) | (5,564,168) |
| GROSS PROFIT | | 7,328,165 | 5,869,204 | 5,372,546 |
| Selling expenses | 26 | (4,104,416) | (3,532,783) | (3,751,070) |
| General and administrative expenses | 27 | (1,204,342) | (1,207,195) | (1,099,748) |
| Other operating expenses, net | 28 | (469,861) | (509,442) | (319,470) |
| | | (5,778,619) | (5,249,420) | (5,170,288) |
| OPERATING INCOME BEFORE NET FINANCIAL EXPENSES | | 1,549,546 | 619,784 | 202,258 |
| NET FINANCIAL EXPENSES | 29 | (637,699) | (462,789) | (747,985) |
| Net nonoperating expenses | 30 | - | - | (288,970) |
| NET INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION | | | | |
| TAXES AND MINORITY INTEREST | - | 911,847 | 156,995 | (834,697) |
| Income and social contribution taxes | 31 | (469,502) | (256,825) | 859,012 |
| Minority interest | | (52,662) | - | (7,968) |
| NET INCOME (LOSS) FOR THE YEAR | - | 389,683 | (99,830) | 16,347 |
| SHARES OUTSTANDING AT DECEMBER 31 (IN THOUSANDS) | | 367,396 | 1,437,623 | 1,437,623 |
| EARNINGS (LOSS) PER SHARE OUTSTANDING AT THE BALANCE SHEET DATE (IN BRAZILIAN REAIS) | - | 1.06066 | (0,06944) | 0.01137 |

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, 2008, 2007 AND 2006
(In thousands of Brazilian reais)

| | Capital reserves | | | Income reserves | | | | Treasury shares | Retained earnings (accumulated losses) |
|---|------------------|-------------------|--------------------------|-----------------------|---------------|---------------------------|-----------------------|-----------------|--|
| | Capital stock | Good will reserve | 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 | - | - | - | - | - | - | - | - | (2,681) |
| Reversal of goodwill reserve | - | - | (294,094) | - | - | - | - | - | - |
| Unclaimed dividends and interest on shareholders equity | - | - | - | - | - | - | - | - | 22,728 |
| Capital increase - Special Shareholders Meeting of June 8, 2006 | 194,277 | - | (194,277) | - | - | - | - | - | - |
| Net income for the year | - | - | - | - | - | - | - | - | 16,347 |
| Consolidation adjustments: | | | | | | | | | |
| Tax incentives | - | - | - | - | - | - | - | - | 24,162 |
| Grants received by subsidiary | - | - | - | - | - | - | - | - | 19,254 |
| Proposed allocation of income: | | | | | | | | | |
| Legal reserve | - | - | - | - | 3,539 | - | - | - | (3,539) |
| Dividends | - | - | - | - | - | - | - | - | (16,808) |
| | - | - | - | - | - | - | 50,426 | - | (50,426) |

Reserve for
expansion**BALANCES AT
DECEMBER 31,
2006 LAW**

| | | | | | | | | | | |
|---|-----------|---------|---------|-------|---------|--------|---------|----------|---------|-----------|
| 6,404/76 | 6,347,784 | 515,089 | 552,638 | 3,589 | 100,960 | 11,070 | 653,038 | (11,070) | 198,648 | 8 |
| Effects of Law 11,638/07 (note 2.c) as of January 1, 2007 | - | - | - | - | - | - | - | - | - | (799) |
| Unclaimed dividends and interest on shareholders equity | - | - | - | - | - | - | - | - | - | 11,936 |
| Net loss for the year | - | - | - | - | - | - | - | - | - | (99,830) |
| Consolidation adjustments: | | | | | | | | | | |
| Grants received by subsidiary | - | - | - | - | - | - | - | - | - | 13,286 |
| Transfer to reserve for expansion | - | - | - | - | - | - | 124,479 | - | - | (124,479) |

**BALANCES AT
DECEMBER 31,
2007**

| | | | | | | | | | | |
|---|-----------|---------|-----------|-------|---------|--------|---------|----------|---------|-----------|
| LAW 11,638/07 | 6,347,784 | 515,089 | 552,638 | 3,589 | 100,960 | 11,070 | 777,517 | (11,070) | (1,238) | |
| Capital increase Special Shareholders Meeting of May 26, 2008 | 362,742 | - | (362,742) | - | - | - | - | - | - | - |
| Effects of Law 11,638/07 | - | - | - | - | - | - | - | - | - | (5,760) |
| Unclaimed dividends and interest on shareholders equity | - | - | - | - | - | - | - | - | - | 14,063 |
| Net income for the year | - | - | - | - | - | - | - | - | - | 389,683 |
| Proposed allocation of income: | | | | | | | | | | |
| Legal reserve | - | - | - | - | 19,995 | - | - | - | - | (19,995) |
| | - | - | - | - | - | - | - | - | - | (161,113) |

Interest on
shareholders
equity

| | | | | | | | | | |
|-----------|---|---|---|---|---|---|----------|---|-----------|
| Dividends | - | - | - | - | - | - | (50,045) | - | (215,640) |
|-----------|---|---|---|---|---|---|----------|---|-----------|

**BALANCES AT
DECEMBER 31,
2008**

| | | | | | | | | | |
|----------------------|-----------|---------|---------|-------|---------|--------|---------|----------|---|
| LAW 11,638/07 | 6,710,526 | 515,089 | 189,896 | 3,589 | 120,955 | 11,070 | 727,472 | (11,070) | - |
|----------------------|-----------|---------|---------|-------|---------|--------|---------|----------|---|

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, 2008, 2007 AND 2006
(In thousands of Brazilian reais)

| | Years ended December 31, | | |
|--|--------------------------|-----------|-------------|
| | 2008 | 2007 | 2006 |
| OPERATING ACTIVITIES | | | |
| Net income (loss) | 389,683 | (99,830) | 16,347 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | | |
| Minority interest | 52,662 | - | 7,968 |
| Depreciation and amortization | 2,974,185 | 2,492,169 | 2,394,385 |
| Provision for loss on investments | 60 | - | 671 |
| Provision for loss on assets | - | - | 277,988 |
| Gain or loss on sale of fixed assets | 34,088 | 21,724 | (1,220) |
| Reversals of provisions for losses on inventories | (12,935) | (6,329) | (17,554) |
| Write-off in inventories | 3,263 | 1,044 | 2,347 |
| Losses (gains) in forward, swap and option contracts | (519,490) | 509,174 | 764,264 |
| Losses (gains) on loans, financing and debentures | 688,304 | (301,290) | (334,978) |
| Monetary and exchange variation | 20,729 | 4,870 | 8,064 |
| Allowance for doubtful accounts receivable | 303,846 | 365,740 | 720,496 |
| Plans for post-retirement benefits | 4,288 | 5,635 | 824 |
| Reserve for contingencies | 138,699 | 184,594 | 109,550 |
| Provision (reversal) for suppliers | (73,950) | 74,408 | 3,416 |
| Provision (reversal) for disposal of assets | (7,580) | 8,158 | 46,089 |
| Provision (reversal) for taxes | 21,619 | (35,578) | - |
| Provision for customer loyalty program | 27,798 | 11,333 | 14,326 |
| Deferred income taxes provision (benefits) | 417,872 | 238,651 | (1,077,250) |
| (Increase) decrease in customer accounts receivable | (491,380) | (583,239) | 102,074 |
| (Increase) decrease in inventories | (338,250) | (89,319) | 95,499 |
| (Increase) decrease in recoverable taxes and deferred income taxes | (408,682) | (4,554) | 128,066 |
| (Increase) decrease in other current and noncurrent | (217,572) | (166,869) | 257,964 |
| Increase (decrease) in payroll and related accruals | (7,573) | 16,844 | 6,785 |
| Increase in accounts payable | 442,152 | 367,887 | 150,455 |
| Increase (decrease) in interest on loans, financing and debentures, net | 197,658 | (6,364) | (56,064) |
| Increase (decrease) in taxes payable | 153,866 | 114,807 | (195,050) |
| Decrease in reserve for contingencies | (162,573) | (133,281) | (316,475) |
| Increase (decrease) in other current and noncurrent liabilities | 91,283 | 197,165 | (8,209) |
| Net cash provided by operating activities | 3,722,070 | 3,196,658 | 3,100,778 |

INVESTING ACTIVITIES

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| | | | |
|---|-------------|-------------|-------------|
| Additions to property, plant and equipment and intangible | (2,940,418) | (2,014,646) | (2,102,422) |
| Additions to deferred assets | (30,306) | (2,067) | (1,510) |
| Short-term investments pledged as collateral | - | - | 145,523 |
| Escrow deposits | - | - | (11,387) |
| Acquisition of subsidiary, net of cash acquired (a) | (1,736,802) | - | - |
| Acquisition of minority interest | - | - | (2,681) |
| Other investments | (890) | - | (3) |
| Cash received on sale of property, plant and equipment | 13,510 | 5,264 | 50,048 |
| Net cash provided by investing activities | (4,694,906) | (2,011,449) | (1,922,432) |

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VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (Continuation)
(In thousands of Brazilian reais)

| | Years ended December 31, | | |
|---|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| FINANCING ACTIVITIES | | | |
| Loans, financing and debentures: | | | |
| New loans and debentures | 3,289,415 | 2,094,966 | 2,200,702 |
| Loans, financing and debentures paid | (1,756,625) | (1,911,418) | (2,962,043) |
| Payment on derivative contracts | (541,040) | (562,216) | (640,470) |
| Interest on shareholders' equity and dividends paid | (54,190) | (17,547) | (63,167) |
| Cash received relating to reverse stock split | 27,199 | - | 6,580 |
| Net cash from (used in) financing activities | 964,759 | (396,215) | (1,458,398) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | (8,077) | 788,994 | (280,052) |
| Cash consolidated on January 1, 2006 due to merger of TSD, TLE and CRT (see Note 1) | | | |
| | - | - | 826,297 |
| CASH AND CASH EQUIVALENTS | | | |
| At the beginning of the year | 2,190,990 | 1,401,996 | 855,751 |
| At the end of the year | 2,182,913 | 2,190,990 | 1,401,996 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | |
| Income and social contribution taxes paid | 28,834 | 107,841 | 154,509 |
| Interest paid | 439,466 | 311,771 | 453,229 |
| Details of acquisition of Telemig (a) | | | |
| Net book value acquired, net of cash | 884,953 | | |
| Goodwill recorded at acquisition date | 1,723,369 | - | - |
| Special goodwill reserve acquired | 70,511 | - | - |
| Cash acquired | (942,031) | - | - |
| Cash paid for acquisition of Telemig | 1,736,802 | - | - |
| SUPPLEMENTAL NONCASH TRANSACTION | | | |

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| | | | |
|--|-----------|--------|-----------|
| Grants | 5,938 | 13,286 | 19,254 |
| Unclaimed dividends and interest on shareholders' equity | 16,283 | 11,936 | 22,728 |
| Write-off of tax loss carryforward of subsidiaries | - | - | 294,094 |
| Proposed dividends and interest on shareholders equity | 555,744 | - | 16,808 |
| Tax incentive | - | - | 24,162 |
| Transfer goodwill | - | - | 259,069 |
| Merged net assets, net of cash | - | - | 3,761,352 |
| Acquisition of 3G license through financing | 1,032,924 | - | - |

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

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais)

| | Years ended December 31, | |
|--|--------------------------|--------------------|
| | 2008 | 2007 |
| INCOME | 19,934,651 | 15,854,927 |
| Service and goods sale | 19,765,092 | 15,878,432 |
| Other income | 473,404 | 342,235 |
| Allowance for doubtful accounts, net | (303,845) | (365,740) |
| INPUTS PURCHASED FROM THIRD PARTIES | (9,368,858) | (7,866,233) |
| Inputs consumed | (2,699,657) | (2,110,887) |
| Cost of goods sold | (3,046,332) | (2,580,574) |
| Materials, energy, third party services and other | (3,631,999) | (3,166,684) |
| Loss/Recovery of assets values | 9,130 | (8,088) |
| GROSS VALUE ADDED | 10,565,793 | 7,988,694 |
| RETAINING | (2,974,185) | (2,492,169) |
| Depreciation and amortization | (2,974,185) | (2,492,169) |
| NET VALUE ADDED PRODUCED (DISTRIBUTED) | 7,591,608 | 5,496,525 |
| VALUE ADDED RECEIVED AS A TRANSFER | 1,138,484 | 220,450 |
| Result of equity pick-up | - | - |
| Financial income and monetary and exchange rate changes for assets | 1,138,484 | 220,450 |
| TOTAL VALUE ADDED TO BE DISTRIBUTED | 8,730,092 | 5,716,975 |
| DISTRIBUTION OF VALUE ADDED | 8,730,092 | 5,716,975 |
| Payroll and related accruals | 671,122 | 598,419 |

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| | | |
|--|-----------|-----------|
| Direct remuneration | 336,482 | 295,424 |
| Benefits | 304,314 | 276,771 |
| FGTS | 30,326 | 26,224 |
| Taxes | 5,205,246 | 4,002,527 |
| Federal | 2,007,952 | 1,465,374 |
| State | 3,180,408 | 2,515,703 |
| Municipal | 16,886 | 21,450 |
| Interest and rentals | 2,411,379 | 1,215,859 |
| Financial expenses and monetary and exchange rate in liabilities | 1,734,676 | 660,391 |
| Rentals | 676,703 | 555,468 |
| Remuneration of proper capital | 442,345 | (99,830) |
| Interest on shareholders' equity | 161,113 | - |
| Dividends | 218,793 | - |
| Retained earnings (losses) | 9,777 | (99,830) |
| Participation of non-affiliated in retained earnings | 52,662 | - |

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

VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(In thousands of Brazilian reais, unless otherwise indicated)

1. OPERATIONS

a. Equity Control

Vivo Participações S.A. (Company) is a publicly-held company that, at December 31, 2008, has as controlling shareholders Brasilcel N.V. and its subsidiaries Portelcom Participações S.A., Sudestecel Participações Ltda., Avista Participações Ltda., TBS Celular Participações Ltda. and Tagilo Participações Ltda., which jointly hold, treasury shares excluded, 63.73% of the Company's total capital stock.

Brasilcel N.V. is jointly controlled by Telefónica S.A. (50% of the total capital stock), PT Móveis, Serviços de Telecomunicações, SGPS, S.A. (49.999% of the total capital stock) and Portugal Telecom, SGPS, S.A. (0.001% of the total capital).

b. Subsidiaries

The Company is the 100% controlling shareholder of Vivo S.A. (Vivo or subsidiary), a provider of mobile telephone services, including activities necessary or useful for the performance of such services, in accordance with authorizations granted thereto.

The Company is also the controlling shareholder of Telemig Celular Participações S.A. (Telemig Participações" or subsidiary), holding 58.90% of its total capital and also holding 7.39% of the total capital of Telemig Celular S.A. (Telemig Celular or subsidiary).

Telemig Participações holds 83.25% of the total capital stock of Telemig Celular, which is a company that provides personal mobile service, including activities necessary or useful for the performance of these services, in accordance with the authorizations granted thereto.

c. Authorization and Frequencies

The subsidiaries' business and the services they may provide are regulated by the National Telecommunications Agency (ANATEL), the regulatory authority for telecommunication services in Brazil, in accordance with Law No. 9,472, dated July 16, 1997, and respective regulations, decrees, decisions and supplementary plans.

The authorizations granted by ANATEL for an initial period of 15 years and may be renewed just once, for an additional 15-year period, against payment every two years, after the first renewal, of rates equivalent to 2% (two percent) of the company's revenue for the year prior to that of the payment, net of taxes and mandatory social contributions related to the application of the Basic and Alternative Plans of Service.

The authorizations that were granted to the subsidiaries, pursuant to the areas where they operate, are described in note 21.

d. Corporate Events occurred in 2008

d.1) Acquisitions - Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A.

On April 3, 2008, the equity control of Telemig Participações (and, indirectly, of Telemig Celular) and Tele Norte Celular Participações S.A. (Tele Norte Participações) (and, indirectly, of Amazônia Celular S.A.) was transferred to the Company, under the terms of the Stock Purchase and Sale Agreement entered into between the Company and Telpart Participações S.A. (Telpart), with the conditions set forth therein having been met and the purchase price having been paid.

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VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The price paid on April 3, 2008 for the 7,258,108 common shares and 969,932 preferred shares of Telemig Participações, already added by the remuneration provided for in the Purchase and Sale Agreement entered into with Telpart, was R\$1,162,594, equivalent to the amount of approximately R\$151.17 per common share and R\$67.43 per preferred share of Telemig Participações that was acquired. The prices paid for the common shares of Telemig Participações result in the amount of approximately R\$2,625.04 per common share of Telemig Celular. On this date, 53.90% of the voting capital and 22.73% of the total capital of Telemig Participações were transferred to the Company.

Additionally, the Company acquired Telpart's rights to subscribe to shares to be issued by Telemig Participações and by Tele Norte Participações, which rights are provided for in CVM Instruction No. 319/99, for the values already restated under the terms of the Purchase and Sale Agreement entered into with Telpart, of R\$70,511 and R\$22,611, respectively.

d.2) Selling - Tele Norte Participações S.A.

On December 20, 2007, in accordance with CVM Instruction No. 358, dated January 03, 2002, the Company entered into a stock purchase agreement with Telemar Norte Leste S.A. (Telemar) in order to sell the shares of Tele Norte Participações which Telpart had agreed to sell and transfer to the Company under the terms of the stock purchase agreement dated August 02, 2007.

ANATEL, by Act No. 1261, dated March 05, 2008, published in the Federal Official Gazette (DOU) on March 7, 2008, granted the permission for the transfer of the shares from Tele Norte Participações to the Company, and the subsequent permission for the transfer of these same shares to Telemar.

On April 3, 2008, the Company sold a total of 1,292,679 common shares and 3,715 preferred shares which had been acquired from Tele Norte Participações and Telpart's rights to subscribe to shares to be issued by Tele Norte Participações, which rights are provided for in CVM Instruction No 319/99, for the same prices paid to Telpart.

d.3) Acquisition of the Equity Control of TCO IP S.A.

On April 4, 2008 the Special General Meeting of Vivo and the Board of Directors Meeting of the Company approved the transfer of the equity control of TCO IP S.A. (TCO IP) held by Vivo to Vivo Participações. As from this date, TCO IP became a wholly-owned subsidiary of Vivo Participações.

d.4) Public Offering of Shares (VPO)

d.4.1) Voluntary Public Offering (VPO)

As approved by the Board of Directors of the Company, on August 2, 2007, and upon completion of the acquisition of the equity control of Telemig Participações (and, indirectly, of Telemig Celular), the Company, through its subsidiary TCO IP (Issuer), launched on April 8, 2008, in Brazil, a Voluntary Public Offering (VPO) for the purchase of up to 1/3 of the outstanding preferred shares of Telemig Celular and of Telemig Participações. Particularly regarding Telemig Participações, the VPO was extended to holders of preferred shares underlying the American Depositary Shares (ADSs) (Maximum Number of Shares). Each ADS of Telemig Participações represents two preferred shares.

The main terms and conditions of the VPO include the following: the price, which represented a premium of approximately 25% of the weighted average price of the Preferred Shares of the respective company in the last thirty (30) BOVESPA s floor sessions prior to and including August 1, 2007, was (i) R\$654.72 per preferred share of Telemig Celular, and (ii) R\$63.90 per preferred share of Telemig Participações; (for reference purposes, the equivalent to approximately US\$74.68 per ADS of Telemig Participações based on the average between the purchase and the sale price of US dollar at PTAX 800 rate, as disclosed by the Central Bank of Brazil on April 4, 2008, namely, R\$1.711 /R\$1.00) .

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VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(In thousands of Brazilian reais, unless otherwise indicated)

With the completion of the VPO on May 12, 2008, TCO IP acquired 7,257,020 preferred shares of Telemig Participações, representing 20.04% of the total capital and 89,492 preferred shares of Telemig Celular, representing 3.77% of the total capital, having paid the prices of R\$463,724 and R\$58,592, respectively.

On July 25, 2008, TCO IP acquired 3,929 preferred shares of Telemig Celular, representing 0.16% of the total capital, for the amount of R\$2,572.

On September 09 and 10, TCO IP acquired 4,000 preferred shares of Telemig Celular, representing 0.17% of the total capital, for the amount of R\$2,619.

d.4.2) Mandatory Public Offering

On July 15, 2008, the Company launched the Mandatory Public Offering for Disposal of Share Control for acquisition of the outstanding common shares, through its subsidiary TCO IP, in continuance with the process for acquisition of Telemig Participações and of Telemig Celular.

Upon the completion of the Mandatory Public Offering on August 15, 2008, TCO IP had acquired 5,803,171 common shares of Telemig Participações, representing 16.03% of the total capital and 78,107 common shares of Telemig Celular, representing 3.29% of the total capital, having paid the prices of R\$732,650 and R\$171,239, respectively.

d.5) Transfer of the Share Control to TCO IP S.A.

On August 26, 2008, Vivo Participações increased the capital stock of TCO IP by the amount of R\$2,054,065, of which R\$1,149,832 correspond to the book value of all the 7,258,108 common shares and 969,932 preferred shares held by Telemig Participações, corresponding to 22.73% of the total capital. As from such date, TCO IP became the controlling shareholder of Telemig Participações.

e) Increase of Capital in Telemig Participações out of the Special Premium Reserve

At a Special Meeting of the Board of Directors of Telemig Participações held on November 12, 2008 a capital increase was approved, to be made out of the special premium reserve, under the terms of CVM Instruction No. 319/99, in the amount of R\$22,964, upon issue of 670,300 new registered, preferred shares, with no face value, corresponding to the tax benefit of fiscal year 2007, with the credits being deducted to the Company's benefit, ensuring the preemptive right set forth in article 171 of Law No. 6,404/76. After such capital increase, the Company started owning 58.90% of the total capital of Telemig Participações.

f) Corporate Reorganization

At a meeting of the Board of Directors held on September 30, 2008 and for the purposes of CVM Instruction 358/02, a request for prior consent was approved and sent to ANATEL, referring to the corporate reorganization transaction concerning the merger of TCO IP into Telemig Participações and Telemig Celular.

On December 03, 2008, the Protocol and Instrument of Justification of the Total Spin-off of TCO IP for merger of the spun-off assets of TCO IP into Telemig Participações and Telemig Celular was entered into, in conformity with the

provisions in articles 224, 225 and 229 of Law No. 6,404/76 and CVM Instruction no. 319/99.

ANATEL, by Act no. 5,118/08, dated December 10, 2008, published in the Federal Official Gazette DOU on December 16, 2008, granted its consent for the corporate reorganization to be carried out.

At a General and Special Meeting of Shareholders, held on December 19, 2008, said Protocol and Instrument of Justification of the Total Spin-Off of TCO IP was approved. The net assets of TCO IP that were spun-off were appraised based on their book value at December 01, 2008 (base date), in accordance with accounting practices adopted in Brazil, and an Appraisal Report of the Stockholders Equity based on the Accounting Records was issued (Appraisal Report), having been prepared by an independent company, in conformity with article 229 of Law 6,404/76.

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VIVO PARTICIPAÇÕES S.A.
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The spun-off portion of the stockholders' equity of TCO IP which was merged into Telemig Participações and Telemig Celular, pursuant to the Appraisal Report and in conformity with article 6 of CVM Instruction no. 319/99, is broken down as follows:

- R\$1,324,339, of investments represented by the controlling shares of Telemig Participações and the shares acquired in the Voluntary and Mandatory Public Offerings (OPAs), including the premium paid in these acquisitions and the provision for maintenance of the stockholders' equity integrity and other current assets (taxes recoverable and cash); and
- R\$143,278, of investments represented by the Telemig Celular shares acquired in the Voluntary and Mandatory Public Offerings (OPAs), including the premium paid in these acquisitions and the provisions for maintenance of the stockholders' equity integrity.
- The merger of those portions of the stockholders' equity of TCO IP concerning the own shares of Telemig Participações and Telemig Celular, held by TCO IP, including the premium generated in the acquisition of these shares and the respective provision for maintenance of the stockholders' equity integrity, did not generate an increase of capital in the surviving companies. The amounts of premium and the respective provision were recorded in deferred assets accounts (income tax and social contribution) as a counter-entry to a special premium reserve in the stockholders' equity for future capitalization, in conformity with article 7 of CVM Instruction no. 319/99.

The corporate reorganization did not result in any change to the share control of Telemig Participações and Telemig Celular, nor of the other shareholders, having been carried out in such manner as not to generate a negative impact on the future flows of dividends to the shareholders of Telemig Participações and Telemig Celular.

g. Agreement between Telefónica S.A. and Telecom Italy

In October 2007, TELCO S.p.A. (in which Telefónica S.A. holds an interest of 42.3%), completed the acquisition of 23.6% of Telecom Italia. Telefónica S.A. has the shared control of Vivo Participações S.A., through its joint venture with Portugal Telecom. Telecom Italia holds an interest in TIM Participações S.A (TIM), which is a mobile telephone operator in Brazil. As a result of the acquisition of its interest in Telecom Italia, Telefónica S.A. does not have any direct involvement in the operations of TIM. Additionally, any transactions between the Company and TIM are transactions in the regular course of business, which are regulated by the ANATEL.

For the year ended December 31, 2008, inter-operator revenues and costs relating to Telecom Italia group of companies were R\$905,979 and R\$727,007, respectively (R\$147,697 and R\$110,599 as of December 31, 2007).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.a) Financial statements

The consolidated financial statements are presented in millions of Brazilian reais (except as otherwise mentioned) and have been prepared based on the accounting practices adopted in Brazil, as well as on the rules issued by the Brazilian Securities and Exchange Commission (CVM), with due regard to the accounting standards set forth in the corporation law (Law No. 6,404/76), which include the new provisions introduced, amended and revoked by Law No. 11,638, dated December 28, 2007 and by Provisional Executive Act No. 449, dated December 03, 2008, with further regard,

also, to the rules applicable to telecommunication service concessionaires.

The consolidated balance sheet, statements of income, cash flow and value added for the fiscal year ended December 31, 2007 and 2006 do not include the effects of the acquisition of an equity interest in Telemig Participações and Telemig Celular, as described in note 1 and, consequently, are not comparable with the respective financial statements for the same period of 2008.

The consolidated income statement of the Company for the fiscal year ended December 31, 2008 includes the consolidated nine-month income (period from April to December 2008) of Telemig Participações.

VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of Brazilian reais, unless otherwise indicated)

In order to allow a better understanding and comparison we have disclosed in note 37 the combined balance sheet and income statement, assuming that the effects of the transactions described in note 1 had already occurred since January 01, 2007.

The authorization for conclusion of the preparation of these financial statements was given at the Meeting of the Board of Executive Officers held on January 29, 2009.

The fiscal years of the subsidiaries companies in the consolidated statements coincide with the fiscal years of the holding company and the accounting policies have been uniformly applied in the subsidiary companies and are consistent with those adopted in the previous fiscal year.

All balances of assets and liabilities, revenues and expenses arising out of transactions between the consolidated companies have been eliminated in the consolidated statements.

2.b) Amendments to the Corporation Law Law No. 11,638/07

In conformity with the provisions in CVM Resolution no. 565, dated December 17, 2008, which approved the Accounting Statement Committee No. 13 (CPC 13) Initial Adoption of Law No. 11,638/07 and of Provisional Executive Act No. 449/08, and in accordance with the requirements set forth in CVM Resolution No. 506/06, dated June 19, 2006, the Company has set the *transition date* for adoption of the new accounting practices as being January 1, 2007 and the financial statements for the year ended December 31, 2006 does not reflect the new accounting provisions under BR GAAP. The *transition date* is defined as the departing point for adoption of the changes to the accounting practices adopted in Brazil, and represents the base date as of which the Company and its subsidiaries prepare their initial balance sheets adjusted to these new accounting provisions of 2008.

Pursuant to CPC 13, companies are discharged from applying the provisions in NPC 12 (Rules and Accounting Pronouncements issued by IBRACON Brazilian Board of Independent Auditors) and in CVM Resolution No. 506/06 Accounting Practices, Changes to Accounting Estimates and Correction of Mistakes, in the initial adoption of Law No. 11,638/07 and of Provisional Executive Act No. 449/08. This resolution requires that, in addition to discriminating the effects of the adoption of the new accounting practice in the retained earnings or losses account, the companies must state the opening balance sheet for account or group of accounts related to the previous period for purposes of comparison, as well as the other comparative figures presented, as if the new accounting practice had been always in use. However, the Company and its subsidiaries have elected not to adopt the exemption permitted in CPC 13; therefore, their financial statements for 2007 and 2008 have been presented in conformity with the same accounting practices and, thus, are comparable, except for the effects of the acquisition of Telemig Participações and Telemig Celular, as previously discussed in notes 1 and 2a.

Said changes to the accounting practices which produced effects on the preparation or presentation of the financial statements for the fiscal year ended on December 31, 2008, of the initial balance sheet prepared for January 1, 2007 (not presented) and of the financial statements for the comparative fiscal year ended on December 31, 2007, have been measured and recorded by the Company and its subsidiaries based on the following accounting statements issued by the Accounting Statements Committee (CPC), and approved by the Brazilian Securities and Exchange Commission (CVM) and by the Federal Accounting Board (CFC):

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Conceptual Structure for Preparation and Presentation of the Financial Statements, approved by CVM Resolution No. 539, dated March 14, 2008;

CPC 01 Reduction of the Recoverable Value of the Assets, approved by CVM Resolution No. 527, dated November 01, 2007;

CPC 03 Statement of Cash Flows, approved by CVM Resolution No. 547, dated August 13, 2008;

CPC 04 Intangible Assets, approved by CVM Resolution No. 553, dated November 12, 2008;

CPC 05 Disclosure on Related Parties, approved by CVM Resolution No. 560, dated December 11, 2008;

CPC 06 Lease, approved by CVM Resolution No. 554, dated November 12, 2008;

CPC 07 Government Subsidies and Assistance, approved by CVM Resolution No. 555, dated November 12, 2008;

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VIVO PARTICIPAÇÕES S.A.
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CPC 08 Transaction Costs and Premium on Issuance of Securities, approved by CVM Resolution No. 556, dated November 11, 2008;

CPC 09 Statement of Value Added, approved by CVM Resolution No. 557, dated November 12, 2008;

CPC 12 Adjustment to Present Value, approved by CVM Resolution No. 564, dated December 17, 2008;

CPC 13 Initial Adoption of Law No. 11,638/07 and of Provisional Executive Act No. 449/08, approved by CVM Resolution No. 565, dated December 17, 2008;

CPC 14 Financial Instruments: Recognition, Measurement and Evidencing, approved by CVM Resolution No. 566, dated December 17, 2008.

The initial balance sheet as of January 1, 2007 (*transition date*) has been prepared taking into consideration the required exceptions and some of the elective exemptions, as permitted in accounting statement CPC 13, as follows:

a) Exemption on the presentation of comparative financial statements:

The financial statements of 2008 and of 2007 have been prepared in accordance with the accounting basis effective in 2008. The election provided for in CPC 13 of not adjusting the 2007 financial statements to the 2008 accounting standards has not been adopted by the Company and its subsidiaries.

b) Exemption on the classification of financial instruments at their original date of registration:

Although CPC 14 determines that the classification of financial instruments must be effected at their original date of registration, for purposes of first adoption, CPC 13 has allowed them to be classified at the *transition date*, which option was elected by the Company and its subsidiaries.

c) Exemption on keeping balances recorded in the deferred assets until their realization:

The Company and its subsidiaries have elected to keep balances recorded in the deferred assets until their complete realization. As required in CPC 13, Vivo carried out an analysis on the recovery of these balances, under the terms of CPC 01, and did not identify any indication of loss of their recoverable value. Additionally, Vivo reclassified part of the balance recorded in the deferred assets to the intangible assets, since they were intangible assets with a defined date and met the accounting recognition criteria of these new groups. The values that did not meet this criterion were written-off at the transition date.

d) Exemption on the considerations of calculation of the adjustment to present value:

The Company and its subsidiaries have calculated the adjustment to present value based on an overall calculation of the outstanding balances for each group of monetary assets and liabilities accounts, as well as applied the discount rates based on the market premises available at the *transition date*. The items which make up each of the groups of accounts were adjusted to present value.

e) Exemption for presentation of the Statements of Cash Flows and of Statement of Value Added without indication of the figures corresponding to the previous fiscal year:

With the purpose of allowing comparison, the Company and its subsidiaries have elected to conform the figures in the Statements of Cash Flows and preparation and disclosure of the Statements of Value Added related to the fiscal year ended on December 31, 2007 to the provisions on preparation and presentation contained in CPC 03 and CPC 09, respectively. The Company has also elected not to present any more the statements of changes in financial position for the fiscal years ended as from January 01, 2008.

f) Neutrality for tax purposes of the initial application of Law No. 11,638/07 and of Provisional Executive Act No. 449/08:

The Company and its subsidiaries have elected the Transition Taxation System (RTT) instituted by Provisional Executive Act No. 449/08, under the terms of which the calculation of income tax (IRPJ), social contribution on net income (CSLL), contribution to PIS and contribution to social security financing (COFINS), for the two-year period of 2008-2009, has continued to be determined in conformity with the accounting methods and criteria defined in Law No. 6,404, dated December 15, 1976, in effect at December 31, 2007. Accordingly, the deferred income tax and social contribution, which are calculated on the basis of the adjustments resulting from the adoption of the new accounting practices set forth in Law No. 11,638/07 and in Provisional Executive Act No. 449/08, were recorded in the financial statements of the Company and of its subsidiaries, as applicable, in conformity with CVM Instruction No. 371. The Company and its subsidiaries shall state the referred election in the 2009 Statement of Economic-Tax Information for Corporate Entities (DIPJ) (Corporate Income Tax Return).

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g) Exception on the recognition of finance leases before the transition date and on the capitalization of initial contracting costs directly related to these leases:

For the contracts in force at the *transition date* and which are in the nature of finance leases, Vivo has recorded in the fixed assets (property, plant & equipment), in a specific account, the leased property at its fair value or, if lower, at the present value of the minimum payments of the lease, at inception contract date, adjusted to the accumulated depreciation calculated since the effective date of the contract until the *transition date*. The direct initial costs, incurred for contracting such leases, have not been capitalized.

h) Exception on the amortization of goodwill based on future profitability and retroactive recognition of intangible assets:

The costs of development of intangible assets, incurred at and until the transition date, which were not recognized by the Company and its subsidiaries as an intangible asset, and which in the light of accounting statement CPC 04 started meeting the recognition criteria, have not been recorded by the Company and its subsidiaries as intangible assets in the initial balance sheet.

The goodwill based on future profitability recorded by the Company has been amortized according to the straight line method until December 31, 2008.

i) Exception on the treatment of premium received on issue of debentures and grants and subventions for investments:

As for the grants and subventions for investments received prior to December 31, 2008, the Company and Vivo have kept the accounting treatment in effect at the date they were originated, having held the respective balances in a capital reserve account.

j) Exception for application of the first periodic evaluation of the useful-economic life of the property, plant & equipment items:

Until December 31, 2009, the Company and its subsidiaries will reevaluate the estimates of useful-economic life of their property, plant & equipment items, as used for determination of their depreciation rates. Eventual changes in the estimates of useful-economic life of the assets resulting from said revaluation, if material, will be treated as a change to accounting estimates to be recognized on a prospective basis.

2.c) Effect of the adjustments of Law No. 11,638/07 and of Provisional Executive Act No. 449/08

In compliance with the disclosure requirements as to initial adoption of the new accounting practices, the Company is presenting, in the tables below, for comparison purposes, a brief description and the amounts corresponding to the impacts generated on the consolidated balance sheet for fiscal year 2007, on the stockholders' equity for fiscal years 2008 and 2007 and on the consolidated income statement for fiscal years 2008 and 2007, referring to the changes introduced by Law 11,638/07 and by Provisional Executive Act No. 449/08. The effects on the 2008 balance sheet are already reflected in the presentation of the financial statements.

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Balance Sheet

| <u>Assets</u> | Balances originally released on 12.31.07 | Adjustment of Law No. 11,638/07 | | Balances, 2007 re-representation by the effects of Law No. 11,638/07 |
|--------------------------------|---|---------------------------------------|-----|---|
| Deferred and recoverable taxes | 4,048,293 | (12,900) | (1) | 4,035,393 |
| Derivative contracts | 4,751 | 5,744 | (2) | 10,495 |
| Property and equipment, net | 6,301,389 | 15,466 | (3) | 6,316,855 |
| Intangible assets, net | 1,660,299 | 30,631 | (4) | 1,690,930 |
| Deferred charges, net | 89,464 | (30,631) | (4) | 58,833 |

Liabilities

| | | | | |
|----------------------|-----------|---------|-----|-----------|
| Taxes payable | 752,331 | 9,494 | (1) | 761,825 |
| Loans and financing | 4,381,440 | 4,029 | (2) | 4,385,469 |
| Derivative contracts | 453,143 | (3,975) | (2) | 449,168 |

Shareholders' Equity

| | | Year ended December 31 | | |
|--|---|------------------------|------------------|--------------------|
| | Brief description of the adjustment | 2008 | 2007 | January 1, 2007 |
| Net equity before the amendments introduced by Law No. 11,638/07 and Provisional Executive Act No. 449/08 | | 8,265,688 | 8,297,577 | 8,371,746 |
| Finance Lease | (5) | 10,200 | 15,466 | 21,681 |
| Fair value of derivative contracts | (6) | (117,832) | 11,011 | 10,770 |
| Fair value of loans | (6) | 150,388 | (4,027) | (9,182) |
| Present value of monetary assets | (6) | (31,242) | (24,325) | (24,479) |
| Income tax and social contribution on the total adjustments | (7) | (3,915) | 637 | 411 |
| Effects of adjustment of Telemig Participações the years 2006 and 2007 not | (8) | (5,760) | - | - |

recorded in profit and loss.

| | | | | |
|---|------------|--------------|----------------|--------------|
| Net effects resulting from full implementation of Law No. 11,638/07 and Provisional Executive Act No. 449/08 | (9) | 1,839 | (1,238) | (799) |
|---|------------|--------------|----------------|--------------|

| | | | | |
|---|--|------------------|------------------|------------------|
| Net equity intergal in the application of Law No. 11,638/07 and Provisional Executive Act No. 449/08 | | 8,267,527 | 8,296,339 | 8,370,947 |
|---|--|------------------|------------------|------------------|

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Income Statement

| | | Year ended December 31 | |
|---|---|------------------------|-----------------|
| | Brief description of the adjustment | 2008 | 2007 |
| Net income (loss) before the amendments introduced by Law No. 11,638/07 and Provisional Executive Act No. 449/08 | | 380,846 | (99,391) |
| Depreciation of financial leasing operations | (5) | (5,266) | (6,215) |
| Finance revenue (expense) from: | | | |
| Fair value of derivative contracts | (6) | (128,843) | 241 |
| Fair value of loans | (6) | 154,415 | 5,155 |
| Present value of monetary assets | (6) | (6,917) | 154 |
| Income tax and social contribution on the total adjustments | (7) | (4,552) | 226 |
| Net effects resulting from full implementation of Law No. 11,638/07 and Provisional Executive Act No. 449/08 | (9) | 8,837 | (439) |
| Net income (loss) intergal with the application of Law No. 11,638/07 and Provisional Executive Act No. 449/08 | | 389,683 | (99,830) |

1. This includes adjustments to present value of the ICMS (state VAT) on acquisitions of fixed assets, which are recoverable in a period of 48 months from the date such ICMS is recorded on the books (CIAP – Credit of ICMS on Fixed Assets), at the Long Term Interest Rate (TJLP), provision for IRRF (Withholding Income Tax) on the adjustments at market value of the derivative transactions and the deferred income tax (25%) and social contribution (9%) accounted for;

2. Adjustments to market value of the derivative transactions and related hedged debt loans, as applicable, pursuant to the provisions of CPC 14;

3. Adjustment to the finance lease of information technology equipment. It contemplates the capitalization of the net cost at the transition date and its respective depreciation, pursuant to the provisions in CPC 06;

4. Reclass from deferred assets to the intangible assets: (i) of the residual balances of goodwill on acquisition of Ceterp Celular S.A. and (ii) of the balance of intangible assets attributable to owned stores, pursuant to the provisions in CPC 01;

5. Expenses with depreciation of information technology equipment resulting from the adjustment to the finance lease (item 3);
6. Financial income (expense) resulting from the adjustments to market value of the derivative transactions and loans (item 2) and of the present value of the ICMS (CIAP) (item 1). Additionally, it contemplates the adjustment to present value of the 3G license liabilities accounted for in Telemig Celular;
7. Income tax (25%) and social contribution (9%), applied to all the above described adjustments;
8. Effects of Telemig Participações ascertained in the fiscal years 2007 and 2006, which were recognized in the shareholders' equity due to the Company having acquired the equity interest only in April 2008 (note 1d);
9. Net result of all the above described adjustments.

Additionally, on account of the elimination of the Non-operating income, in conformity with Provisional Executive Act no. 449/08, the Company has reclassified expenses in the amounts of R\$31,838 and R\$20,810 in the financial statements for fiscal years ended on December 31, 2008 and 2007 in Other operating revenue (expenses), net, as well as the disclosure thereof in an explanatory note.

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The accompanying financial statements are a translation and adaptation of those originally issued in Brazil, based on Brazilian GAAP. Certain reclassifications and changes in terminology have been made and the notes have been expanded, in order to conform more closely to prevailing reporting practices pursuant to US GAAP.

In order to facilitate the understanding of its financial information, and to provide more uniform information to its foreign and local shareholders, the Company has elected to prepare and present its primary financial statements in accordance with Brazilian GAAP, expressed in Brazilian Reais. Because Brazilian GAAP differs in certain significant respects from US GAAP, a reconciliation of the net income and shareholders equity from Brazilian GAAP to equivalent amounts prepared under US GAAP is provided herein (Note 39).

3. SUMMARY OF THE PRINCIPAL ACCOUNTING PRACTICES

a) Income calculation

Sales revenue is stated net of value added, discounts and refunds (in case of sale of goods) assessed on them, which are presented as revenue reduction accounts. The operating income is calculated on an accrual basis for the fiscal year:

a.1 Recognition of revenues from telecommunication services

The services revenue is recognized to the extent the services are rendered, the total sales being monthly calculated. The unbilled revenue is calculated and recognized when the services are rendered. Revenues referring to credits for recharge of prepaid cellular phones, as well as the respective taxes due, are deferred and recognized in the income to the extent the services are actually rendered or upon expiration.

a.2 Recognition of the revenues and costs of sales of goods

The revenues and costs of sales of goods and accessories effected at the owned stores are recognized at the time of the sale to the end user. The revenues and costs of sales of goods effected through dealers are recognized at the time the handset is activated.

a.3 Financial income and expenses

These represent interest and monetary and exchange variations arising out of financial investments, derivative transactions, loans, financing, debentures, adjustments to present value of transactions which generate monetary assets and liabilities and other financial transactions.

b) Functional and financial statements presentation currency

The functional currency of the Company and its subsidiaries is the Brazilian Reais (R\$ or Real).

c) Transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currency are converted into the functional currency (Real) using the exchange rate (Ptax) in effect as of the date of the financial statements, which at December 31, 2008 is as follows: US\$1.00 = R\$2.3370, JPY1.00 = R\$0.025800, 1.00 = R\$3.252403 and at December 31, 2007: US\$1.00 =

R\$1.7713, JPY1.00 = R\$0.015839, 1.00 = R\$2.607531. The gains and losses resulting from the updating of these assets and liabilities between the exchange rate in effect at the transaction date and at the end of the fiscal years are recognized as financial income or expenses in the income statement.

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d) Financial instruments

The financial instruments are recognized only as from the date the Company and its subsidiaries become party to the contractual provisions of the financial statements. Where recognized, they are initially recorded at their fair value added by the transaction costs which are directly ascribable to their acquisition or issuance, except in case of financial assets and liabilities classified in the category at the fair value in the income statement, where such costs are directly posted to the income of the fiscal year. Their subsequent measurement occurs at each balance sheet date in accordance with the rules provided for each type of classification of financial assets and liabilities.

d.1) Financial assets: The main financial assets recognized by the Company and its subsidiaries are: cash and cash equivalents, financial investments, securities, unrealized gains on derivative transactions and trade accounts receivable. They are classified into the categories below in accordance with the purpose for which they have been acquired or issued:

(i) Financial assets measured at the fair value in the income statement: they include financial assets held for trading and assets designated at the initial recognition at the fair value in the income statement. They are classified as held for trading if originated with the purpose of sale or repurchase at short term. Derivatives are also classified as held for trading, except those designated as hedge instruments. At each balance sheet date they are measured at their fair value. The interests, monetary indexation, exchange variation and variations arising out of the evaluation at the fair value are recognized in the income statement when incurred, in financial income or expenses .

(ii) Loans (granted) and receivables: non-derivative financial assets with fixed or determinable payments, however not listed on an active market. After the initial recognition they are measured at the cost amortized by the actual interest rate method. The interests, the monetary updating at the exchange variation, less losses of the recoverable value, as applicable, are recognized in the income statement when incurred, in financial income or expenses .

(iii) Investments held to maturity date: non-derivative financial assets with fixed or determinable payments with defined maturity dates for which the Company has a positive intention and ability to hold until the maturity date. After the initial recognition they are measured at the cost amortized by the effective interest rate method. This method uses a discount rate which, when applied to estimated future receipts, along the expected effective term of the financial instrument, results in the net book value. The interests, the monetary updating, the exchange variation, less losses of the recoverable value, as applicable, are recognized in the income statement when incurred, in financial income or expenses .

(iv) Available for sale: Financial assets which do not fall within categories (i) to (iii) above. As of the date of each balance sheet they are measured at their fair value. Interests, monetary adjustment and exchange variation, as applicable, are recognized in the income statement when incurred, and variations arising out of the difference between the value of the investment updated by the contractual conditions and the evaluation of the fair value are recognized in the shareholders' equity in the adjustments to shareholders' equity account, as long as the asset has not yet been realized, being reclassified to the income statement after their realization, net of tax effects.

d.2) Financial liabilities: The main financial liabilities recognized by the Company and its subsidiaries are: accounts payable to suppliers, unrealized losses in transactions with derivatives, loans, financing and debentures. They are broken down into the following categories, according to the nature of the financial instruments contracted or issued:

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(i) Financial liabilities measured at the fair value in the income statement: they include financial liabilities usually traded before the maturity date, liabilities designated in the initial recognition at the fair value in the income statement and derivatives, except those designated as hedge instruments. At each balance sheet date they are measured at their fair value. The interests, monetary indexation, exchange variation and variations arising out of the evaluation at the fair value, as applicable, are recognized in the income statement to the extent they are incurred, in the item financial income or expenses .

(ii) Financial liabilities not measured at the fair value: non-derivative financial liabilities which are not usually traded before the maturity date. After the initial recognition they are measured at the cost amortized in accordance with the actual interest rate method. Interests, monetary adjustment and exchange variation, as applicable, are recognized in the income statement to the extent they are incurred, in the item financial income or expenses .

d.3) Market value: the market value of the financial instruments actively traded in organized over-the-counter markets is determined based on the market values prevailing at the balance sheet date. In the absence of an active market, the market value is determined by means of appraisal techniques. These techniques include the use of recent market transactions between independent parties, reference to the market value of similar financial instruments, analysis of discounted cash flows or other evaluation models.

d.4) Hedge transactions: the derivative financial instruments used for protection against risk exposure or to change the characteristics of financial assets and liabilities, unrecognized firm commitments, highly probable transactions or net investments in foreign transactions, and which: (i) are highly related as far as it refers to changes in their market value in relation to the market value of the hedged item, both in the beginning and along the contract life (effectiveness from 80% to 125%); (ii) have a documentary identification of the transaction, of the hedged risk, of the risk management process and of the methodology used for evaluation of effectiveness; and (iii) are deemed effective in the reduction of the risk associated to the exposure to be hedged, are classified and accounted for as hedge transactions in accordance with their nature:

fair value hedge these are derivative financial instruments intended for offsetting risks arising out of exposure to variation in the fair value of the hedged item. The hedged items and the corresponding derivative financial instruments are accounted for as a counter-entry to the proper revenue or expense account, in the income statement for the period.

For the fiscal years ended on December 31, 2008, 2007 and 2006, the Company and its subsidiaries had no cash flow hedge or foreign investments hedge.

e) Cash and cash equivalents

These include cash, positive balances of bank accounts, financial investments redeemable within 90 days from the balance sheet dates and with non-material risk of change in their market value. Most of the financial investments included in the cash equivalents are classified as financial assets measured at the fair value in the income statement .

f) Accounts receivable, net

The amounts billed are calculated according to the tariff rate as of the date the service is rendered. They also include services rendered to customers which have not yet been invoiced until the balance sheet date, as well as accounts

receivable related to sales of cellular handsets and accessories. A provision was booked by an amount deemed by the Management to be sufficient for the doubtfully recoverable credits. Information referring to breaking down the accounts receivable into outstanding and overdue amount, in addition to changes in the provision for bad debtors, are stated in note 5.

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g) Inventories

These are represented by the cellular handsets and accessories evaluated by the lower of average acquisition cost or net recoverable amount. A provision was booked for handsets deemed to be obsolete or the amounts of which exceed those usually traded by the subsidiaries in a reasonable period of time.

h) Prepaid expenses

These are stated at the values disbursed and not yet incurred. Prepaid expenses are allocated to the income to the extent the corresponding services are rendered and the economic benefits are earned.

i) Investments

Investments in subsidiaries are calculated by the equity result method. Other permanent investments are recorded at the acquisition cost less provision for losses, as applicable.

j) Property, plant & equipment

These are stated at the acquisition, formation or building cost, added by interests and other financial charges incurred during the construction or development of projects. The depreciation of the properties is calculated by the straight line method at the rates mentioned in note 12 and takes into consideration the estimated useful life of the properties. The capitalized financial charges are depreciated pursuant to the same criteria and useful life determined for the property, plant & equipment item to which they were incorporated. The property, plant & equipment are net of credits for PIS/COFINS (federal VAT) and ICMS (state VAT) and the counter-entry is recorded as taxes recoverable.

Expenses incurred with maintenance and repairs representing improvement, increase of capacity or of useful life are capitalized, while other expenses are recorded in the income for the year. Estimated costs to be incurred in disassembling towers and equipment in leased real properties are capitalized. Over time, the related provision for asset retirement obligation is accreted to its present value each period (note 22) and the capitalized costs are depreciated throughout the useful life of the equipment, which does not exceed the lease term.

k) Lease

The finance lease contracts are recognized in property, plant & equipment and in loan and financing liabilities, at the present value of the minimum mandatory installments of the contract or the fair value of the asset, whichever is lower, added by, as applicable, the initial direct costs incurred in the transaction. The amounts recorded in property, plant & equipment are depreciated for the estimated useful-economic life of the properties or the lease contract term, whichever is shorter. Interests included in the loans and financing liabilities are allocated to the income statement pursuant to the contract term in conformity with the effective interest rate method. Operational lease contracts are recognized as expense on a systematic basis which represents the period in which the benefit on the leased asset is obtained, even though such payments are not performed on this basis.

l) Intangible assets

Intangible assets separately acquired are measured in the initial recognition at the acquisition cost and, further, are deducted from the accumulated amortization and losses of the recoverable value, as applicable. The premium generated in the acquisition of investments occurred until December 31, 2008, which base economically based on future profitability are amortized in conformity with the straight line method for a term from 5 to 10 years, as from the dates of the transactions having originated them. As from January 01, 2009, they will no longer be amortized, and shall be only submitted to annual test for analysis of loss of their recoverable value (note 13). They also include the intangible assets attributable to owned stores, which are amortized for the duration of the contracts.

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m) Impairment

The Management annually reviews the carrying amount of the assets with the purpose of evaluating events or changes in the economic, operating or technological circumstances which may indicate deterioration or loss of their recoverable value. When such evidence is identified, and the carrying amount exceeds the recoverable amount of the asset, a provision is booked for impairment by adjustment of the net book value to the recoverable value. These losses are classified as other operating expenses, when incurred.

n) Deferred assets

Pre-operating expenses were recorded at the formation cost and are amortized pursuant to the straight line method, for a period of ten years. As permitted in Provisional Executive Act 449/08, Vivo has elected to keep the balance of the deferred assets which was not possible to be allocated to other accounts, until the full amortization thereof. Deferred assets are also annually reviewed with the purpose of evaluating their recoverability.

o) Interest on shareholders' equity

Brazilian companies are permitted to pay interest on shareholders' equity, which is similar to the payment of dividends, however being deductible for purposes of income tax calculation. The Company decided to pay interest to its shareholders, in relation to fiscal year ended on December 31, 2008 (note 23) and booked a provision for the amount due, having directly debited the shareholders' equity account. The distribution of interest on shareholders' equity is subject to withholding income tax at the rate of 15%. The tax benefit from the deduction of the interest is recognized as Income and social contribution taxes in profit and loss.

p) Other assets and liabilities

An asset is recognized in the balance sheet when it is probable that its future economic benefits will be generated on behalf of the Company and its subsidiaries if the cost or value thereof is possible to be safely measured.

Other assets include subsidies granted in the sales of terminals to the accredited agents, which subsidies are deferred and are recognized in the income as these terminals are enabled, limited to a maximum term of 90 days. They also include balances receivable from commercial agreements which arise out of current transactions between the subsidiaries and their suppliers, having as main references the volume of purchases and the shared marketing campaigns.

A liability is recognized in the balance sheet when the Company and its subsidiaries have a legal obligation or an obligation arising out of a past event, being probable that an economic resource may be required for settling the same. Provisions are booked on the basis of the best estimates of the risk involved.

Vivo and Telemig Celular are sponsors of post-employment benefit and medical assistance plans and of other post-employment benefits plans for their employees (note 33). The subsidiaries' contributions to these plans are determined on an actuarial system and recorded on an accrual basis.

The benefit plans are actuarially evaluated at the end of each fiscal year in order to check whether the contribution rates are sufficient for making up reserves necessary for the current and future commitments. Actuarial gains and losses are recognized as profit and loss on an accrual basis.

Assets and liabilities are classified as current when their realization or settlement is probable to occur within the next twelve months. Otherwise, they are stated as non-current.

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q) Taxes, duties and contributions

Sales and service revenues are subject to taxation by the Tax on Circulation of Merchandise and Services ICMS, Tax on Services ISS (municipal tax) at the applicable rates in each region where the company operates and taxation by the Social Integration Program PIS and Contribution for Social Security Financing COFINS on a cumulative basis for revenues earned from telecommunication services, at the rates of 0.65% and 3.00%, respectively. For the other revenues earned by the Company and its subsidiaries, including revenue from resale of goods, on a non-cumulative basis, at the rates of 1.65% and 7.60% for PIS and COFINS, respectively.

The credits arising out of non-cumulativeness of PIS and COFINS are stated as a deduction to the cost of goods sold in the income statement. Advances or amounts to be deducted are stated in the current or non-current assets, according to their estimated realization.

Profit taxation includes income tax and social contribution, which are calculated based on the taxable profit (adjusted profit), at the rates applicable pursuant to the laws in effect: 15%, added by 10% on the excess of R\$240 annually for income tax and 9% for social contribution. Therefore, additions to the accounting profit of expenses, temporarily not deductible, or exclusions of revenues, temporarily not taxable, considered for calculation of the current taxable profit generate deferred tax credits or debits.

Deferred tax credits arising out of tax loss or negative tax basis of the social contribution are recognized only to the extent it is probable that there will be a positive taxable base which may be used. The deferred income tax and social contribution were measured as from the tax losses, negative basis of the social contribution and temporary differences, by applying the applicable rates of the mentioned taxes, pursuant to the provisions in Resolution CVM no. 273, dated August 20, 1998 and CVM Instruction no. 371, dated June 27, 2002, and take into consideration the expected generation of future taxable profits, as substantiated in a technical feasibility study, approved by the Board of Directors. The potential tax credit not recognized in the financial statements is disclosed in note 31.

r) Adjustment to present value of assets and liabilities

Long term monetary assets and liabilities are adjusted to their present value and short term monetary assets and liabilities when the effect thereof is deemed material in relation to the financial statements as a whole. The adjustment to present value is calculated taking into consideration the contractual cash flows and the explicit interest rate and, in certain cases, the implicit rate, of the respective assets and liabilities. Therefore, the interest included in the revenues, expenses and costs associated to these assets and liabilities is discounted with the purpose of recognizing them on an accrual basis. Subsequently, these interests are reallocated to the financial expenses and revenues in the income statement by adoption of the effective interest rate method in relation to the contractual cash flows. The implicit interest rates applied were determined based on premises and are deemed as accounting estimates.

s) Accounting estimates

These are used for measurement and recognition of certain assets and liabilities of the financial statements of the Company and of its subsidiaries. The determination of these estimates has taken into consideration experiences of past and current events, assumptions related to future events, and other objective and subjective factors. Material items subject to estimates include: selection of useful life of property, plant & equipment and intangible assets; allowance

for doubtful accounts; provision for losses in inventories; provision for losses in investments; analysis of recoverability of property, plant & equipment items and intangible assets; deferred income tax and social contribution; rates and terms applied to the determination of the adjustment to present value of certain assets and liabilities; provision for contingencies, provision for sale of fixed assets, provision for the customer loyalty program and actuarial liabilities; measurement of the fair value of financial instruments, when markets are inactive; considerations as for recognition and measurement of development costs capitalized as intangible assets; estimates for disclosure of the table of analysis of sensitivity of the derivative financial instruments in conformity with CVM Instruction no. 475/08. The settlement of the transactions involving these estimates may result in amounts materially divergent from those recorded in the financial statements due to inaccuracy inherent to their determination. The Company and its subsidiaries review their estimates and premises at least quarterly.

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t) Statements of cash flows and value added

Statements of cash flows have been prepared and are presented in accordance with CVM Resolution no. 547, dated August 13, 2008, which approved CPC 03 – Statement of Cash Flows, issued by the CPC.

The statements of cash flows reflect the changes in cash which occurred in the fiscal years being presented using the indirect method. The terms used in the statements of cash flows are as follows:

Operating activities: these refer to the main revenues of the Company and its subsidiaries and other than investment and financing activities:

Investment activities: these refer to the additions and retirement of non-current assets and other investments not included in cash and cash equivalents;

Financing activities: these refer to activities resulting in changes to the breakdown of equity and loans.

The statements of value added have been prepared and presented in accordance with CVM Resolution no. 557, dated November 12, 2008, which approved the CPC 09 – Statement of Value Added, issued by the CPC.

u) Fistel fee

The value of the Telecommunications Inspection Fund – FISTEL fee paid on the activation of new customers, monthly generated along the year, is deferred for amortization during the estimated customer loyalty period, equivalent to 24 months.

v) Provisions for contingencies

These are determined based on opinions issued by external legal counsel and by management, as for the probable outcome of pending matters and are updated until the balance sheet date for the probable loss amount, with due regard to the nature of each contingency.

x) Provision for the customer loyalty program

The subsidiaries have loyalty programs and other benefits in place, according to which calls and other benefits are converted into points for future exchange for handsets and other accessories. The accumulated points, net of redemptions, are provisioned taking into consideration the history data of redemptions, generated points and average point cost (note 22).

w) Employees profit share

Provisions are booked for recognizing the expense referring to employees profit share. These provisions are calculated based on qualitative and quantitative goals defined by the Management and recorded in specific accounts in Cost of Services Rendered, Selling Expenses and General and Administrative Expenses.

y) Net profit (loss) for lot of one thousand shares

This is calculated based on the number of outstanding shares as of the date the balance sheet is prepared.

z) Advertising expense

Advertising costs are charged to expense as incurred and amounted to R\$443,616, R\$323,660 and R\$320,186 for the years ended December 31, 2008, 2007 and 2006, respectively.

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VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of Brazilian reais, unless otherwise indicated)

4. CASH AND CASH EQUIVALENTS

| | As of December 31, | |
|------------------------|--------------------|------------------|
| | 2008 | 2007 |
| Cash and banks | 56,038 | 328,256 |
| Short-term investments | 2,126,875 | 1,862,734 |
| Total | 2,182,913 | 2,190,990 |

The financial investments refer to fixed income transactions, indexed to the variation of the Interbank Deposit Certificates (CDI), with immediate liquidity.

5. TRADE ACCOUNTS RECEIVABLE, NET

| | As of December 31, | |
|---------------------------------------|--------------------|------------------|
| | 2008 | 2007 |
| Receivables from unbilled services | 539,812 | 414,192 |
| Receivables from billed services | 1,125,162 | 1,032,439 |
| Receivables from interconnection fees | 796,147 | 630,679 |
| Receivables from goods sold | 504,685 | 446,136 |
| (-) Allowance for doubtful accounts | (387,308) | (344,701) |
| Total | 2,578,498 | 2,178,745 |

No client accounts for more than 10% of trade accounts receivable, net as of December 31, 2008 and 2007.

At December 31, 2008 the balance of accounts receivable includes R\$235,867 (R\$269,026 at December 31, 2007) related to transfer of co-billing of other operators, the amounts of which were determined on the basis of statements of commitment, once the corresponding contracts have not yet been signed by the parties. Pending matters related to the definition of liability for losses resulting from fraud have not yet been resolved, and await decision by the regulatory agency as well as agreement between the parties. The Company does not expect financial losses with respect to this matter.

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The changes in the allowance for doubtful accounts are as follows:

| | Years ended December 31, | |
|---|--------------------------|-----------|
| | 2008 | 2007 |
| Balance at beginning of year | 344,701 | 353,306 |
| Additional allowance (Note 26) | 303,845 | 365,740 |
| Write-offs and recoveries | (292,984) | (374,345) |
| Adittion from Telemig Participações on 03.31.08 | 31,746 | - |
| Balance at year end | 387,308 | 344,701 |

VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of Brazilian reais, unless otherwise indicated)

6. INVENTORIES

| | As of December 31 | |
|--------------------------------|-------------------|----------------|
| | 2008 | 2007 |
| Handsets | 747,186 | 382,410 |
| Simcard (chip) | 57,514 | 24,700 |
| Accessories and other | 16,584 | 7,330 |
| (-) Provision for obsolescence | (42,580) | (37,816) |
| Total | 778,704 | 376,624 |

7. RECOVERABLE TAXES

| | As of December 31, | |
|--|--------------------|------------------|
| | 2008 | 2007 |
| Prepaid income and social contribution taxes | 848,473 | 573,705 |
| Withholding income tax | 155,204 | 82,661 |
| Recoverable state VAT (ICMS) (a) | 553,521 | 439,248 |
| Recoverable federal PIS and COFINS | 370,813 | 241,516 |
| Other recoverable taxes | 23,951 | 34,870 |
| Total recoverable taxes | 1,951,962 | 1,372,000 |
| Recoverable state VAT (ICMS) on fixed assets noncurrent (a) | 192,058 | 82,323 |
| Total | 2,144,020 | 1,454,323 |
| Current | 1,238,124 | 709,812 |
| Noncurrent | 905,896 | 744,511 |

(a) Recoverable ICMS taxes represent the amount paid in the acquisition of equipment and inventories and may be offset against ICMS on telecommunications services. The noncurrent portion refers to taxes paid on the purchase of

property items, which are available for offset over a period of 48 months.

8. PREPAID EXPENSES

| | As of December 31, | |
|----------------------------|--------------------|---------|
| | 2008 | 2007 |
| FISTEL fee | 199,851 | 110,304 |
| Advertising to be incurred | 136,244 | 133,324 |
| Rent | 19,696 | 16,459 |
| Financial charges | 8,747 | 2,816 |
| Other | 32,290 | 25,889 |
| Total | 396,828 | 288,792 |
| Current | 316,622 | 228,922 |
| Noncurrent | 80,206 | 59,870 |

VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of Brazilian reais, unless otherwise indicated)

9. OTHER ASSETS

| | As of December 31, | |
|--|--------------------|----------------|
| | 2008 | 2007 |
| Escrow deposits | 100,492 | 101,036 |
| Subsidies on handsets sold to dealers | 115,593 | 45,982 |
| Credits with suppliers | 111,883 | 52,232 |
| Credits to Amazon Celular SA and Tele Norte Celular Participações SA (a) | 8,522 | - |
| Other receivable - related parties | 11,064 | 10,661 |
| Other | 20,232 | 14,290 |
| Total | 367,786 | 224,201 |
| | | |
| Current | 321,384 | 197,578 |
| Noncurrent | 46,402 | 26,623 |

(a) These refer to the amounts of administrative and human resources sharing contract and establishment of condominium with Telemig and Telemig Participações, existing until the date of acquisition of the share control by Vivo Participações. The balances are remunerated based on the Interbank Deposit Certificate (CDI) variation.

10. FOREIGN CURRENCY AND DERIVATIVE CONTRACTS

The Company's foreign-currency loans are denominated in U.S. dollars and Japanese yen and are translated at the exchange rates prevailing at December 31, 2008 and 2007, as follows:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|-------------|-------------|
| Exchange rate from R\$ to US\$ | 2.3370 | 1.7713 |
| Exchange rate from R\$ to Yen | 0.025800 | 0.015839 |
| Exchange rate from R\$ to Euros | 3.252403 | 2.60753 |

The forward and swap contracts described below were entered into in order to mitigate Company's exposure to foreign exchange variations.

VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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| Issuance | Maturity date | Notional amount buy (sell) (thousands) | | Forward swap/exchange rate | Current assets | | Noncurrent assets | |
|----------------------|---------------|--|-------------------|----------------------------|---------------------------|---------------------------|-------------------|-------|
| | | 2008 | 2007 | | Book value on December 31 | Book value on December 31 | 2008 | 2007 |
| 07/23/08 | 03/02/15 | 415,637 USD | 102,568 USD | - | - | - | 265,530 | - |
| 02/01/08 | 12/01/11 | 1,338,853 JPY | 17,123,604 JPY | 0.01660 | - | - | 6,494 | - |
| 09/13/06 | 02/09/10 | 335,000 BRL | 210,000 BRL | - | - | - | 13,279 | 8,965 |
| Short-term contracts | | 99,969 USD | 257,659 USD | - | 10,172 | 402 | - | - |
| Short-term contracts | | - | 15,234 EUR | - | - | 134 | - | - |
| Short-term contracts | | 50,255,762 JPY | 48,941,680 JPY | - | 337,276 | 956 | - | - |
| Short-term contracts | | - | 997,596 BRL | - | - | 35 | - | - |
| Total | | | | | 347,448 | 1,530 | 285,303 | 8,965 |

VIVO PARTICIPAÇÕES S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of Brazilian reais, unless otherwise indicated)

| Issuance | Maturity date | Notional amount buy (sell) (thousands) | | Forward swap/exchange rate | Current liabilities | | Noncurrent liabilities | |
|----------------------|----------------------|--|-------------------|----------------------------|---------------------|---------|------------------------|---------|
| | | 2008 | 2007 | | 2008 | 2007 | 2008 | 2007 |
| 08/18/04 to 08/28/14 | 05/15/10 to 03/02/15 | 415,637 USD | 102,568 USD | 1.5811 to 3.0030 | - | - | 97,971 | (1,783) |
| - | - | 1,338,853 JPY | 17,123,604 JPY | - | - | - | - | 12,075 |
| Short-term contracts | | 99,969 USD | 266,691 USD | 1.5745 to 2.9970 | 105,352 | 232,096 | - | - |
| Short-term contracts | | 50,255,762 JPY | 48,941,680 JPY | 0.01149 to 0.0191 | - | 202,870 | - | - |
| Short-term contracts | | - | 997,596 BRL | - | - | 3,910 | - | - |
| Total | | | | | 105,352 | 438,876 | 97,971 | 10,292 |

11. GOODWILL

Components and changes

| | As of December 31, | |
|--|--------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| Goodwill on investment acquisitions, net | 1,597,602 | 909,766 |
| Reserve for investment losses | (173,324) | (242,397) |
| Net balance | 1,424,278 | 667,369 |

Changes in goodwill balances are as follows:

| | As of December 31, | |
|---|--------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| Balance, net of reserve for loss - beginning of the year | 667,369 | 979,045 |
| Goodwill on acquisition of investments | 1,105,347 | - |
| Amortization of goodwill paid on investment acquisitions | (346,636) | (311,676) |
| Negative goodwill generated in the capital increase with reserves | (1,802) | - |
| Balance, net of reserve for loss - end of the year | 1,424,278 | 667,369 |

12. PROPERTY, PLANT AND EQUIPMENT, NET12.1) Composition

| | As of December 31, | | | |
|--|--------------------|--------------------------|-----------------------------|-----------------------------|
| | 2008 | | 2007 | |
| | Cost | Accumulated depreciation | Property and equipment, net | Property and equipment, net |
| Transmission equipment | 8,979,713 | (6,647,993) | 2,331,720 | 2,198,821 |
| Switching equipment | 4,243,681 | (2,680,686) | 1,562,995 | 1,368,120 |
| Infrastructure | 3,018,294 | (1,741,083) | 1,277,211 | 1,166,159 |
| Handsets provided to customers free of charge (comodato) | 2,310,275 | (2,005,070) | 305,205 | 290,398 |
| Buildings | 296,670 | (87,318) | 209,352 | 209,978 |
| Land | 70,352 | - | 70,352 | 59,785 |
| Finance commercial leasing | 21,681 | (11,481) | 10,200 | 15,466 |
| Other assets | 1,745,640 | (1,186,555) | 559,085 | 509,171 |

| | | | | |
|--------------------------|------------|--------------|-----------|-----------|
| Construction in progress | 857,788 | - | 857,788 | 498,957 |
| Total | 21,544,094 | (14,360,186) | 7,183,908 | 6,316,855 |

12.2) Depreciation rates

The useful lives of property, plant and equipment on a consolidated basis are as follows:

| | Useful lives | | |
|----------------------------------|--------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Automatic switching equipment | 5 to 10 | 5 to 10 | 5 to 10 |
| Transmission and other equipment | 5 to 10 | 5 to 10 | 5 to 10 |
| Buildings | 25 to 35 | 25 to 35 | 25 to 35 |
| Other assets | 1.5 to 35 | 1.5 to 35 | 1.5 to 35 |

In fiscal year ended December 31, 2008, Vivo capitalized financial expenses incurred in connection with loans for financing construction in progress in the amount of R\$40,460 (R\$11,175 in the same period of 2007).

As of December 31, 2008, the subsidiary had property and equipment offered as guarantee collaterals in lawsuits in the amount of R\$105,866 (R\$109,158 in 2007), as shown below:

| | As of December 31, | |
|-----------------|--------------------|----------------|
| | 2008 | 2007 |
| Tax | 92,747 | 98,614 |
| Labor and civil | 13,119 | 10,544 |
| Total | 105,866 | 109,158 |

12.3) Rentals

The Company rents equipment and premises through a number of operating leases agreements that expire at different dates. Total annual rent expense under these agreements was R\$389,228, R\$300,891 and R\$280,833 for the years ended December 31, 2008, 2007 and 2006, respectively. Rental commitments, related primarily to facilities, including the future minimum rental payment, are as follows:

| Year | Amount |
|----------------|------------------|
| 2009 | 559,085 |
| 2010 | 553,679 |
| 2011 | 554,345 |
| 2012 | 550,097 |
| 2013 | 552,506 |
| 2014 and after | 2,886,892 |
| Total | 5,656,604 |

13. INTANGIBLE ASSESTS

13.1) Composition

| | As of December 31, | | | |
|---------------------|--------------------|--------------------------|----------------|----------------|
| | 2008 | | 2007 | |
| | Cost | Accumulated amortization | Intangible net | Intangible net |
| Concession licenses | 2,249,619 | (751,018) | 1,498,601 | 399,027 |
| Software use rights | 3,974,243 | (2,684,577) | 1,289,666 | 1,125,107 |

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| | | | | |
|--|-----------|-------------|-----------|-----------|
| Goodwill | 31,962 | (23,569) | 8,393 | 6,053 |
| Other assets | 48,378 | (45,058) | 3,320 | 6,662 |
| Construction in progress (software) | 198,573 | - | 198,573 | 129,503 |
| Total | 6,502,775 | (3,504,222) | 2,998,553 | 1,666,352 |

13.2) Amortization rates

The useful lives of intangible assets on a consolidated basis are as follows:

| | Useful lives | | |
|---------------------|--------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Software use rights | 5 | 5 | 5 |
| Concession license | 5 to 15 | 5 to 15 | 5 to 15 |
| Other assets | 5 to 15 | 5 to 15 | 5 to 15 |

14. DEFERRED CHARGES, NET

| | | As of December 31, | |
|-----------------------------------|----------------------------------|--------------------|-----------|
| | Annual amortization rate % | 2008 | 2007 |
| Pre-operating expenses | | | |
| Amortization of license | 10 | 80,496 | 80,496 |
| Financial expenses | 10 | 201,131 | 201,131 |
| General & administrative expenses | 10 | 69,960 | 69,960 |
| | | 351,587 | 351,587 |
| Accumulated amortization: | | | |
| Pre-operating expenses | | (295,694) | (292,754) |
| Total, net | | 55,393 | 58,333 |

15. GOODWILL ON MERGED SUBSIDIARY, NET

| | As of December 31 | |
|--------------------------|-------------------|----------|
| | 2008 | 2007 |
| Cost | 84,265 | 84,265 |
| Accumulated amortization | (68,114) | (59,687) |
| Total | 16,151 | 24,578 |

The amount of goodwill is being amortized using the straight-line method over a ten-year period, based on the expected future profitability of Ceterp Celular S.A., the acquired company.

16. PAYROLL AND RELATED ACCRUALS

| | As of December 31 | |
|--|-------------------|------|
| | 2008 | 2007 |
| | | |

| | | |
|--|---------|---------|
| Wages and salaries | 98,098 | 101,659 |
| Accrued vacation and social security charges | 76,799 | 62,128 |
| Accrued benefits | 10,574 | 9,685 |
| Total | 185,471 | 173,472 |

17. TRADE ACCOUNTS PAYABLE

| | As of December 31, | |
|---|--------------------|-----------|
| | 2008 | 2007 |
| Suppliers | 2,848,620 | 2,290,721 |
| Amounts to be transferred - long distance (a) | 408,807 | 314,573 |
| Technical assistance related parties | 170,178 | 189,696 |
| Interconnection / linking | 231,015 | 193,093 |
| Other | 67,704 | 81,225 |
| Total | 3,726,324 | 3,069,308 |

(a) Amounts to be transferred refer to VC2, VC3 and roaming charges, invoiced to our clients and passed on to the long distance operating companies.

18. TAXES PAYABLE

| | As of December 31, | |
|---|--------------------|----------------|
| | 2008 | 2007 |
| <u>Current taxes:</u> | | |
| State VAT (ICMS) | 658,306 | 514,688 |
| Income and social contribution taxes | 131,054 | 29,987 |
| Federal VAT (PIS and COFINS) | 144,154 | 122,048 |
| FISTEL | 34,195 | 25,689 |
| FUST and FUNTTEL | 11,386 | 9,008 |
| Other taxes, fees and mandatory contributions | 16,926 | 23,592 |
| Total | 996,021 | 725,012 |
| <u>Legal liabilities (CVM 489/05):</u> | | |
| Federal VAT (PIS and COFINS) | 23,689 | 25,997 |
| CIDE Federal contribution | 20,836 | 7,566 |
| Other taxes, fees and mandatory contributions | 8,629 | 3,250 |
| Total | 53,154 | 36,813 |
| Total | 1,049,175 | 761,825 |
| Current | 785,603 | 577,935 |
| Noncurrent | 263,572 | 183,890 |

Current Taxes:

At December 31, 2008, the amount of R\$217,763 (R\$168,850 at December 31, 2007) out of the non-current liability, refers to state VAT ICMS - *Programa Paraná Mais Emprego* (a program to develop and increase the number of jobs in the state of Paraná), resulting from an agreement with the Paraná State Government involving the deferral of ICMS tax payment. This amount is adjusted to the variation of the Annual Indexation Factor (FCA).

Legal Liabilities - CVM Resolution 489/05

This includes the taxes that fall within the scope of CVM Resolution No. 489/05, dated October 3, 2005, which approved IBRACON NPC No. 22 standard, issued by IBRACON.

For financial statements purposes, the amounts of escrow deposits for said taxes are offset against taxes, fees and mandatory contributions payable, as applicable.

a) PIS and COFINS

Vivo was issued a delinquency notice by the tax authority (proceedings no. 19515.000.700/2003 -97) for having offset the COFINS, in January and February 2000, against credits arising out of the 1/3 surplus of the COFINS itself paid in

1999, after deduction of the amount from the CSLL. The case is awaiting decision of the Special Appeal filed within the administrative sphere. Based on the opinion of external legal counsel management recorded the amount of R\$24,671, at December 31, 2008 and 2007, having deposited the same amount in court.

Law No. 9,718/98

On November 27, 1998, the calculation of PIS and COFINS was changed by Law No. 9,718, which: (i) increased the COFINS rate from 2% to 3%; (ii) authorized the deduction of up to 1/3 of the COFINS from the amount of the Social Contribution on Net Income CSLL; and also (iii) indirectly increased the COFINS and PIS owed by Vivo, determining the inclusion of revenues in excess of the total sales in their tax calculation basis.

By reason of the changes introduced by laws No. 10,637/02 and 10,833/03, Vivo started including the revenues in excess of the total sales in the tax calculation basis of PIS and COFINS.

Thus, Vivo has booked provisions for the amounts of the revenues in excess of the total sales, under discussion in court, in the amount of R\$10,399 (R\$9,969 at December 31, 2007), having deposited the amount of R\$2,496 in court (R\$2,403 at December 31, 2007).

b) CIDE Contribution of intervention on the economic dominium

This refers to an administrative and judicial matter, aiming at discharging the assessment of the CIDE on remittances of funds abroad, in connection with agreements for transfer of technology, license of trademarks and software, etc. Based on the opinion of external legal counsel Vivo recorded the amount of R\$80,693, at December 31, 2008 (R\$70,342 at December 31, 2007), having deposited the amount of R\$57,004 (R\$44,345 at December 31, 2007) in court.

c) Telecommunications Inspection Fee - Fistel

Telemig Celular filed a Writ of Mandamus challenging its liability for the payment of the inspection fees on mobile stations not owned by it, and started booking a provision and effecting a deposit in court for the amounts referring to the TFF Operation Inspection Fee and to the TFI Installation Inspection Fee. The case is awaiting decision by the TRF Court of the 1st Region.

Because this is a legal obligation under the terms of CVM Resolution No. 489/2005, the subsidiary has booked a provision for this contingency. The provision recorded at December 31, 2008 was in the amount of R\$324,764, with corresponding deposits in court in the same amount.

d) IRRF on payments of Interest on shareholders equity Telemig Celular Participações

Telemig Participações filed Writs of Mandamus requesting the court to declare its right not to be assessed IRRF (Withholding Income Tax) at source on its receipts of interest on shareholders equity of its subsidiary (Telemig Celular). Once this refers to a legal obligation under the terms of CVM Resolution no. 489/2005, a provision was booked and deposits have been made in court, totaling R\$19,828 at December 31, 2008.

e) Other taxes, rates and contributions

At December 31, 2008, the subsidiaries recorded the amount of R\$21,562 (R\$3,250 at December 31, 2007), referring to values related to the discussions of: (i) ISS tax on property lease services, ancillary activities and supplementary services (R\$4,465); (ii) IRPJ (Corporate Income Tax) on derivative transactions (R\$2,082); (iii) INSS (Social Security) (R\$792), (iv) ICMS tax (R\$1,290), and (v) Pis and Cofins (R\$12,933).

Following we present the changes in legal obligations in compliance with CVM Resolution 489/05:

| | Legal obligations | (-) Escrow deposits | Total |
|---------------------------------|-------------------|---------------------|----------|
| Balance as of December 31, 2006 | 141,703 | (64,940) | 76,763 |
| Additions, net of reversal | (35,578) | (6,479) | (42,057) |
| Monetary restatement | 3,402 | - | 3,402 |
| Payments | (1,295) | - | (1,295) |
| Balance as of December 31, 2007 | 108,232 | (71,419) | 36,813 |

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| | | | |
|---|---------|----------|---------|
| Additions, net of reversal | 21,619 | (27,345) | (5,726) |
| Addition of Telemig Participações at 03.31.08 | 340,038 | 324,764 | 15,274 |
| Monetary restatement | 13,133 | (6,340) | 6,793 |
| Balance as of December 31, 2008 | 483,022 | 429,868 | 53,154 |

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19. LOANS, FINANCING and DEBENTURESa) Breakdown of debta.1.) Loans and Financing

| Description | Currency | Interest | Maturity | As of December 31, | |
|---------------------------------|----------|-------------------------------|----------------------|--------------------|---------|
| | | | | 2008 | 2007 |
| European Investment Bank BEI | US\$ | 4.18% p.a. to 4.47% p.a. | 03/02/09 to 03/02/15 | 741,301 | 268,872 |
| Working Capital | R\$ | 106.7% of CDI | 05/12/09 | 254,421 | - |
| Resolution2770 | R\$ | IGP-M + 9.45% p.a. | 02/09//10 | 156,703 | 138,073 |
| Resolution2770 | ¥ | 1% to 5.78% p.a. | 02/02/09 to 01/18/11 | 1,339,982 | 568,464 |
| Resolution2770 | US\$ | 5.0% to 5.94% p.a. | 07/23/09 to 07/23/10 | 155,708 | 438,519 |
| BNDES | URTJLP | TJLP + 4.3% p.a. to 4.6% p.a. | 01/15/09 to 08/15/14 | 1,422,387 | 682,931 |
| BNDES | UMBDES | 9.05% p.a. | 01/15/09 to 07/15/11 | 9,491 | 10,037 |
| Compror | US\$ | - | - | - | 10,723 |
| Compror | ¥ | - | - | - | 493,798 |
| Compror | EUR | - | - | - | 39,843 |
| Banco do Nordeste do Brasil BNB | R\$ | 10% p.a. | 01/29/09 to 10/30/16 | 361,590 | 167,449 |
| Acquisition of investment TCO | R\$ | - | - | - | 22,889 |
| Unsecured Senior Notes | US\$ | 8.750%p.a. | 01/20/09 | 195,269 | - |
| Promissory note | R\$ | 106.5% to 115% of CDI | 05/09/09 to 07/24/09 | 1,091,374 | - |
| | R\$ | IST + 1.0% p.m. | 04/29/16 | 1,196,137 | - |

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Funding 3G Licenses
- ANATEL

| | | | | |
|----------------|--------------|-------------------------|-----------|-----------|
| Comission BBVA | 0.4256% p.a. | 03/02/09 to 02/28/15 | 272 | - |
| Others | | | 96 | 960 |
| Total | | | 6,924,731 | 2,845,557 |
| Current | | | 3,098,346 | 1,453,700 |
| Noncurrent | | | 3,826,385 | 1,391,857 |

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a.2) Debentures

| Description | Currency | Interest | Maturity | As of December 31, | |
|--------------|----------|----------------------------|----------|--------------------|------------------|
| | | | | 2008 | 2007 |
| Debentures | R\$ | 103.3% to 104.2% do CDI | 05/04/15 | 1,021,502 | 1,539,912 |
| Debentures | R\$ | IPCA + 0.5% p.a. | 07/05/21 | 56,923 | - |
| Total | | | | 1,078,425 | 1,539,912 |
| Current | | | | 21,502 | 539,912 |
| Noncurrent | | | | 1,056,923 | 1,000,000 |

b) Payment timetable

On December 31, 2008, the maturities of the long-term portion of loans and financing are as follows:

| Year | |
|----------------|------------------|
| 2010 | 638,769 |
| 2011 | 605,115 |
| 2012 | 560,393 |
| 2013 | 558,061 |
| 2014 | 626,297 |
| 2015 and after | 1,894,673 |
| Total | 4,883,308 |

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c) Loan covenants

Vivo has loans and financing borrowed from *Banco Nacional de Desenvolvimento Econômico e Social - BNDES* (National Bank for Social and Economic Development), the balance of which at December 31, 2008 was R\$1,431,878 (R\$692,968 as of December 31, 2007). In accordance with the contracts, there are several economic and financial indexes that must be calculated on a six-month period and yearly basis. At the same date, all economic and financial indexes established in the contract were met.

Vivo has loans borrowed from the European Investment Bank, the balance of which at December 31, 2008 amounted to R\$741,301 (R\$268,872 as of December 31, 2007). At the same date, all economic and financial indexes established in the contract were met.

Covenants are provided for in the Unsecured Senior Notes funding program regarding the application of the proceeds to the purposes specified in the contracts, transactions to be carried out with related parties, merger and amalgamation transactions and achievement of economic and financial indicators. At the same date, all economic and financial indexes of the Telemig Celular provided under contract were achieved.

The agreement entered into by Telemig Celular with the State Department of Economic Development of Minas Gerais regarding debentures sets forth covenants on petitions for judicial and extrajudicial recovery, liquidation, dissolution, insolvency, voluntary bankruptcy or decree of bankruptcy, payment default, non-compliance with non-fiduciary obligations and compliance with a certain limit substantially based on balance sheet financial indexes and EBITDA (Earnings before interest, taxes, depreciation and amortization), among others. At December 31, 2008, all covenants were fulfilled by Telemig Celular.

d) Guarantees

At December 31, 2008, guarantees were granted for Vivo's loans and financing, in local currency, in the principal amount of R\$2,534,769, being R\$361,590 from Banco do Nordeste do Brasil - BNB, R\$1,422,387 from BNDES (URTJLP), and R\$9,491 from BNDES (UMBNDDES) and R\$741,301 from BEI according to the table below:

| <u>Banks</u> | <u>Guarantees</u> |
|-----------------------------------|--|
| | Contract (VIVO) R\$1,374,394: Guarantee in receivables referring to 15% of the higher between the debt balance or 4 (four) times the highest installment |
| BNDES | Contract (VIVO) R\$57,483: 15% of the receivables are pledged referring to service revenue Vivo Participações is intervening guarantor. |
| Banco Europeu de Investimento BEI | Commercial risk guaranteed by BBVA Portugal. |
| Banco do Nordeste do Brasil S.A. | Bank guarantee granted by Banco Bradesco S.A in an amount equivalent to 100% of the debit balance of the financing obtained Establishing a liquidity fund comprised of short-term investments at an amount equivalent to 3 (three) amortization installments by reference to the average post-grace period installment Vivo Participações is an intervening guarantor. |

e) Promissory Notes

On June 27, 2008, the Board of Directors of the Company approved the issue and offer of 50 unsecured promissory notes in the value of ten million reais (R\$10,000,000.00) each, totaling five hundred million reais (R\$500,000,000.00). On July 25, 2008, the offer was registered with the CVM and issued on July 29, 2008, with maturity date on July 24, 2009, bearing interests of 106.5% of the CDI rate, as daily disclosed by the Custody and Settlement Agency CETIP. The proceeds funded as from this offer were used for settlement of the principal amount of the debt represented by the 1st (first) issue of debentures of the Company.

On May 09, 2008, the Board of Directors of the Company approved the issue and offer of 22 unsecured promissory notes in the value of twenty-five million reais (R\$25,000,000.00) each, totaling five hundred and fifty million reais (R\$550,000,000.00). On October 29, 2008, the offer was registered with the CVM and issued on November 10, 2008, with maturity date on May 09, 2009, bearing interests of 115.0% of the CDI rate, as daily disclosed by the Custody and Settlement Agency CETIP. The proceeds funded as from this offer were used in an increase of the capital stock of TCO IP for settlement of commercial promissory notes due on November 10, 2008, in the amount of R\$530 million.

f) Debenturesf.1) Fund-raising by the Company:

On August 1, 2007 the second renegotiation of the 1st public issue of debentures was carried out, consisting of 5,000 (five thousand) simple, nonconvertible and unsecured debentures, with a par value of R\$100 (one hundred thousand Reais) each, maturing on August 1, 2008. The renegotiation involved the total volume of the original issue occurred on August 1, 2003, at the rate of 104.6% of the CDI, concomitantly with a reduction in the rate to 103% of CDI. On August 01, 2008 this transaction was settled (note 19.e).

Within the scope of the R\$2,000,000 (two billion Reais) First Securities Distribution Program announced on August 20, 2004, on May 1, 2005 the Company issued debentures in the amount of R\$1,000,000 for a term of 10 years counted as from the issue date on May 01, 2005.

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The Offering is comprised by the issuance of two series, being R\$200,000 in the first series, and R\$800,000 in the second series, with final maturity on May 1, 2015. The debentures accrue interest, payable on a semiannual basis, corresponding to 103.3% (first series) and 104.2% (second series) of the accumulated daily average rates for the DI (one-day Interbank, extra group deposits) (DI rates), as calculated and published by the CETIP.

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Remuneration of Debentures is due to be renegotiated on May 1, 2009 (first series) and May 1, 2010 (second series).

f.2) Fund-raising by Telemig Celular

In compliance with the Contract for Provision of SMP Services, in conformity with the Public Selection No 001/07, the State of Minas Gerais, acting through the State Department for Economic Development, has undertaken to subscribe debentures issued by Telemig Celular, within the scope of the Minas Comunica Program, using proceeds from the Fund for Universalization of Access to Telecommunications Services (*Fundo de Universalização do Acesso a Serviços de Telecomunicações*) - FUNDOMIC. Under the terms of this Program, Telemig Celular would make the SMP service available to 134 locations in the areas recorded as 34, 35 and 38.

Also according to the program, 5,550 simple, unsecured, nonconvertible, registered, book-entry type debentures would be issued, without stock certificates being issued, in up to five series.

In consideration for the certification by the State Department of Economic Development of the service to be provided to 15 locations, 621 debentures were issued in the 1st Series of the 1st issue, amounting to R\$6,210 in December 2007. In March 2008, for the service at 42 locations, 1,739 debentures were issued in the 2nd Series of the 1st issue, valued at R\$17,390. At December 31, 2008, for the service at 77 locations, 3,190 debentures were issued in the 3rd Series of the 1st issue, valued at R\$31,900. At December 31, 2008 the updated amounts of the 1st, 2nd and 3rd series of the debentures were R\$6,645, R\$18,278 and R\$32,000, respectively.

20. PROVISION FOR CONTINGENCIES

The Company and its subsidiaries are parties to lawsuits that generate administrative and judicial contingencies related to labor, tax and civil claims. Relevant accounting provisions have been booked with respect to such lawsuits in which the chance of loss was deemed as probable.

The breakdown of the balances of such provisions is as follows:

| | As of December 31, | | | |
|------------|--------------------|---------------------|---------|---------|
| | | 2008 | | 2007 |
| | Provisions | (-) Escrow deposits | Net | Net |
| Civil | 170,675 | (42,187) | 128,488 | 150,743 |
| Labor | 72,687 | (34,344) | 38,343 | 41,909 |
| Tax | 30,799 | (3,547) | 27,252 | 6,752 |
| Total | 274,161 | (80,078) | 194,083 | 199,404 |
| Current | | | 91,136 | 81,395 |
| Noncurrent | | | 102,947 | 118,009 |

Changes occurred in the provision for contingencies, net for the years ended December 31 are as follows:

Years ended December 31,

| | 2008 | 2007 |
|---|-----------|-----------|
| Balance at beginning of year | 199,404 | 146,623 |
| Provisions recorded, net of reversals (Note 28) | 138,699 | 184,594 |
| Addition from Telemig Participações at 03.31.08 | 10,957 | - |
| Monetary variation | 7,596 | 1,468 |
| Additional escrow deposits | (15,849) | (4,881) |
| Payments | (146,724) | (128,400) |
| Balance at year end | 194,083 | 199,404 |

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The following is the legend related to the taxes and contributions shown on this footnote:

- IRPJ federal income tax
- CSSL federal social contribution on income
- COFINS federal VAT
- PIS federal VAT
- ICMS state VAT
- ISS municipal tax on services provided
- IRRF withholding taxes
- IOF federal financial transaction tax
- FUST federal tax that serves to provide funds designed to cover the parcel of the cost attributable exclusively to the fulfillment of universal service targets of the telecommunication services that cannot be recovered through the efficient performance of services.
- FUNTTEL federal tax that serves to stimulate technological development, the qualification of human resources, and job generation and to promote the access of small and medium companies to capital resources, so as to broaden the competitiveness of the Brazilian telecommunications industry.
- FISTEL - federal tax applicable to telecommunications transmission equipment which serves to provide funds to cover the expenses incurred by the Federal Government in performing inspections of telecommunication services and in developing the means and improving the techniques necessary for carrying out these inspections.

20.1. Civil Claims

20.1.1. Probable and possible losses

These refer to several civil claims for which the respective provisions were booked, as shown above, such provisions being deemed sufficient to meet probable losses on these cases.

a) Consumers

The Company and its subsidiaries are parties to several lawsuits brought by individual consumers or by civil associations representing rights of consumers claiming non-performance of services and/or products sold. Individually, none of these lawsuits is deemed to be material.

At December 31, 2008, based on the opinion of its lawyers, the amount of R\$151,692 (R\$135,072 at December 31, 2007) was booked, which is considered sufficient to meet potential losses on these proceedings.

At the same date, the amount of these lawsuits in several different spheres deemed as possible is R\$459,594 (R\$346,136 at December 31, 2007).

b) ANATEL

The subsidiaries are parties to several legal and administrative proceedings brought by ANATEL referring to noncompliance with Regulations concerning the Personal Mobile Service. At December 31, 2008, the amount of R\$15,369 (R\$18,614 at December 31, 2007), was booked, which is considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss was R\$12,916 (R\$18,356 at December 31, 2007).

c) Litigation related to 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., Telesp Celular and Telerj Celular (formerly Vivo subsidiaries prior to our corporate restructuring) 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.

d) Litigation related to validity of prepaid plan minutes

We and our subsidiaries, 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, except for class actions against Telemig Celular, for which the likelihood of an unfavorable outcome with respect to this claim is considered remote, based on the opinion of outside counsel.

e) VU-M (Inteconnection costs wireless x wireline)

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

f) Litigation related to tax credits

Vivo and other new holding companies incorporated in connection with the privatization of the telecommunications companies offset certain tax debts against the premiums paid by their controlling shareholders. A claim was filed on December 16, 1999 against 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.

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g) Other

These refer to lawsuits of other nature, all related to the regular course of business. At December 31, 2008, based on the opinion of its independent lawyers, the amount of R\$3,614 (R\$37,028 at December 31, 2007) was booked, which is considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss was R\$21,976 (R\$79,251 at December 31, 2007).

20.2. Labor claims

The Company is party to numerous labor claims involving disputes with former employees. Management, assisted by its Legal Counsel has recorded provision for the contingencies, which are assessed as probable losses and where reasonable estimated. The amount of this provision as of December 31, 2008 is R\$38,343 (R\$41,909 in 2007), as shown on the table above.

These refer to several labor claims for which the respective provisions were recorded as shown above, which are considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss was R\$193,462 (R\$133,040 at December 31, 2007).

20.3. Tax Proceedings20.3.1. Probable Lossa) ICMS

At December 31, 2008, Vivo (states of Rio de Janeiro, São Paulo, Amazonas and Roraima), had administrative and judicial proceedings in discussion, related to the ICMS which, based on the opinion of its legal consultants, are classified as probable loss and, therefore, a provision was booked for them in the amount of R\$23,554 (R\$367 at December 31, 2007).

b) Federal Taxes

At December 31, 2008, Vivo had administrative proceedings in discussion related to federal taxes (IRRF/IRPJ/PIS/COFINS) for which, based on the opinion of its legal consultants, provisions were booked in the amount of R\$2,410 (R\$1,540 at December 31, 2007).

At July 02, 2002, Telemig Celular was notified of violation by the National Institute of Social Security INSS due to joint and several liabilities for payment of the contribution to the INSS from service providers and for the withholding of 11% set forth in Law 9,711/98. At December 31, 2008, Telemig Celular had booked a provision in the amount of R\$3,547 for covering eventual losses arising out of the above referred notice of violation, substantiated in the opinion of its legal consultants. Telemig Celular effected an appeal-related deposit in the amount of R\$5,799. The administrative proceedings are awaiting decision.

c) Other

At December 31, 2008, Vivo had administrative proceedings related to other taxes totaling the amount of R\$1,288 (R\$4,845 at December 31, 2007), for which provisions were booked based on the opinion of its legal consultants.

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20.3.2. Possible Loss

Based on the opinion of its tax consultants, management believes that the resolution of the matters listed below will not produce an adverse material effect on its financial condition.

a) State Taxes

Vivo and Telemig Celular are parties to several actions under administrative (arising out of notices of tax delinquency) and judicial discussions related to the ICMS, in the whole domestic territory, which are listed below:

At December 31, 2008, the discussions held by Vivo (Distrito Federal, states of Acre, Pará, Mato Grosso do Sul, Mato Grosso, Goiás, Roraima, Rondônia, Tocantins and Amazonas), totaled R\$109,220 (R\$67,489 at December 31, 2007), the main matters under controversy being: i) ICMS on eventual or supplementary services not typifying telecommunication services; ii) ICMS on international calls originated from Brazil to destinations abroad; iii) lack of proportional reversing entry of ICMS tax credit referring to the acquisition of property, plant & equipment used in the rendering of communication services and/or in the exits of tax-exempted or non-taxable goods; iv) ICMS on the free-of-charge rendering of telecommunication services, characterized by donation of credits to be consumed in the prepaid service plan; v) non-inclusion in the ICMS tax basis of the fine and default interest charged to defaulting customers; vi) purported noncompliance of ancillary obligations; others related to sales of goods; viii) late fine, eviction without cause; ix) ICMS on nonpayment of tax due to tax substitution for subsequent operations; x) ICMS on electric power credits; xi) ICMS arising out of the difference of tax calculated by Embratel in the DETRAF; xii) ICMS on annulment of rendering of telecommunication services; xiii) purported sales at conditional discounts.

At December 31, 2008, proceedings related to Vivo (state of Paraná) totaled R\$7,267 (R\$3,981 at December 31, 2007), the main matter under controversy being the payment of ICMS beyond the due date and crediting of fixed assets.

At December 31, 2008, proceedings related to Vivo (state of Bahia) totaled R\$43,040 (R\$43,686 at December 31, 2007), the main matters under controversy being: i) lack of a reversing entry proportional to the ICMS credit referring to the acquisition of property, plant & equipment, electric power and switching services arising out of the rendering of non-taxed communication services; ii) lack of a reversing entry of the ICMS credits related to the exits of handsets by way of lease and free lease, iii) payment of ICMS beyond the due date in the period from February to March 1998, iv) ICMS levied on supplementary communication services, v) lack of reversing entry of the ICMS credit related to long-distance calls and call center; vi) ICMS on activation, and vii) ICMS credits for amounts reversed due to customer complaints.

At December 31, 2008, proceedings related to Vivo (state of Sergipe) totaled R\$35,406 (R\$17,523 at December 31, 2007), the main matters under controversy being: i) lack of a reversing entry proportional to the ICMS credit referring to the acquisition of property, plant & equipment, electric power and switching services arising out of the rendering of non-taxed communication services; ii) lack of a reversing entry of the ICMS credits related to the exits of handsets by way of lease and free lease, iii) ICMS on the exit of goods by way of consignment; and iv) ICMS on supplementary services of communication.

At December 31, 2008, proceedings related to Vivo (state of Espírito Santo) totaled R\$7,019 (R\$6,900 at December 31, 2007), the main matters under controversy being: i) undue ICMS credit; and ii) ancillary obligations in relation to the bookkeeping of bills of sale.

At December 31, 2008, proceedings related to Vivo (state of Rio de Janeiro) totaled R\$150,268 (R\$148,484 at December 31, 2007), the main matters under controversy being: i) ICMS levied on supplementary services of communication, ii) ICMS on activation, iii) ICMS on calls originated from administrative terminals and tests, iv) ICMS levied on services rendered to other telecommunication operators to certain non-exempted customers, v) ICMS on international calls, vi) lack of a reversing entry proportional to the ICMS credit referring to the acquisition of property, plant & equipment; vii) ICMS on the free-of-charge rendering of telecommunication service; viii) ICMS credit related to electric power; ix) ICMS on rendering of services in connection with telecommunication services; x) ICMS on additional FECF amounts (Fund for Eradication of Poverty) arising out of the rendering of services related to telecommunication services; xi) disallowance of ICMS tax incentives referring to cultural projects and fines.

At December 31, 2008, proceedings related to Vivo (state of Rio Grande do Sul) totaled R\$28,047 (R\$25,877 at December 31, 2007), the main matters under controversy being: i) payment of ICMS beyond the due date; and ii) ICMS on electric power.

At December 31, 2008, proceedings related to Vivo (state of São Paulo) totaled R\$118,685 (R\$99,965 at December 31, 2007), the main matters under controversy being: i) undue ICMS credits; ii) undue credit involving the launching of extemporaneous credit instruments; iii) ICMS credits for values reversed due to customer complaints (Convention 39/01); and iv) ICMS on discounts deemed as unconditioned.

At December 31, 2008, proceedings related to Vivo (state of Santa Catarina) totaled R\$3,876 (R\$1,803 at December 31, 2007), the main matters under controversy being: i) appropriation of income tax credit in excess of the limit permitted in the tax laws, relating to entries of goods the exit of which is entitled to the benefit of reduction of the tax calculation base; and ii) fine for noncompliance with a legal obligation.

Telemig Celular has a judicial discussion in course with regard to the ICMS levied on contractual fine, which proceedings are awaiting decision by the court of appeals. At December 31, 2008 the amount is R\$7,481.

b) Federal Taxes

The Company and its subsidiaries are parties to several tax proceedings within the federal scope in the whole domestic territory, which may be described as follows:

Vivo is involved in an administrative discussion related to the increase of the PIS and COFINS calculation basis, which at December 31, 2008 totaled R\$8,580 (R\$2,652 at December 31, 2007). A decision is awaited in the Special Appeal filed with the Taxpayers Council with respect to the proceedings.

Vivo is involved in an administrative discussion related to a tax delinquency notice issued with respect to COFINS in the amount of R\$9,663, at December 31, 2008 (R\$9,068 at December 31, 2007), referring to deductions related to losses incurred with derivative transactions in the calculation of the tax basis for this contribution. The discussion is awaiting decision by the Ministry of Finance Taxpayers Council.

Tax delinquency notices were issued against Vivo totaling R\$148,467 at December 31, 2008 (R\$154,474 at December 31, 2007), the main matters under controversy being: i) use of part of the negative tax calculation base of the Social Contribution on Net Income for 1997 by the company which gave origin thereto by partial spin-off; ii) purported underpayment of IRPJ (Corporate Income Tax) and CSLL due to the fact that the tax inspection authority did not recognize certain expenses as being deductible; iii) alleged underpayment of IRRF (withholding income tax) on remittances made abroad; and iv) adjustments to the IRPJ and CSLL calculation basis as a result of the reduction of the tax loss stated by the company. The discussions related to the above mentioned proceedings are in course in the administrative sphere.

Vivo Participações is involved in an administrative discussion related to the purported underpayment of IRRF on remittances abroad. The total amount thereof at December 31, 2008 is R\$20,923 (R\$18,905 at December 31, 2007).

In May 2007, Vivo Participações was served process for a tax execution totaling the amount of R\$29,905 at December 31, 2008 (R\$25,047 at December 31, 2007), related to the requirement arising out of the non-homologation of the statement of deduction against the negative balance of the IRPJ for calendar year 2000, fiscal year 2001. A lower court decision is awaited. In an addendum, about the same matter, Vivo Participações filed an action for annulment seeking the reversal of the tax delinquency notice, which is in course before the Federal Courts in São Paulo.

Vivo Participações is involved in an administrative discussion related to tax delinquency notices issued against its merged company, Tele Leste Celular Participações S.A., in the amount of R\$6,385, at December 31, 2008 (R\$5,908 at December 31, 2007). The tax authority has alleged that the income tax was underpaid, due to excess of allocation to FINOR, FINAN or FUNRES (tax incentives in Brazil), as ascertained in a due diligence carried out with respect to the Review of Tax Return excess of investment in tax incentives. Decision by the administrative court of appeals is awaited.

Tax delinquency notices were issued against Telemig Celular due to purported underpayment of IRPJ, including application of fine and denial of the request for refund and deduction of credits ascertained by the subsidiary in consequence of the overpayments of estimated IRPJ. In all the cases, the discussion is in progress in the administrative sphere and a final decision by the Taxpayers Council is awaited. At December 31, 2008 the amount was R\$36,995.

Tax delinquency notices were issued against Vivo for IRPJ, CSLL, COFINS and IRRF, the main matters under controversy being: i) undue deduction of tax losses of non-operating nature from operating profit calculated in a subsequent period; ii) purported underpayment of taxes; iii) non-confirmation of withholding income tax on financial statements in DIRF; iv) separate fine on the amount booked/declared and the amount paid. At December 31, 2008, the total amount came to R\$42,129 (R\$44,502 at December 31, 2007).

Vivo is involved in administrative and judicial discussions about the underpayment of IRPJ, CSLL, PIS and COFINS, having in consideration the unlawful proportional credit of the taxes and disregard about the occurrence of voluntary disclosure. Vivo is involved in discussions solely related to the occurrence of the voluntary disclosure of these taxes. In December 2008 the amount in question totals R\$18,937 (R\$17,175 at December 31, 2007)

Vivo Participações is involved in an administrative discussion related to tax delinquency notices the main matters thereof being: i) non-deductibility of the expense of interest on shareholders equity (*Juros sobre Capital Próprio*), having in consideration the noncompliance of information shown in the DIRF (withholding income tax return) for the amounts of income tax withheld at source for the beneficiaries of the financial income; ii) purported underpayment of IRPJ and CSLL estimates; and iii) adjustments to the tax calculation bases of IRPJ and CSLL. The discussions related to the above mentioned proceedings are in progress in the administrative sphere. At December 31, 2008, the amount in question is R\$90,802 (R\$83,157 at December 31, 2007).

Vivo is involved in administrative and judicial discussions seeking to reverse the debt balance related to tax debts for IRPJ, CSLL, PIS, COFINS and IRRF. This refers to debts activated in the SIEF (one of the Brazilian Internal Revenue Service systems) by reason of statements provided by other specific tax return called DCOMP Statement of Tax Deduction and PER/DCOMP Statement of Tax Deduction, which is electronically sent, not confirmed by *Secretaria da Receita Federal do Brasil* (Brazilian Internal Revenue Service).. The discussions are awaiting the end of the administrative discussion and final judgment in the judicial sphere. At December 31, 2008 the amount in question is R\$197,864 (R\$97,193 at December 31, 2007).

Vivo Participações is involved in administrative and judicial discussions seeking to reverse the debt balance related to tax debts for IRPJ, CSLL, PIS, COFINS and IRRF. This refers to debts activated in the SIEF system by reason of statements provided by the particular (DCOMP Statement of Tax Deduction and PER/DCOMP Statement of Tax Deduction, which is electronically sent), not confirmed by the Federal Revenue Service of Brazil. The discussions are awaiting the end of the administrative discussion and final judgment in the judicial sphere. At December 31, 2008 the amount in question is R\$3,704.

A tax delinquency notice was issued against Vivo in relation to the collection of purported debts for IRPJ and CSLL, in the amount of R\$299,101 (R\$238,911 at December 31, 2007), referring to the purportedly undue amortization of the premium ascertained in the acquisition of the equity interests in Companhia Riograndense de Telecomunicações (CRT) in calendar years 1997 and 1998. Judgment of the Appeal filed with the Ministry of Finance Taxpayers Council is awaiting decision with respect to this requirement.

FUST: ANATEL, through its Precedent no. 7, dated December 15, 2005, voiced its understanding to the effect that: (i) Among others, revenues to be transferred to the telecommunication service providers by way of payment for interconnection and for use of their network resources may not be excluded from the tax calculation bases of the contributions to the FUST ; (ii) Among others, revenues received from telecommunication service providers by way of payment for interconnection and for use of their network resources may not be excluded from the tax calculation bases of the contributions to the FUST .

Whereas the second part of the Precedent is not in accordance with the provisions set forth in the sole paragraph of art. 6 of Law No. 9,998, dated August 18, 2000, Vivo filed a writ of mandamus challenging the lawfulness of such requirement, the same having been granted a lower court favorable decision. A court of appeals decision is awaited.

In January 2006, Telemig Celular also filed a Writ of Mandamus seeking to protect its lawful rights to continue paying the FUST without any increase in the tax calculation basis not provided for in the law.

At December 31, 2008, the amounts in question are, for Vivo, R\$225,549 (R\$146,931 at December 31, 2007) and for Telemig Celular, R\$33,102.

In the understanding of management and of its external legal counsel, there are possible chances of success in these proceedings, both in the administrative and judicial spheres.

FUNTTTEL: Vivo and Telemig Celular filed writs of mandamus against the Chairman of the Management Board of FUNTTTEL and against the Deputy Secretary of the Ministry of Communications in order to ensure its clear legal right to calculate and pay the contributions to the FUNTTTEL, under the terms of Law No. 10,052, dated November 28, 2000, without including the values of the transfers received by way of provision for interconnection and use of their network resources, such as expressly set forth in art. 6, paragraph 4 of Decree no. 3,737, dated January 30, 2001, with the preliminary injunction having granted to this effect. In October 2008, a lower court judgment was rendered favorably to the operators. At December 31, 2008, the amount in question for Vivo is R\$106,101 (R\$60,489 at December 31, 2007) and for Telemig Celular is R\$19,201.

Accordingly, due to the lower court judgment, the liability to pay the FUNTTTEL on interconnection revenues is suspended.

The Ministry of Telecommunications has issued FUNTTTEL assessment notices in relation to interconnection revenues. The legal consultants of the company have filed an administrative challenge, which is still pending judgment.

In the understanding of management and of its legal consultants, there are possible chances of success in these proceedings, both in the administrative and judicial spheres.

FISTEL: Vivo holds authorizations, which were granted by the Public Authorities by means of the Instrument of Authorization, for the exploitation of the Personal Mobile Service, for an indeterminate term; and other authorizations for using the radiofrequencies on a primary character, for the remainder of the term of the first license, renewable for further fifteen years.

At the time of the renewal of the validity term for use of the radiofrequencies in connection with the exploitation of the personal mobile service, ANATEL collects the Installation Inspection Fee – TFI referring to the issuance of new licenses assessed on the radio-base stations, mobile stations and radio-links.

Such collection results from the understanding, by ANATEL, that art. 9, item III of Resolution no. 255 would be applicable to this case, in such manner that the extension of term would be a taxable event of the TFI. Because it considers that the collection of TFI on mobile stations is undue, Vivo has administrative discussions in course with the ANATEL, which are awaiting decision.

At December 31, 2008, the amount in discussion was R\$827,020 (R\$281,978 at December 31, 2007).

Telemig Celular, also because it considers that the collection of TFI on the mobile stations is undue, upon receiving the official letter granting the extension of the term, together with the collection form for payment of the referred fee, it filed a motion to deny, which is awaiting judgment. In the understanding of the Management and of its external legal counsel, there are possible chances of success in these proceedings. At December 31, 2008, the total amount in question was R\$108,789.

Others: Its subsidiaries have other proceedings the chances of success are possible, which total R\$3,046 at December 31, 2008 (R\$2,822 at December 31, 2007).

c) Local Taxes

Its subsidiaries are involved in several tax proceedings within local scope, which are described below:

Because it is considered that the assignment of use of the telecommunications networks typifies communication services subject to assessment by the ICMS, rather than lease of personal properties, a tax delinquency notice was issued against Vivo in the municipalities of Salvador and Porto Alegre, which demand the payment of the ISS on the tariff of use of the mobile network (TUM). At December 31, 2008, the amount in question is R\$56,910 (R\$109,561 at December 31, 2007). The administrative discussion in Salvador is awaiting decision by the court of appeals. In Porto Alegre, the decision was favorable to Vivo.

Vivo is involved in an administrative discussion related to the ISS in other municipalities which, at December 31, 2008, total R\$32,886 (R\$30,165 at December 31, 2007), the main matters under controversy being: i) ISS on complementary telephone services, value added to telephone services, publicity, activation, call identifier and telephone subscription; ii) non-withholding of the ISS on consultancy services rendered by Telefónica International (TISA) to Vivo. The proceedings are currently under discussion, some of them in the administrative sphere and others in the judicial sphere.

20.4. Guarantees

The Company and its subsidiaries granted guarantees in connection with tax, civil and labor proceedings, as follows:

| <u>Process</u> | Real state and equipment | Escrow deposits and on-line pledged | Collateral letter | Total |
|------------------|--------------------------|-------------------------------------|-------------------|----------------|
| Tax | 92,747 | 483,920 | 207,991 | 784,658 |
| Civil and labors | 13,119 | 131,480 | 47,139 | 191,738 |
| Total | 105,866 | 615,400 | 255,130 | 976,396 |

20.5. Tax Audit

In accordance with the Brazilian applicable laws, federal, state and local taxes and payroll charges are subject to auditing procedures to be carried out by the respective authorities, for periods from 5 to 30 years. Depending on the tax, the authorities can ask to review any period since 1978.

21. CONCESSION LICENSES

In 2007, the subsidiaries acquired licenses for 1.9 MHz and 2.1 MHz (3G) through auctions conducted by ANATEL.

Auction of 1.9 Mhz Frequencies

On September 25, 2007, VIVO was the winning bidder of the Band L lots, except for lot 16 (area of Londrina- state of Paraná), and of lot 20 (North of Brazil), after the opening of the price bids carried out on that date in the headquarters

of ANATEL. Band L includes the lots in the frequency range from 1895 to 1900 Mhz and from 1975 to 1980 Mhz, with 5 + 5 Mhz width, in all the regions served by the SMP. Thus, Vivo filled its last gap of coverage.

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In order to achieve this benchmark, Vivo offered 50.6% average premium over the minimum price set in the invitation to bid. Vivo's offer was approximately R\$169.7 million for all Band L lots acquired. However, pursuant to the rules provided for in the invitation to bid, the price to be paid refers to the remaining term of the pre-existing authorizations for each lot acquired, the term of which is always counted from the date of execution of the Instrument of Authorization referring to this bidding process. The amount resulting from the governmental bidding for Vivo totaled approximately R\$50,300, without including the lots in the state of Minas Gerais.

Auction of 2.1 Mhz (3G) Frequencies

On December 18, 2007, Telemig Celular was declared the winning bidder in 2 lots (Minas Gerais - Sector 2 and Triângulo Mineiro - Sector 3) for the extension of third generation (3G) mobile services, with 10 + 10 Mhz width. The proposal of Telemig Celular for the lots purchased was approximately R\$53.535.

On December 20, 2007, Vivo was declared the winning bidder in the Band J lots, with 10 + 10 MHz width, except for areas VII and X. In order to achieve this benchmark, Vivo has paid 92.5% average premium over the minimum price set in the invitation to bid. For all Band J lots acquired, Vivo's offer was R\$1,147,693.

On April 29, 2008, the Company signed with ANATEL the Instruments of Authorization for use of this radiofrequency sub-bands for Vivo and Telemig Celular.

The terms of use of these licenses are for a period of 15 years, subject to a renewal period of 15 years. The amount of 10% has been already paid on the date of execution of the Instrument of Authorization. According to the contract, the remaining 90%, totaling R\$1,032,924 and R\$48,182 in Vivo and in Telemig Celular, respectively, may be paid in 6 equal and annual installments, with a grace period of 3 years, the amount to be paid being adjusted to the Telecommunications Industry Index - IST, plus 1% monthly, or until December 11, 2008 without interest and indexation. As for Vivo, the amount recorded was R\$1,032,924, and is adjusted to the IST (period from December 2007 to December 2008) plus 1% monthly (period from April to December 2008), as stated in note 19.

The price payable for the 2.1 Mhz (3G) licenses was recorded as a counter-entry to the intangible assets. As for Telemig Celular, the amount recorded was R\$44,691, less the discount to present value of R\$3,491, which was recorded as financial expenses, as provided for in Law No. 11,638/07 and in CPC 12. At December 11, 2008, Telemig Celular paid to ANATEL the amount of R\$48,182, without any interest or monetary adjustment whatsoever.

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The authorizations that were granted to the subsidiaries, according to the areas where they operate, are described as follows:

| Area of Service | Autorization Valid Until |
|--|--------------------------|
| Areas 1, 2 e 3: | |
| São Paulo (Radio frequencies 800/1900/2100 MHz) | 04/30/23 to 08/05/23 |
| São Paulo (Ribeirão Preto, Guatapar e Bonfim Paulista) (Radio frequencies 800 MHz) | 01/20/24 |
| So Paulo (area of the Franca e region) (Radio frequencies 1900 MHz) | 12/07/22 |
| Area 3: | |
| Rio de Janeiro (Radio frequencies 800/1900/2100 MHz) | 11/29/20 to 04/30/23 |
| Esprito Santo (Radio frequencies 800/1900/2100 MHz) | 04/30/23 to 11/30/23 |
| Area 4: | |
| Sector 2 Minas Gerais (except Tringulo Mineiro) (Radio frequencies 800/1900/2100 MHz) | 04/29/23 to 04/30/23 |
| Sector 3 Minas Gerais (Tringulo Mineiro) (Radio frequencies 800/1900/2100 MHz) | 04/28/20 to 04/29/23 |
| Area 5: | |
| Paran e Santa Catarina (Radio frequencies 800/1900/2100 MHz) | 04/08/13 to 04/30/23 |
| Area 6: | |
| Rio Grande do Sul (Radio frequencies 800/1900/2100 MHz) | 12/17/22 to 04/30/23 |
| Areas 7 e 8: | |
| Distrito Federal (Radio frequencies 800/1900/2100 MHz) | 07/24/21 to 04/30/23 |
| Goias e Tocantins (Radio frequencies 800/1900/2100 MHz) | 04/30/23 to 10/29/23 |
| Mato Grosso (Radio frequencies 800/1900/2100 MHz) | 03/30/09 to 04/30/23 |
| Mato Grosso do Sul (Radio frequencies 800/1900/2100 MHz) | 09/28/09 to 04/30/23 |
| Rondnia (Radio frequencies 800/1.900/2100 MHz) | 07/21/09 to 04/30/23 |
| Acre (Radio frequencies 800/1900/2100 MHz) | 07/15/09 to 04/30/23 |
| Amazonas, Roraima, Amap, Par e Maranho (Radio frequencies 800/1900/2100 MHz) | 11/29/13 to 04/30/23 |
| Area 9: | |
| Bahia (Radio frequencies 800/1900/2100 MHz) | 04/30/23 to 06/29/23 |
| Sergipe (Radio frequencies 800/1900/2100 MHz) | 04/30/23 to 12/15/23 |
| Area 10: | |
| Alagoas, Cear, Paraba, Pernambuco, Piaui e Rio Grande do Norte (Radio frequencies 1900/2100 MHz) | 12/17/22 to 04/30/23 |

Renewal of the authorizations which will expire in 2009 have been already applied for with the regulatory agency, and none of them is expected to be denied.

22. OTHER LIABILITIES

| | As of December 31, | |
|---|--------------------|----------------|
| | 2008 | 2007 |
| Deferred revenues | 451,772 | 336,320 |
| Reverse stock split (a) | 244,090 | 116,807 |
| Provision for asset retirement obligation (b) | 183,387 | 145,947 |
| Provision for customer loyalty program | 117,590 | 76,337 |
| Provision for Pension Fund | 12,372 | 3,960 |
| Payables to related parties | 3,906 | 847 |
| Concession licenses | - | 45,325 |
| Others | 9,260 | 16,779 |
| Total | 1,022,377 | 742,322 |
| | | |
| Current | 820,233 | 546,169 |
| Noncurrent | 202,144 | 196,153 |

(a) This refers to credit made available to the holders of shares remaining as a result of the reverse stock split of the capital stock of the Company and of its subsidiaries.

(b) This provision refers to the costs to be incurred in connection with the eventual need of giving back to their owners the sites (locations for installation of Radio Base Stations RBS of the subsidiaries) in the same conditions as they were found at the time of the execution of the initial lease contracts thereof (asset retirement obligation).

23. SHAREHOLDERS EQUITYa) Capital Stock

At December 31, 2008, the Company's subscribed and paid-up capital was R\$6,710,526, represented by shares with no face value, distributed as follows:

| | Thousands of shares | |
|--------------------|---------------------|------------------|
| | 12.31.08 | 12.31.07 |
| Shares outstanding | | |
| Common | 134,151 | 524,932 |
| Preferred | 233,245 | 917,186 |
| Total | 367,396 | 1,442,118 |

The Special Shareholders Meeting held on September 11, 2008, approved the grouping of the 1,474,077,420 book-entry registered shares, with no face value, being 536,601,378 common shares and 937,476,042 preferred shares, representing the capital stock, in the proportion of four (4) shares for one (1) share of the respective type, resulting in 368,519,356 book-entry type registered shares, with no face value, being 134,150,345 common shares and 234,369,011 preferred shares, as set forth in article 12 of Law No. 6,404/76.

b) Dividends and Interest on Shareholders Equity

The preferred shares do not have voting rights, except in the cases stipulated in articles 9 and 10 of the Bylaws, but are ensured priority in the reimbursement of the capital stock, without premium, the right to participate in the dividend to be distributed, corresponding to a minimum of 25% of net income for the fiscal year, calculated in accordance with article 202 of Brazilian Corporation law, and priority in receiving minimum non-cumulative dividends equivalent to the higher of the following amounts:

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b.1) 6% (six per cent) per year on the amount resulting from the division of the subscribed capital by the total number of Company's outstanding shares; or

b.2) 3% (three per cent) per year on the amount resulting from the division of the shareholders' equity by the total number of Company's shares, and also the right to participate in distributed profit under the same conditions applicable to common shares, after the common shares have been ensured of a dividend equal to the minimum priority dividend established for the preferred shares.

As from the General Shareholders' Meeting held on March 27, 2004, the preferred shares are entitled to full voting rights, in accordance with article 111, paragraph 1, of Law No. 6,404/76, since minimum dividends were not paid on preferred shares for three consecutive years.

At the General Shareholders' Meeting held on March 15, 2007, the payment of dividends on the income for year 2006 to the holders of preferred shares was approved. However, the approved amount was lower than the minimum statutory value required for removing the right to vote of the preferred shares.

b.3) Dividends and interest on shareholders' equity not claimed by shareholders are forfeited in 3 (three) years, as from the date of the beginning of payment, as set forth in article 287, subparagraph II, item a), of Law No. 6,404/76.

Dividends due were calculated as follows in 2008:

| | |
|--|----------|
| | 12.31.08 |
| Consolidated net income for the year | 389,683 |
| Consolidation adjustments: | |
| Unclaimed dividends and interest on shareholders' equity | 10,218 |
| Unconsolidated net income for the year | 399,901 |
| Appropriation to legal reserve | (19,995) |
| Adjusted net income | 379,906 |
| Minimum dividend (25% on adjusted net income) | (94,977) |
| Proposed interest on shareholders' equity (gross) | 161,113 |
| Withholding income tax | (24,167) |
| Proposed interest on shareholders' equity (net) | 136,946 |
| Proposed additional dividend: | 265,685 |
| Proposed dividend and interest on shareholders' equity: | 402,631 |

1) Distribution of interest on shareholders' equity

| | |
|--|-------------|
| Number of common and preferred shares (excluded treasury shares) | 367,395,631 |
|--|-------------|

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| | |
|--|-------------------|
| Gross interest on shareholders' equity proposed per share (common and preferred) | R\$0.438528010149 |
| Net interest on shareholders' equity proposed per share (common and preferred) | R\$0.372748808626 |

2) Distribution of dividends

| | |
|---|-------------|
| Common shares (R\$) | 97,012 |
| Preferred shares (R\$) | 168,673 |
| Total | 265,685 |
| Number of shares | |
| Common shares | 134,150,345 |
| Preferred shares (excluded treasury shares) | 233,245,286 |

Dividend per share

| | |
|------------------|---------------|
| Common shares | R\$0.72315861 |
| Preferred shares | R\$0.72315861 |

c) Capital Reserves

c.1) Goodwill in Stock Issue

This reserve represents the excess of value at the time of the issuance or capitalization in relation to the basic value of the share at the issuance date.

c.2) Special Goodwill Reserve

This reserve was booked as a result of the Corporate Reorganization processes described in note 31, as a counter-entry to the net assets transferred, and represents the future tax benefit to be earned by amortization of the goodwill incorporated. The portion of special goodwill reserve corresponding to the benefit may be, at the end of each fiscal year, capitalized to the benefit of the controlling shareholder upon the issue of new shares. The increase of capital is subject to the preemptive rights of the non-controlling shareholders, proportionally to their respective interests, by kind and class, at the time of the issue, and the amounts paid upon the exercise of this right shall be directly delivered to the controlling shareholder, in accordance with the provisions in CVM Instruction no. 319/99.

The Meeting of the Board of Directors held on May 26, 2008 approved a capital increase of R\$362,742, representing the tax benefit of the goodwill incorporated, and R\$179,862 and R\$182,880 for the years 2006 and 2007, respectively, with the issue of 31,959,675 new shares, being 11,669,713 common shares and 20,289,962 preferred shares, ensuring the preemptive right provided for in Article 171 of Law No. 6,404/76, and the proceeds arising from the exercise of the preemptive right were credited to Portelcom Participações S.A. and Sudestecel Participações Ltda.

c.3) Tax incentives

These represent the amounts invested in tax incentives in previous fiscal years, as allowed by Brazilian Tax Legislation.

d) Income Reserves

d.1) Legal Reserve

The legal reserve is booked by allocation of 5% of the net profit for the year, up to the limit of 20% of the paid-up capital stock or 30% of the capital stock added by the capital reserves. As from such limit, allocations to this reserve are no longer mandatory, as set forth in Art. 193 of Law No. 6,404/76.

d.2) Expansion Reserve

The reserve for expansion was booked with the purpose of holding funds for financing additional investments of fixed and current capital by allocation of up to 100% of the remaining net profit, after the legal determinations and the balance of the retained profits account for the fiscal year ended on December 31, 2008. This reserve is supported by a capital budget approved at the shareholders' meetings.

d.3) Contingencies Reserve and Shares held on Treasury

The amounts recorded result from the spin-off of Companhia Riograndense de Telecomunicações - CRT and are designed to guarantee an eventual court decision rendered with respect to judicial actions concerning capitalizations for fiscal years 1996 and 1997 occurred in that company.

e) Retained Earnings

Pursuant to the change introduced by Law No. 11,638/07, the net profit for the year must be entirely distributed as dividends or income reserve in accordance with the provisions in articles 193 to 197 of Law No. 6,404/76.

24. NET OPERATING REVENUE

| | Years ended December 31, | | |
|---|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Subscription and use | 10,013,953 | 8,000,754 | 7,319,691 |
| Interconnection | 6,140,301 | 5,109,277 | 4,338,094 |
| Data and value-added services | 2,049,801 | 1,330,552 | 970,352 |
| Other services | 244,121 | 98,008 | 83,891 |
| Gross revenue from service | 18,448,176 | 14,538,591 | 12,712,028 |
| Value-added tax on services (ICMS) | (3,114,869) | (2,447,298) | (2,240,008) |
| Discounts granted | (812,745) | (474,139) | (451,657) |
| PIS and COFINS | (669,788) | (521,963) | (457,026) |
| Service tax (ISS) | (5,478) | (5,893) | (3,124) |
| Net operating revenue from services | 13,845,296 | 11,089,298 | 9,560,213 |
| Revenue from sale of handsets and accessories | 3,258,070 | 3,105,703 | 2,742,645 |
| Discounts granted | (1,009,701) | (1,144,698) | (832,193) |
| Value-added tax on services (ICMS) | (308,298) | (242,994) | (230,197) |
| PIS and COFINS | (196,994) | (167,791) | (163,769) |
| Returns of goods | (118,709) | (147,024) | (139,985) |
| Net operating revenue from sale of handsets and accessories | 1,624,368 | 1,403,196 | 1,376,501 |
| Total net operating revenue | 15,469,664 | 12,492,494 | 10,936,714 |

There is not any customer who has contributed more than 10% of the gross operating revenue for fiscal years ended on December 31, 2008, 2007 and 2006, with the exception of Telecomunicações de São Paulo S/A - TELESP, a fixed telephone operating company in the state of São Paulo that accounted for approximately 10,5% during year ended December 31, 2006. The amounts in question refer mainly to interconnection.

The services provided to Telesp (a related party) are billed using similar terms to those with third parties.

25. COST OF SERVICES AND GOODS SOLD

| | Years ended December 31, | | |
|--------------------------------------|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Interconnection | (2,146,713) | (1,618,216) | (784,992) |
| Depreciation and amortization | (1,669,468) | (1,378,923) | (1,327,454) |
| Taxes and contributions | (656,199) | (498,801) | (517,490) |
| Outside services | (520,905) | (425,753) | (369,953) |
| Rent, insurance and condominium fees | (281,509) | (209,923) | (206,788) |
| Leased lines | (274,254) | (226,190) | (222,542) |
| Personnel | (120,108) | (102,941) | (88,709) |
| Other | (30,449) | (65,709) | (147,930) |
| Cost of services rendered | (5,699,605) | (4,526,456) | (3,665,858) |
| Cost of goods sold | (2,441,894) | (2,096,834) | (1,898,310) |
| Total | (8,141,499) | (6,623,290) | (5,564,168) |

26. SELLING EXPENSES

| | Years ended December 31, | | |
|--------------------------------------|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Outsourced services | (1,913,309) | (1,635,977) | (1,614,256) |
| Depreciation and amortization | (520,608) | (457,166) | (410,314) |
| Customer loyalty and grants | (429,216) | (310,856) | (220,360) |
| Advertising | (443,616) | (323,660) | (320,186) |
| Personnel | (338,229) | (302,310) | (302,229) |
| Allowance for doubtful accounts | (303,845) | (365,740) | (720,496) |
| Rent, insurance and condominium fees | (66,115) | (66,439) | (60,772) |
| Other | (89,478) | (70,635) | (102,457) |
| Total | (4,104,416) | (3,532,783) | (3,751,070) |

27. GENERAL AND ADMINISTRATIVE EXPENSES

| | Years ended December 31 | | |
|--|-------------------------|------|------|
| | 2008 | 2007 | 2006 |
| | | | |

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| | | | |
|--------------------------------------|-------------|-------------|-------------|
| Outsourced services | (463,419) | (529,091) | (425,211) |
| Depreciation and amortization | (336,536) | (308,532) | (297,011) |
| Personnel | (298,815) | (266,462) | (255,719) |
| Rent, insurance and condominium fees | (83,061) | (79,510) | (92,195) |
| Other | (22,511) | (23,600) | (29,612) |
| Total | (1,204,342) | (1,207,195) | (1,099,748) |

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28. OTHER OPERATING EXPENSES, NET

| | Years ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2008 | 2007 | 2006 |
| Recovered expenses | 159,421 | 180,682 | 293,206 |
| Fines | 103,582 | 67,559 | 88,842 |
| Shared infrastructure EILD | 95,017 | 52,764 | 58,119 |
| Reversal of provisions | 36,370 | 12,211 | 29,065 |
| Rental properties | 13,277 | - | - |
| Amortization of goodwill | (480,161) | (380,746) | (381,061) |
| Provision for contingencies | (175,069) | (196,805) | (138,615) |
| FUST | (75,665) | (60,682) | (53,549) |
| PIS e COFINS on other revenues | (64,241) | (51,979) | (43,947) |
| ICMS on other expenses | (48,034) | (60,387) | (71,820) |
| FUNTTEL | (37,802) | (30,376) | (26,818) |
| Amortization of deferred charges | (36,484) | (35,871) | (47,619) |
| Other taxes, fees and mandatory contributions | (13,893) | (32,970) | (23,613) |
| Sale and provision for losses on assets | (31,300) | (20,581) | - |
| Realization of provision for investments losses | 69,073 | 69,070 | 69,074 |
| Others income (expenses) | 16,048 | (21,331) | (70,734) |
| Total | (469,861) | (509,442) | (319,470) |

29. NET FINANCIAL EXPENSES

| | Years ended December 31, | | |
|--|--------------------------|------------------|--------------------|
| | 2008 | 2007 | 2006 |
| Financial income: | | | |
| Income from financial transactions | 345,704 | 208,824 | 286,805 |
| PIS and COFINS on financial income (a) | (41,507) | (22,848) | (51) |
| Subtotal | 304,197 | 185,976 | 286,754 |
| Financial expenses: | | | |
| Loans, financing and debentures | (442,249) | (289,077) | (397,164) |
| Derivative transactions | (321,423) | (222,196) | (427,385) |
| CPMF | (1,769) | (62,722) | (78,807) |
| Discounts | (39,134) | (30,487) | (53,590) |
| Other financial transactions | (58,117) | (54,818) | (63,909) |
| Subtotal | (862,692) | (659,300) | (1,020,855) |

Monetary and exchange variations:

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| | | | |
|----------------------------------|-----------|-----------|-----------|
| In assets | | | |
| Derivative transactions | 792,780 | 11,626 | (49,640) |
| In liabilities | | | |
| Derivative transactions | 48,133 | (298,604) | (287,239) |
| Loans and financing | (841,552) | 296,138 | 334,978 |
| Suppliers and other transactions | (78,565) | 1,375 | (11,983) |
| Subtotal | (79,204) | 10,535 | (13,884) |
| Total | (637,699) | (462,789) | (747,985) |

(a) This amount relates to Pis and the Cofins incident on interest on shareholders' equity received from its subsidiary.

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30. NET NONOPERATING EXPENSES

| | Years ended December 31 | | |
|---|-------------------------|----------|------------------|
| | 2008 | 2007 | 2006 |
| Net gain on disposal of property, plant and equipment | - | - | 1,220 |
| Provision for losses on assets | - | - | (277,988) |
| Provision for losses on investments | - | - | (671) |
| Other | - | - | (11,531) |
| Total | - | - | (288,970) |

31. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiaries record provisions for income and social contribution taxes monthly on the accrual basis, paying the taxes based on the monthly estimate. Deferred taxes are recognized on temporary differences and tax loss carryforwards were calculated based on the 34% rate.

a) Components of income taxes

The composition of expenses on income and social contribution taxes is shown below:

| | Years ended December 31, | | |
|---|--------------------------|------------------|----------------|
| | 2008 | 2007 | 2006 |
| Income and social contribution tax on goodwill amortization | (308,863) | (287,737) | (290,228) |
| Current income and social contribution tax | (51,630) | (18,174) | (218,238) |
| Deferred income and social contribution tax | (109,009) | 49,086 | 1,367,478 |
| Total | (469,502) | (256,825) | 859,012 |

b) Reconciliation of effective tax rate

The following provides a reconciliation of the expense with income taxes disclosed, by eliminating the effects of the goodwill tax benefit, and the amounts calculated by applying combined statutory rates at 34%:

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| | Years ended December 31, | | |
|--|--------------------------|-----------|-------------|
| | 2008 | 2007 | 2006 |
| Pre-tax income (loss) | 911,847 | 156,995 | (834,697) |
| Tax credit at combined statutory rate (34%) | (310,028) | (53,378) | 283,797 |
| Benefit from deductibility of interest attributed to shareholders equity | 58,808 | - | - |
| Permanent additions: | | | |
| Nondeductible expenses - goodwill amortization | (146,953) | (105,970) | (106,076) |
| Other nondeductible expenses | (87,576) | (104,575) | (73,226) |
| Nondeductible on accounting receivable | - | - | (60,849) |
| Other additions | (10,473) | (1,870) | (25,709) |
| Permanent exclusions: | | | |
| Other deductible expenses | 40,557 | 11,843 | 34,604 |
| Other exclusions | 1,558 | - | - |
| Unrecognized tax loss and temporary differences | (15,395) | (2,875) | (108,612) |
| Tax loss and temporary differences not recognized in prior years (*) | - | - | (*) 915,083 |
| Tax income (expense) | (469,502) | (256,825) | 859,012 |

(*) As a result of the corporate restructuring since profitable subsidiaries were merged into a subsidiary with significant unrecorded tax losses carryforwards.

The subsidiary Telemig Celular is entitled to tax reduction benefit of 75% on the taxable profit generated in the tax incentive areas within the scope of the Agency for Development of the Northeast ADENE, where the carrier operates (North of Minas Gerais and Vale do Jequitinhonha) for a period of 10 years as from 2004. In 2008 the Company had benefit of R\$1,340.

c) Composition of deferred income tax assets

The breakdown of deferred income and social contribution taxes are as follows:

| | As of December 31, | |
|---|--------------------|------------------|
| | 2008 | 2007 |
| Income and social contribution taxes loss carryforwards (a) | 1,131,195 | 1,116,252 |
| Tax credit acquired - restructuring (b) | 916,994 | 634,405 |
| Tax credits on provisions for: (c) | | |
| Contingencies and legal liability - CVM 489 | 202,983 | 120,374 |
| Accelerated depreciation | 131,731 | 134,067 |
| Suppliers | 155,185 | 125,801 |
| Doubtful accounts | 131,685 | 117,198 |
| Derivative contracts | 28,974 | 107,254 |
| Customer loyalty program | 39,980 | 25,954 |
| Employee profit sharing | 33,163 | 33,989 |
| Valuation allowance and provision for losses- fixed assets | 106,830 | 102,047 |
| Obsolescence | 14,478 | 12,857 |
| Other amounts | 41,751 | 50,872 |
| Total deferred taxes | 2,934,949 | 2,581,070 |
| | | |
| Current | 1,120,523 | 912,177 |
| Noncurrent | 1,814,426 | 1,668,893 |

The amount recorded in the current assets refers to reversal of temporary differences and use of tax losses and goodwill amortization expected for the next twelve months.

The deferred taxes were recorded assuming their future realization, as follows:

a) Tax loss and negative tax base: represents the amount recorded by the subsidiaries, which will be offset up to the limit of 30% of the tax base computed in the coming fiscal years (in accordance with Brazilian Tax Legislation) and subject to no expiration date. The Company did not record the potential deferred income and social contribution tax credit that would arise from the use of these tax bases in the amount of R\$689,572 (R\$685,566 at December 31, 2007), given the uncertainty, at this time, as to the Company's ability to generate future taxable results to ensure realization of these deferred taxes.

b) Tax credit acquired: represented by the net balance of goodwill and provision for maintenance of the shareholders equity integrity. Realization will occur proportionally to the amortization of the goodwill in its subsidiaries, in a period from 5 to 10 years. Studies performed by independent consultants hired during the corporate reorganization process support the recovery of such amounts within the above referred time.

c) Temporary differences: realization will occur upon payment of the provisions, effective loss on bad debts or realization of inventories, as well as reversal of other provisions. The Company did not record the potential deferred income and social contribution tax credit that would arise from the use of these provisions in the amount of R\$155,481 (R\$156,163 at December 31, 2007), given the uncertainty, at this time, as to the Company's ability to

generate future taxable results to ensure realization of these deferred taxes.

31.1 Tax benefits Corporate Restructuring

As a result of the corporate reorganization process (note 1), the Company incorporated the goodwill paid on the privatization and acquisition of subsidiaries, in accordance with Instructions CVM 319 as of December 3, 2000 and 349 as of March 6, 2001.

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Prior to the transfers, provisions were booked for maintenance of the stockholders' equity of the merged company and, consequently, the net assets being merged represent, essentially, the tax benefit arising out of the possibility of deduction of the incorporated goodwill.

Included in the accounting records held for corporate and tax purposes by the Company and its subsidiaries are specific accounts related to incorporated goodwill and provision and corresponding amortization, reversal and tax credit, the balances of which are as follows:

| | As of December 31, | | | |
|---|--------------------|-------------|---------|---------|
| | | 2008 | | 2007 |
| Restructuring | Goodwill | Provision | Net | Net |
| Global Telecom S.A. Acquisition | 416,503 | (274,892) | 141,611 | 180,520 |
| Telesp Celular S.A. Privatization | 292,668 | (193,161) | 99,507 | 208,060 |
| Tele Centro-Oeste Celular Participações S.A. Acquisition | 251,582 | (166,044) | 85,538 | 214,877 |
| Tele Leste Celular Participações S.A. Privatization | 58,856 | (38,846) | 20,010 | 30,948 |
| Telemig Participações S.A. Privatization | 58,371 | (38,525) | 19,846 | - |
| Telemig Participações S.A. corporate restructuring TCO IP | 1,485,172 | (980,214) | 504,958 | - |
| Telemig Celular S.A. - corporate restructuring TCO IP | 133,896 | (88,372) | 45,524 | - |
| Total | 2,697,048 | (1,780,054) | 916,994 | 634,405 |

The changes during the year ended December 31 are as follows:

| | Years ended December 31, | |
|--------------------------|--------------------------|-----------|
| | 2008 | 2007 |
| Results: | | |
| Amortization of goodwill | (908,423) | (881,048) |
| Reversal of Provision | 599,560 | 593,313 |
| Tax credit | 308,863 | 287,735 |
| Effect on results | - | - |

To the extent the tax benefits are actually realized, the amount shall be incorporated into the capital stock to the benefit of the controlling shareholders, the other shareholders being assured preemptive rights. Proceeds arising out of the exercise of the preemptive rights shall be paid to the controlling shareholders.

At a meeting of the Board of Directors held on May 26, 2008, the capitalization of a portion of the special goodwill reserve to the benefit of the controlling shareholders was approved, in the amount of R\$362,742, corresponding to the tax benefits generated in 2006 and 2007 (Note 23).

The tax benefits realized during fiscal year 2008 shall be capitalized during fiscal year 2009, with due regard to the extension of the preemptive rights upon the increase of the capital stock in conformity with article No. 171 of Law 6,404/76.

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company and its subsidiaries are engaged in transactions involving financial instruments, the risks of which are actively managed by means of a set of initiatives, procedures and comprehensive operating policies.

The financial instruments are presented in compliance with CVM Resolution no. 566, dated December 17, 2008, which approved Technical Statement CPC 14, and with CVM Instruction 475, dated December 17, 2008.

a) General considerations

At December 31, 2008 and 2007, the main financial instruments, and their respective values by category, are as follows:

| | Year ended December, 31 | | | | | |
|--|----------------------------|----------------|-----------|----------------------------|----------------|-----------|
| | 2008 | | | 2007 | | |
| | Fair value through results | Amortized cost | Total | Fair value through results | Amortized cost | Total |
| ASSETS | | | | | | |
| Cash and cash equivalents | 2,182,913 | - | 2,182,913 | 2,190,990 | - | 2,190,990 |
| Short-term investments pledged as collateral | 88,822 | - | 88,822 | 59,467 | - | 59,467 |
| Trade accounts receivable, net | - | 2,578,498 | 2,578,498 | - | 2,178,745 | 2,178,745 |
| Derivative contracts | 632,751 | - | 632,751 | 10,495 | - | 10,495 |
| Advances to suppliers | - | 1,550 | 1,550 | - | 832 | 832 |
| Liabilities | | | | | | |
| Payroll and related accruals | - | 185,471 | 185,471 | - | 173,472 | 173,472 |
| Trade accounts payable | - | 3,726,324 | 3,726,324 | - | 3,069,308 | 3,069,308 |
| Taxes payable | - | 1,049,175 | 1,049,175 | - | 761,825 | 761,825 |
| Loans and financing | 2,393,693 | 4,531,038 | 6,924,731 | 1,961,291 | 884,266 | 2,845,557 |
| Interest on shareholders' equity and dividends | - | 545,864 | 545,864 | - | 22,219 | 22,219 |
| Derivative contracts | 203,323 | - | 203,323 | 449,168 | - | 449,168 |
| Debentures | - | 1,078,425 | 1,078,425 | - | 1,539,912 | 1,539,912 |
| Other liabilities | - | 1,022,377 | 1,022,377 | - | 742,322 | 742,322 |

b) Considerations on risk factors which may affect the Company's and its subsidiaries' business

The main market risks to which the Company and its subsidiaries are exposed in the conduct of their activities are:

Credit Risk

The credit risk arises out of the eventual difficulty to collect the amounts payable for telecommunication services rendered to its customers and for sales of handsets to the distributors network, as well as the risk related to financial statements and accounts receivable for swap transactions.

The credit risk involved in the rendering of telecommunications services is minimized by a strict control of the customer base and active management of customers' default, by means of clear policies regarding the sale of post-paid handsets. The customer base of the subsidiary companies has, predominantly, a prepaid system, which requires the prior charging and consequently entails no credit risk.

The credit risk in the sale of handsets and pre-activated prepaid cards is managed under a conservative credit policy, by means of modern management methods, including the application of credit scoring techniques, analysis of financial statements and information, and consultation to commercial data bases.

The Company and its subsidiaries are also subject to credit risk originating from their financial investments and amounts receivable from swap transactions. The Company and its subsidiaries act in such a manner as to diversify this exposure among various world-class financial institutions.

Interest Rate Risk

This risk arises out of the portion of the debt and of the liability positions in derivatives contracted at floating rates, and involves the risk of the financial expenses increasing due to an unfavorable change in the interest rates.

The Company and its subsidiaries are exposed to the risk of increased interest rates, due to the liabilities portion of the derivative transactions (Exchange Hedge) and to CDI-referenced debts. The balance of financial investments, indexed to the CDI, partially neutralizes this effect.

Exchange Rate Risk

This risk arises out of the possibility of losses on account of exchange rate fluctuations, which may increase the outstanding balances of foreign currency loans.

The Company and its subsidiaries have contracted financial derivative transactions so as to protect themselves against exchange rate fluctuations arising out of foreign currency loans. The instruments used were swap contracts.

The table below summarizes the net exposure of the Company and its subsidiaries to the exchange rate factor at December 31, 2008 and 2007:

| | In thousands - 2008 | | |
|-------------------------------|---------------------|----------|--------------|
| | US\$ | | ¥ |
| Loans and financing | (467,501) | - | (51,937,288) |
| Loans and financing - UMBNDES | (4,061) | - | - |
| Derivative instruments | 467,308 | - | 51,937,288 |
| Other liabilities | (33,104) | (20,044) | - |
| Total (insufficient coverage) | (37,358) | (20,044) | - |

| | In thousands- 2007 | | |
|-------------------------------|--------------------|----------|--------------|
| | US\$ | | ¥ |
| Loans and financing | (410,410) | (15,280) | (67,066,210) |
| Loans and financing - UMBNDES | (5,666) | - | - |
| Derivative instruments | 413,522 | 15,280 | 67,066,210 |
| Other liabilities | (43,404) | (35,502) | - |

| | | | |
|-------------------------------|----------|----------|---|
| Total (insufficient coverage) | (45,958) | (35,502) | - |
|-------------------------------|----------|----------|---|

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c.) Transactions with Derivatives

The Company and its subsidiaries entered into swap contracts in foreign currency at several interest rates, in a notional amount of US\$515,606, and JPY51,594,615 (US\$369,259, JPY66,065,284 and 15,234 at December 31, 2007). At December 31, 2008, the Company had interest rate swap contracts in a notional amount of R\$225,000 (R\$1,097,596 at December 31, 2007) for interest rates in local currency (CDI) and the notional amount of R\$110,000 of swaps indexed to the IGPM (R\$110,000, at December 31, 2007). On December 31, 2008 the Company and its subsidiaries have no foreign currency swaps indexed at to foreign interest rate (Libor). At December 31, 2007 the amount was US\$52,480.

As required by Law No. 11,638/07, the Company and its subsidiaries started applying CPC 14 since the transition date on January 1, 2007. CPC 14 must be applied to all derivative instruments, and requires that such instruments are stated in the balance sheet at their fair value. Changes to the fair value of the derivatives are recognized in the income statement, save in case of compliance with specific accounting criteria such as hedge.

The derivative financial instruments intended for hedge and the respective items subject matter of hedge are monthly adjusted to the fair value, with due regard to the following: for those financial instruments classified as fair value hedge and evaluated as effective, the valuation or devaluation of the fair value of the item which is the hedge instrument and of the item subject matter of hedge must be recorded as a counter-entry to a proper revenue or expense account, in the income of the year.

The Company and its subsidiaries started designating certain swap contracts as fair value hedges (see table below) of a portion of the foreign currency debts (US Dollar and Japanese Yen), local interest rate (CDI) and IGPM.

The Company and Vivo calculate the effectiveness of these hedges at the beginning and continuously (at least on a quarterly basis) and the hedges contracted on December 31, 2008 showed to be effective in relation to the debts subject matter of such coverage. As long as these derivative contracts are identified as hedge accounting according to CPC 14, the covered debt is also adjusted to the fair value in conformity with the fair value hedge rules.

The CVM, by Resolution no. 550, issued on October 17, 2008, and by Instruction no. 475, issued on December 17, 2008, provided for that publicly-held companies are required to disclose, in a specific explanatory note, qualitative and quantitative information about all their derivative financial instruments, either recognized or not as assets or liabilities in their balance sheet.

Risk Management Policy

All contracted derivative financial instruments for the Company and its subsidiaries is intended for protection against foreign exchange risk and variations in foreign and local interest rates arising out of financial debts, pursuant to a corporate policy of risk management. Accordingly, eventual variations in the risk factors generate an inverse effect on the subject matter they are intended to protect. Therefore, there are no derivative financial instruments for speculation purposes and 99.6% of the financial exchange liabilities are hedged.

The Company and its subsidiaries keep internal controls in relation to their derivative instruments which, in the opinion of management are adequate for controlling risks associated to each strategy of market action. The results obtained by the Company and its subsidiaries in relation to their derivative financial instruments show that management has properly managed risks.

Fair values of the derivative financial instruments

The fair values are calculated by projecting the future flows of the transactions, using the BM&F Bovespa curves and bringing them to present value using market DI rates for swaps disclosed by the BM&F Bovespa.

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The market values of the exchange coupon swaps x CDI were obtained using the market exchange rates in effect at the balance sheet date and the rates projected by the market which were obtained from the currency coupon curves. For calculating the coupon of the positions indexed in foreign currency the linear convention of 360 calendar days was adopted and for calculating the coupon of the positions indexed to the CDI the exponential convention of 252 business days was adopted .

The financial instruments disclosed below are recorded with the CETIP - Custody and Settlement Agency, all of them being classified as swaps, not requiring a margin deposit.

| Description | Notional | | Fair Value | | Cumulative effect (current period) | | |
|-----------------------------|--------------|-------------------|------------------|------------------|------------------------------------|-----------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | Amount receivable/(received) | Amount payable/(paid) | |
| "Swap's" of contract | | | | | | | |
| Asset Position | | | | | | | |
| (1) Foreign currency | | | | | | | |
| | Index | Rate | 1,768,940 | 1,949,711 | 2,432,082 | 1,832,786 | 713,641 |
| ABN AMRO | USD | 5.94% | 78,079 | 211,635 | 112,188 | 193,712 | 33,233 |
| | | From | | | | | |
| BANCO DO BRASIL | JPY | 2.46% to 5.78% | 301,899 | 421,021 | 504,863 | 387,221 | 180,674 |
| BRADESCO | USD | 5.00% | 29,128 | 351,377 | 43,676 | 328,946 | 13,125 |
| CITIBANK | USD | 4.47% | 181,230 | 218,372 | 205,044 | 206,803 | 61,394 |
| | | From | | | | | |
| ITAÚ | USD | 6.60% to 6.80% | 643 | 14,557 | 657 | 14,196 | - |
| JP MORGAN | USD | 4.18% | 443,207 | 59,136 | 536,433 | 93,489 | 178,381 |
| | | From | | | | | |
| PACTUAL | USD | 4.85% until 6.51% | 1,812 | 4,055 | 1,892 | 3,064 | - |
| | | From 1% until | | | | | |
| SANTANDER | JPY | 2.50% | 542,296 | 641,584 | 835,118 | 581,882 | 246,834 |
| UNIBANCO | USD | 0% | 92,792 | - | 93,478 | - | - |
| | | From | | | | | |
| VOTORANTIM | USD | 6.26% until 8.09% | 97,854 | 9,330 | 98,733 | 6,888 | - |
| BNP PARIBAS | USD | 6.2% | - | 18,644 | - | 16,585 | - |
| (2) Post Rate (CDI) | | | 225,000 | 1,097,596 | 226,248 | 1,214,508 | - |
| BANCO DO BRASIL | | | | | | | |
| | CDI | 100.00% | 175,000 | 44,500 | 175,970 | 49,737 | - |
| BRADESCO | CDI | 100.00% | 50,000 | 456,152 | 50,278 | 504,850 | - |
| | CDI | 100.00% | - | 44,502 | - | 49,739 | - |

MERRILL
LYNCH

| | | | | | | | |
|-----------|-----|---------|---|---------|---|---------|---|
| SANTANDER | CDI | 100.00% | - | 552,442 | - | 610,182 | - |
|-----------|-----|---------|---|---------|---|---------|---|

**(3) Pre Rate
(IGPM)**

| | | | | | | | |
|----------|------|-------|----------------|----------------|----------------|----------------|---------------|
| | | | 110,000 | 110,000 | 156,703 | 138,073 | 15,623 |
| UNIBANCO | IGPM | 9.45% | 110,000 | 110,000 | 156,703 | 138,073 | 15,623 |

Liabilities position

| | | | | | | | | |
|------------------------|--|--|--------------------|--------------------|--------------------|--------------------|----------|------------|
| Post Rate (CDI) | | | (1,768,940) | (1,949,711) | (1,920,551) | (2,276,116) | - | 202 |
|------------------------|--|--|--------------------|--------------------|--------------------|--------------------|----------|------------|

| | | | | | | | |
|----------|-----|---------|----------|-----------|----------|-----------|---|
| ABN AMRO | CDI | 110.00% | (78,079) | (211,635) | (78,955) | (253,823) | - |
|----------|-----|---------|----------|-----------|----------|-----------|---|

From
103.40%

| | | | | | | | |
|--------------------|-----|---------|-----------|-----------|-----------|-----------|---|
| BANCO DO BRASIL | CDI | 107.40% | (301,899) | (421,021) | (324,189) | (479,984) | - |
|--------------------|-----|---------|-----------|-----------|-----------|-----------|---|

| | | | | | | | |
|-----------|-----|---------|----------|-----------|----------|-----------|---|
| BRANDESCO | CDI | 110.00% | (29,128) | (351,377) | (30,551) | (386,030) | - |
|-----------|-----|---------|----------|-----------|----------|-----------|---|

| | | | | | | | | |
|----------|-----|--------|-----------|-----------|-----------|-----------|---|----|
| CITIBANK | CDI | 95.50% | (181,230) | (218,372) | (177,882) | (221,388) | - | 34 |
|----------|-----|--------|-----------|-----------|-----------|-----------|---|----|

| | | | | | | | |
|------|-----|---------|-----|----------|---------|----------|---|
| ITAÚ | CDI | 100.00% | 643 | (14,557) | (1,172) | (15,000) | - |
|------|-----|---------|-----|----------|---------|----------|---|

| | | | | | | | | |
|-----------|-----|--------|-----------|----------|-----------|-----------|---|----|
| JP MORGAN | CDI | 96.00% | (443,207) | (59,136) | (452,853) | (173,880) | - | 94 |
|-----------|-----|--------|-----------|----------|-----------|-----------|---|----|

| | | | | | | | | |
|---------|-----|---------|---------|---------|---------|---------|---|---|
| PACTUAL | CDI | 100.00% | (1,812) | (4,055) | (3,144) | (6,191) | - | 1 |
|---------|-----|---------|---------|---------|---------|---------|---|---|

From
106.00%

| | | | | | | | |
|-----------|-----|---------|-----------|-----------|-----------|-----------|---|
| SANTANDER | CDI | 111.00% | (542,296) | (641,584) | (588,284) | (703,446) | - |
|-----------|-----|---------|-----------|-----------|-----------|-----------|---|

| | | | | | | | | |
|----------|-----|--------|----------|---|-----------|---|---|----|
| UNIBANCO | CDI | 74.80% | (92,792) | - | (127,030) | - | - | 33 |
|----------|-----|--------|----------|---|-----------|---|---|----|

From
75.25%

| | | | | | | | | |
|------------|-----|---------|----------|---------|-----------|----------|---|----|
| VOTORANTIM | CDI | 100.00% | (97,854) | (9,330) | (134,491) | (14,939) | - | 37 |
|------------|-----|---------|----------|---------|-----------|----------|---|----|

| | | | | | | | |
|-------------|-----|---------|---|----------|---|----------|---|
| BNP PARIBAS | CDI | 106.00% | - | (18,644) | - | (21,435) | - |
|-------------|-----|---------|---|----------|---|----------|---|

**Pre Rate
(IGPM)**

| | | | | | | | | |
|--|--|--|------------------|--------------------|------------------|--------------------|----------|----------|
| | | | (225,000) | (1,097,596) | (227,461) | (1,216,844) | - | 1 |
|--|--|--|------------------|--------------------|------------------|--------------------|----------|----------|

From
12.78%

| | | | | | | | |
|--------------------|-----|--------|---------|--------|-----------|----------|---|
| BANCO DO BRASIL | Pré | 12.81% | 175,000 | 44,500 | (176,908) | (49,979) | - |
|--------------------|-----|--------|---------|--------|-----------|----------|---|

| | | | | | | | |
|-----------|-----|--------|--------|---------|----------|-----------|---|
| BRANDESCO | Pré | 12.81% | 50,000 | 456,152 | (50,553) | (505,084) | - |
|-----------|-----|--------|--------|---------|----------|-----------|---|

| | | | | | | | |
|------------------|-----|--------|---|--------|---|----------|---|
| MERRILL LYNCH | Pré | 12.46% | - | 44,502 | - | (49,979) | - |
|------------------|-----|--------|---|--------|---|----------|---|

From
11.30%

| | | | | | | | |
|-----------|-----|--------|---|---------|---|-----------|---|
| SANTANDER | Pré | 12.62% | - | 552,442 | - | (611,802) | - |
|-----------|-----|--------|---|---------|---|-----------|---|

| | | | | | | | |
|------------------------|--|--|------------------|------------------|------------------|------------------|----------|
| Post Rate (CDI) | | | (110,000) | (110,000) | (141,080) | (128,690) | - |
|------------------------|--|--|------------------|------------------|------------------|------------------|----------|

| | | | | | | | |
|----------|-----|---------|-----------|-----------|-----------|-----------|---|
| UNIBANCO | CDI | 107.00% | (110,000) | (110,000) | (141,080) | (128,690) | - |
|----------|-----|---------|-----------|-----------|-----------|-----------|---|

Provision withholding income tax (96,513)
632,751 (203,3

| | |
|--|---------|
| Amount receivable/payable withholding income tax, net | |
| Balance of Balance Sheet | |
| Adjustment: | 429,428 |

(1) Foreign currency swaps x CDI (R\$2,432,082) swap transactions contracted with maturity date until 2015, for protection against exchange variation risk in financing transactions of this kind (R\$2,443,250).

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(2) Swap CDI X Pre (R\$226,248) swap transactions contracted with maturity date in January 2010, for partially protecting against local interest rate fluctuations in relation to debts and derivatives exposed in CDI (debts of R\$2,368,017). For the other exposures to CDI (swap liabilities), the Company and its subsidiaries have short term financial investments based on the variation of the CDI (R\$2,126,539 at December 31, 2008) as partial natural hedge. The book values of these financial investments are close to market values, because they are redeemed at short term.

(3) Swap IGPM x CDI percentage (R\$156,703) swap transactions contracted with maturity date until 2010 with the purpose of protecting the flow identical to the debts at IGPM (R\$156,703).

At December 31, 2008, assets in the amount of R\$632,751 and liabilities in the amount of R\$203,323 were recorded by the Company and its subsidiaries for recognition of the net derivatives positions as of that date.

Gains and losses in the fiscal year ended on December 31, 2008, grouped by contracts executed, were recorded in the income accounts (note 29), as required in CVM Resolution 550/08.

Below is a breakdown of the maturity dates of the swaps at December 31, 2008:

| Description "Swap's" of contract | Maturity | | | | Amount payable/receivable 12/31/2008 |
|-------------------------------------|----------|----------|----------|-------------------|--|
| | 2009 | 2010 | 2011 | 2012 and after | |
| Foreign currency x CDI | | | | | |
| ABN AMRO | - | 33,232 | - | - | 33,232 |
| BANCO DO BRASIL | 172,557 | - | 8,117 | - | 180,674 |
| BRADESCO | 13,125 | - | - | - | 13,125 |
| CITIBANK | (8,542) | (7,060) | (6,271) | 49,035 | 27,162 |
| ITAÚ | (515) | - | - | - | (515) |
| JP MORGAN | (25,056) | (17,356) | (15,892) | 141,884 | 83,580 |
| PACTUAL | (1,252) | - | - | - | (1,252) |
| SANTANDER | 246,835 | - | - | - | 246,835 |
| UNIBANCO | (33,551) | - | - | - | (33,552) |
| VOTORANTIM | (35,220) | (1,707) | (830) | - | (37,758) |
| Total | 328,379 | 7,109 | (14,876) | 190,919 | 511,531 |
| CDI x Pre | | | | | |
| BANCO DO BRASIL | - | 938 | - | - | 938 |
| BRADESCO | - | 276 | - | - | 276 |
| Total | - | 1,213 | - | - | 1,213 |
| IGPM x CDI | | | | | |
| UNIBANCO | - | 15,623 | - | - | 15,623 |

| | | | | | |
|-------|---|---|---|---|----------|
| Total | - | 15,623 | - | - | 15,623 |
| | | Provision withholding income tax | | | (96,513) |
| | | Amount receivable/payable withholding income tax, net | | | 429,428 |
| | | Balance of Balance Sheet Adjustment: | | | 429,428 |

Analysis of sensitivity to the risk variables of the Company and its subsidiaries

CVM requires for that publicly-held companies, in addition to the provisions in item 59 of CPC 14 Financial Instruments: Recognition, Measurement and Evidencing, are required to disclose a statement of sensitivity analysis, for each type of market risk deemed by management to be material, originated by financial instruments, to which the entity is exposed at the closing date of each period, including all the transactions with derivative financial instruments.

In compliance with the provisions above, the most probable scenario, as evaluated by management, was the realization at the maturity dates of each of the transactions of what the market has been signaling through the market curve (currencies and interests) of the BM&F and Bovespa. In this way, in the probable scenario, there is no impact on the fair value of the financial instruments already presented above. For scenarios II and III, deterioration of 25% and 50%, respectively, was considered in the risk variables until the maturity date of the financial instruments.

As the Company and its subsidiaries only have derivative instruments for hedging of their financial debt, changes in the scenarios are accompanied by the respective hedge objects, thus showing that the effects thereof are almost null. For these transactions, the Company has stated the balance of the subject matter (debt) and of the derivative financial instrument (hedge) in separate lines of the sensitivity analysis table, in order to inform on the net exposure of the Company, in each of the three mentioned scenarios, as shown below:

Sensitivity Analysis – Net Exposure

| Operation | Risk | Scenario I | Scenario II | Scenario III |
|--------------------------------|------------------------------------|-------------------|--------------------|---------------------|
| Hedge (Asset position) | Derivatives (Risk reduction USD) | 1,092,100 | 1,456,427 | 1,870,991 |
| Debt in USD | Debt (Risk increase USD) | (1,103,268) | (1,470,310) | (1,887,555) |
| | Net exposure | (11,168) | (13,883) | (16,564) |
| Hedge (Asset position) | Derivatives (Risk reduction JPY) | 1,339,982 | 1,678,732 | 2,019,046 |
| Debt in JPY | Debt (Risk increase JPY) | (1,339,982) | (1,678,732) | (2,019,046) |
| | Net exposure | - | - | - |
| Hedge (Asset position) | Derivatives (Risk reduction IGP-M) | 226,248 | 232,356 | 238,464 |
| Debt in IGP-M | Debt (Risk increase IGP-M) | (226,248) | (232,356) | (238,464) |
| | Net exposure | - | - | - |
| Hedge (Asset position) | Derivatives (Risk reduction CDI) | 156,703 | 160,332 | 164,125 |
| Debt in CDI | Debt (Risk increase CDI) | (156,703) | (160,332) | (164,125) |
| | Net exposure | - | - | - |
| Hedge (CDI Liability position) | Derivatives (Risk increase CDI) | (2,061,631) | (2,162,494) | (2,226,791) |
| | Net exposure | (2,061,631) | (2,162,494) | (2,226,791) |

Premises for the Sensitivity Analysis

| <u>Risk Variable</u> | Scenario I | Scenario II | Scenario III |
|----------------------|------------|-------------|--------------|
| USD American Dolar | 2.337 | 2.921 | 3.506 |

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| | | | | |
|-------|---------------------------|--------|--------|--------|
| JPY | Japanese Yen | 0.0258 | 0.0320 | 0.0390 |
| IGP-M | Brazilian Inflation Index | 9.81% | 12.26% | 14.71% |
| CDI | Interbank Deposit Rate | 13.62% | 17.03% | 20.43% |

The net exposure in CDI shown in the sensitivity analysis does not reflect all the exposure of the Company and of its subsidiaries to the local interest rate, once the Company has debts indexed to the CDI, as already mentioned.

For calculate the net exposure, all derivate was a fair value, as well as associate debts (hedged).

The fair values, shown in the table above are from a portfolio position at December 31, 2008, however they do not reflect an estimate of realization due to the market dynamism, constantly monitored by the Company and its subsidiaries. The use of different premises may significantly affect the estimates.

33. POST-EMPLOYMENT BENEFIT PLANS

Vivo, together with other companies belonging to the former Telebrás System, sponsor private pension plans and medical assistance plans for retired employees under the same conditions of the publication for the last fiscal year, as follows: i) PBS-A; ii) PAMA; iii) PBS- Telesp Celular, PBS-TCO, PBS Tele Sudeste Celular and PBS Tele Leste Celular; iv) TCP Prev and TCO Prev Plans; v) Visão Celular Benefit Plans - Celular CRT, Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular.

The PBS-A and PAMA plans are administered by Fundação SISTEL de Seguridade Social SISTEL.

Vivo, through its actuarial consultants, has prepared studies considering the impact of ordinary action no. 04/081.668 -0, brought by ASTEL against Fundação Sistel de Seguridade Social, in which Telefonica and Telesp Celular (company that was merged into Vivo) are mentioned, in addition to Sistel, which action is related to the change in the costing system and review of other PAMA benefits. Based on the opinion of its tax consultants, management believes that at this time there is no payment risk, and at December 31, 2008 the chance of loss was classified as possible. At December 31, 2008 the amount in question was R\$1,475 (R\$1,301 at December 31, 2007).

On February 2, 2007, the process for transferring the administration of Sistel Social Security Foundation plans to Visão Prev - Sociedade de Previdência Complementar (Visão Prev) was approved, as follows: PBS Telesp Celular, TCPPrev, PBS Tele Centro Oeste Celular, TCOPrev, PBS Telesudeste Celular, Visão Telerj Celular, Visão Telest Celular, PBS Teleleste Celular, Visão Telebahia Celular, Visão Telergipe Celular and Visão Celular CRT.

The eleven plans sponsored by Vivo were gradually transferred to Visão Prev until December 31, 2007, while the transfer of the assets of the plans occurred on May 2, 2007.

On August 21, 2007, the regulation of Vivo-Prev plan was approved, an individual plan of defined contribution, which has already been managed by Visão Prev. The contributions of Vivo to this plan are equal to the ones from the participants, varying from 0% to 8% of the participation wage, as a function of the percentage chosen by the participant.

The process of migration in which the participants of old plans could choose to migrate to the new Vivo-Prev plan started on March 01, 2008. This process of migration was completed on May 31, 2008, with massive adhesion to the new plan.

Telemig Celular individually sponsors a defined retirement benefits plan - Plano PBS Telemig Celular. Besides the benefit of supplementation, medical assistance (PAMA) is provided to retired employees and their dependents, at shared cost.

Telemig Celular also sponsors the CelPrev, a defined contribution plan. The participant can make three types of contributions to the plan, namely: (a) regular basic contribution: percentage varies from 0% to 2% of his participation salary; (b) additional regular contribution: percentage varies from 0% to 6% of that portion of his participation salary that exceeds 10 Standard Reference Units of the Plan; and, (c) voluntary contribution: percentage is freely chosen by the participant and applied on his/her participation salary. The sponsor can make four types of contributions, namely: (a) regular basic contribution: contribution equal to the participant's regular basic contribution, less the contribution for defraying the cost of the sickness allowance and for defraying administrative expenses; (b) additional regular contribution: equal to the participant's regular additional contribution, less the administrative expenses; (c) eventual contribution: voluntary contribution made at such times as may be determined by the sponsor; and (d) special contribution: contribution solely intended for those employees of the sponsor who are not participants of the PBS and who joined the plan within 90 days from the effective date of the CelPrev.

Actuarial provisions relating to the plans mentioned above are recorded in "Other liabilities" (Note 22).

Below is a breakdown of the provision for the defined benefits retirement plans and retired employees medical assistance plan at December 31, 2008 and 2007, as well as other information required in CVM Resolution no. 371 about such plans:

| <u>Plan</u> | 2008 | 2007 |
|-------------|--------|-------|
| PAMA | 11,853 | 3,308 |
| Vivo Prev | - | 652 |
| TCP Prev | 519 | - |
| Total | 12,372 | 3,960 |

1) Reconciliation of Assets and Liabilities

| | 2008 | | |
|------------------|-----------------------------|---------------------------|--------------------------|
| | Total actuarial liabilities | Fair value of plan assets | Net liabilities (assets) |
| Vivo Prev | 16,993 | (26,747) | (9,754) |
| PAMA (i) | 18,201 | (6,348) | 11,853 |
| PBS (ii) | 98,060 | (141,149) | (43,089) |
| PBS-A (i) e (ii) | 31,497 | (42,870) | (11,373) |
| TCP Prev | 519 | - | 519 |
| TCO Prev (ii) | 21,905 | (29,004) | (7,099) |
| Visão (ii) | 379 | (5,774) | (5,395) |
| Cel Prev | 1,364 | (4,081) | (2,717) |

| | 2007 | | |
|------------------|-----------------------------|---------------------------|--------------------------|
| | Total actuarial liabilities | Fair value of plan assets | Net liabilities (assets) |
| Vivo Prev | 652 | - | 652 |
| PAMA (i) | 6,100 | (2,792) | 3,308 |
| PBS (ii) | 23,778 | (33,648) | (9,870) |
| PBS-A (i) e (ii) | 25,780 | (41,812) | (16,032) |
| TCP Prev | 3,220 | (7,847) | (4,627) |
| TCO Prev (ii) | 42,599 | (59,623) | (17,024) |
| Visão (ii) | 5,139 | (24,073) | (18,934) |

i) This refers to the proportional participation of the Company in the assets and liabilities of the multi-sponsored plan PAMA and PBS-A;

ii) Although the PBS, PBS-A, TCO Prev, Visão, Vivo Prev and Cel Prev have recorded a surplus at December 31, 2008, not any asset was recognized by the sponsor due to the absence of outlooks for use of such surplus.

2) Changes in the net actuarial liabilities (assets)

| | Net (asset) liability at 12/31/07 | Balance of plans of Telemig Participações at 12/31/07 | Expenses (income) recognized in income in 2008 | Sponsor s contribution | Actuarial (gains) losses for the year | Net (asset) liability at 12/31/08 |
|-----------|---|--|--|---------------------------|--|---|
| Vivo Prev | 652 | - | 200 | (1,200) | (9,406) | (9,754) |
| PAMA | 3,308 | 3,193 | 1,100 | (71) | 4,323 | 11,853 |
| PBS | (9,870) | (25,067) | (7,064) | (469) | (619) | (43,089) |
| PBS-A | (16,032) | (259) | (1,837) | - | 6,755 | (11,373) |
| TCP Prev | (4,627) | - | (112) | (7) | 5,265 | 519 |
| TCO Prev | (17,024) | - | (1,355) | (79) | 11,359 | (7,099) |
| Visão | (18,934) | - | (1,459) | (223) | 15,221 | (5,395) |
| Cel Prev | - | (719) | (337) | (73) | (1,588) | (2,717) |

3) Changes in the actuarial liabilities

| | Actuarial liabilities at 12/31/07 | Balance of plans of Telemig Participações at 12/31/07 | Cost of current service | Interest on actuarial liabilities | Benefits paid | Actuarial (gains) losses | Actuarial liabilities at 12/31/08 |
|-----------|-----------------------------------|---|-------------------------|-----------------------------------|---------------|--------------------------|-----------------------------------|
| Vivo Prev | 652 | - | 135 | 65 | - | 16,141 | 16,993 |
| PAMA | 6,100 | 8,280 | 140 | 1,527 | (515) | 2,669 | 18,201 |
| PBS | 23,778 | 58,102 | 1,958 | 8,627 | (3,695) | 9,290 | 98,060 |
| PBS-A | 25,780 | 699 | - | 2,745 | (2,308) | 4,581 | 31,497 |
| TCP Prev | 3,220 | - | 425 | 322 | (13) | (3,435) | 519 |
| TCO Prev | 42,599 | - | 692 | 4,510 | (791) | (25,105) | 21,905 |
| Visão | 5,139 | - | 684 | 519 | (8) | (5,955) | 379 |
| Cel Prev | - | 1,166 | 171 | 122 | (44) | (51) | 1,364 |

4) Changes in the plan assets

| | Fair value of plan assets at 12/31/07 | Balance of plans of Telemig Participações at 12/31/07 | Benefits paid | Sponsor s and employees contributions | Return on plan assets | Actuarial Gains (losses) on assets | Fair value of plan assets at 12/31/08 |
|-----------|---------------------------------------|---|---------------|---------------------------------------|-----------------------|------------------------------------|---------------------------------------|
| Vivo Prev | - | - | - | (1,219) | - | (25,528) | (26,747) |
| PAMA | (2,792) | (3,790) | 515 | (71) | (618) | 408 | (6,348) |
| PBS | (33,648) | (107,919) | 3,695 | (1,435) | (15,221) | 13,379 | (141,149) |
| PBS-A | (41,812) | (1,133) | 2,308 | - | (4,580) | 2,347 | (42,870) |
| TCP Prev | (7,847) | - | 13 | (7) | (859) | 8,700 | - |
| TCO Prev | (59,623) | - | 791 | (84) | (6,529) | 36,441 | (29,004) |
| Visão | (24,073) | - | 8 | (234) | (2,646) | 21,171 | (5,774) |
| Cel Prev | - | (4,557) | 44 | (95) | (516) | 1,043 | (4,081) |

5) Expenses (revenue) in 2008

| | Cost of service | Cost of interest on actuarial obligations | Expected return on assets | Employees contributions | Cost of the amortization | Total |
|-----------|-----------------|---|---------------------------|-------------------------|--------------------------|---------|
| Vivo Prev | 135 | 65 | - | - | - | 200 |
| PAMA | 140 | 1,527 | (618) | - | 51 | 1,100 |
| PBS | 1,958 | 8,627 | (15,221) | (957) | (1,469) | (7,062) |
| PBS-A | - | 2,745 | (4,580) | - | (3) | (1,838) |

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| | | | | | | |
|----------|-----|-------|---------|------|-------|---------|
| TCP Prev | 425 | 322 | (859) | - | - | (112) |
| TCO Prev | 692 | 4,510 | (6,529) | (28) | - | (1,355) |
| Visão | 684 | 519 | (2,646) | (15) | - | (1,458) |
| Cel Prev | 171 | 122 | (516) | - | (115) | (338) |

6) Estimated expenses (revenue) for 2009

| | Cost of service | Cost of interest on actuarial obligations | Expected return on assets | Employees contributions | Total |
|-----------|-----------------|--|------------------------------|----------------------------|---------|
| Vivo Prev | 2,554 | 1,611 | (3,075) | (58) | 1,032 |
| PAMA | 171 | 1,821 | (671) | - | 1,321 |
| PBS | 2,020 | 9,735 | (15,634) | (996) | (4,875) |
| PBS-A | 83 | 3,001 | (4,977) | - | (1,893) |
| TCP Prev | 66 | 49 | - | (26) | 89 |
| TCO Prev | 74 | 2,170 | (3,183) | (7) | (946) |
| Visão | 46 | 36 | (644) | (14) | (576) |
| Cel Prev | 182 | 134 | (465) | (12) | (161) |

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7) Actuarial premises

| | Discount rate used at current value of actuarial liabilities | Estimate return rate on plan assets | Future compensation growth rate | Medical costs growth rate | Benefits growth rate | Mortality table | Disability table |
|--------------|---|--|---------------------------------------|---------------------------------|----------------------------|------------------------------|---------------------|
| Vivo Prev | 10.14% | 11.15% | - | - | - | AT83 segregated by gender | Mercer |
| PAMA | 10.14% | 10.88% | - | 8.04% | - | AT83 segregated by gender | Mercer |
| PBS | 10.14% | 11.15% to | 6.44% | - | 4.90% | AT83 segregated by gender | Mercer |
| PBS-A | 10,14% | 11,91% | - | - | 4,90% | AT83 segregated by gender | - |
| TCP Prev | 10,14% | 11,15% | - | - | - | AT83 segregated by gender | Mercer |
| TCO Prev | 10,14% | 11,15% | - | - | - | AT83 segregated by gender | Mercer |
| Visão Cel | 10,14% | 11,15% | 7,10% | - | 4,90% | AT83 segregated by gender | Mercer |
| Prev | 10,14% | 11,44% | 7,10% | - | 4,90% | AT83 segregated by gender | Mercer |

34. TRANSACTIONS WITH RELATED PARTIES

The main transactions with unconsolidated related parties are:

a) Communication via local cellular phone and long distance and use of network: these transactions are carried out with companies of the same controlling group: Telecomunicações de São Paulo S.A. - TELESP and subsidiaries. Part of these transactions was carried out in conformity with agreements entered into between TELEBRAS and the concessionaires prior to the privatization, under conditions regulated by ANATEL. It includes roaming services to customers of Telecomunicações Móveis Nacionais - TMN and several companies related to the Telefónica Group in the Company's network.

b) Technical Assistance: this refers to business consultant services provided by PT SGPS and technical assistance by Telefonica S.A., Telefonica International S.A., calculated on the basis of a formula provided for in the contracts that includes the variation in LAIR (Profit Before the Income Tax) and the variation in PN and ON shares which determine a coefficient that is applied to the service revenues. In the case of the operation of the branch office in Rio Grande do Sul, its contract provides for only a fixed percentage on the service revenue. The above referred contracts were terminated on August 04, 2008.

- c) Rendering of corporate services: these were transferred to the subsidiaries at the cost actually incurred in these services.
- d) Telephone customer services (call center): services provided by Atento Brasil S.A. and Mobitel S.A. Dedic to users of telecommunication services, contracted for 12 months, and renewable for an equal period.
- e) System development and maintenance services: rendered by Portugal Telecom Inovação Brasil S.A. and Telefonica Pesquisa e Desenvolvimento do Brasil Ltda.

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f) Logistics operator and financial and accounting consultancy services: rendered by Telefonica Serviços Empresariais do Brasil Ltda.

g) Voice portal content provider services: rendered by Terra Networks Brasil S/A.

h) International roaming services: provided by Telefonica Móviles España S.A and Telecomunicações Móveis Nacionais TMN.

We summarize below balances and transactions with related, non-consolidated parties:

| | As of December 31, | |
|---|--------------------|---------|
| | 2008 | 2007 |
| Assets | | |
| Accounts receivable, net | 244,341 | 189,011 |
| Other accounts receivable related parties | 11,064 | 10,661 |
| Liabilities: | | |
| Suppliers and accounts payable | 389,925 | 263,860 |
| Technical assistance | 170,178 | 189,696 |
| Payables to related parties | 4,070 | 847 |

| Statement of operations | Years ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Revenue from telecommunications services | | | |
| Telecomunicações de São Paulo S.A. - Telesp | 1,888,625 | 1,684,492 | 1,610,763 |
| Telefonica S.A | - | 1,424 | - |
| Telefonica Serviços Empresariais do Brasil | | | |
| Ltda | 244 | - | - |
| T,Empresas Brasil | 578 | - | - |
| A,Telecom | 8,305 | - | - |
| Atento Brasil S,A, | 1,495 | - | - |
| Telecomunicações Móveis Nacionais TMN | 610 | 225 | - |
| Operadoras Grupo Telefónica (international roaming) | 3,061 | - | - |
| Balance at December 31 | 1,902,918 | 1,686,141 | 1,610,763 |
| Expenses: | | | |
| Cost of services: | | | |
| Telecomunicações de São Paulo S.A. | | | |
| Telesp | (173,492) | (121,930) | (134,154) |
| Telefonica Empresas Brasil S.A. | (4,691) | (5,361) | (3,863) |
| Telefonica Moviles Espana S.A. | (406) | (1,558) | (36) |
| Portugal Telecom Inovação Brasil Ltda | (1,377) | (982) | (1,995) |
| Primesys Soluções Empresariais S.A. | - | (188) | (397) |
| Telecomunicações Móveis Nacionais TMN | (69) | (39) | - |
| Telefonica Serviços Empresariais do Brasil | | | |
| Ltda | (20) | - | - |
| T International Wholesale | (69) | (211) | - |
| T International Wholesale Brasil | (4,197) | - | - |
| T, Móviles Colômbia | (126) | - | - |
| Terra Networks Brasil S.A. | - | - | (45) |
| Balance at December 31 | (184,447) | (130,269) | (140,490) |
| Other operating income (expenses), net | | | |
| Atento Brasil S.A. | (314,502) | (242,767) | (253,563) |
| Mobitel S.A. Dedic | (243,388) | (221,298) | (249,566) |
| Telefonica Serviços Empresariais do Brasil | | | |
| Ltda | (60,281) | (48,057) | (25,571) |
| Terra Networks Brasil S.A. | (2,060) | (1,957) | (597) |
| Portugal Telecom Inovação Brasil Ltda | (9,918) | (4,931) | (4,272) |
| T International Wholesale S.A. | (57) | (290) | (382) |
| Telecomunicações Móveis Nacionais TMN | - | (40) | (70) |
| Telefonica Empresas S.A. | 612 | 602 | (4,919) |
| Telecomunicações de São Paulo S.A. | | | |

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| | | | |
|---|-----------|-----------|-----------|
| Telesp | (35,096) | (61,696) | (44,073) |
| Portugal Telecom SGPS S.A. | (44,800) | (62,190) | (9,206) |
| Telefonica S.A. | 40,709 | (56,779) | 10,806 |
| TBS Celular Participações Ltda | (7,865) | (11,644) | (10,141) |
| Cobros Gestão de Serviços | (1,380) | - | - |
| Telefonica Pesquisa e Desenvolvimento do | | | |
| Brasil Ltda | (889) | (935) | (772) |
| Primesys Soluções Empresariais S.A. | 184 | (110) | 1,241 |
| Telefonica Comunicaciones Personales S.A. | | | |
| UNIFON | - | - | (168) |
| Telefonica Engenharia de Segurança do | | | |
| Brasil Ltda | - | - | (2) |
| Telefonica Móviles Chile S.A. | - | - | 23 |
| Atelecom | 8 | - | - |
| Telefonica Soluciones de Informática Ltda | - | - | - |
| Balance at December 31, | (678,723) | (712,092) | (591,232) |

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| Statement of operations | Years ended December 31, | | |
|---|--------------------------|--------|-------|
| | 2008 | 2007 | 2006 |
| Net financial income (expenses) | | | |
| Telefonica S.A. | (22,357) | 5,745 | 1,198 |
| Telefonica International S.A. | (4,376) | 2,837 | 1,804 |
| Portugal Telecom SGPS S.A. | (15,871) | 1,460 | 396 |
| Primesys Soluções Empresariais S.A. | - | 169 | - |
| Telecomunicações Móveis Nacionais | | | |
| TMN | - | - | 47 |
| Balance at December 31 | (42,604) | 10,211 | 3,445 |
| Nonoperating income | | | |
| Telefonica Serviços Empresariais do Brasil Ltda | - | - | 29 |
| Primesys Soluções Empresariais S.A. | - | - | 33 |
| Balance at December 31, | - | - | 62 |

35. DIRECTORS FEES

In fiscal years 2008, 2007 and 2006, the directors and executive officers fees totaled R\$8,162, R\$6,173 and R\$8,557, respectively, and were recorded as expense.

36 INSURANCE (UNAUDITED)

The Company and its subsidiaries adopted a policy of monitoring risks inherent to their transactions. For this reason, as of December 31, 2008, the Company and its subsidiary had insurance contracts in place for coverage of operating risks, civil liability, health risks, etc. The Management of the Company and of its subsidiaries considers that the amounts of such contracts are sufficient to cover potential losses. The main assets, liabilities or interests covered by insurance and their respective amounts are shown below:

| Type of Insurance | Insured amounts |
|--|---|
| Operating risks | R\$18,586,501 |
| General Civil Liability RCG | R\$4,576 |
| Automobile (fleet of executive vehicles) | 100% da Tabela Fipe, R\$220 for Corporal and Material |

37. COMBINED FINANCIAL STATEMENTS (UNAUDITED)

In order to offer proper comparison, we are presenting below the consolidated and combined financial statements, considering that the acquisition of the share control of Telemig Participações had already occurred on January 01, 2007.

This information is presented only for allowing additional analysis resulting from the comparison of balances and transactions. It does not purport what might have occurred if the companies were already under common control and does not purport to represent the financial statements of one corporate entity separately nor necessarily indicate future results.

Because it refers to combined information, that is, a simple sum of the accounting items, for preparation of the income statements, minority interests were not taken into consideration.

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CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2008 AND COMBINED BALANCE SHEET AS OF DECEMBER 31, 2007

| ASSETS | 12.31.08 | 12.31.07 |
|--|--------------|------------|
| | Consolidated | Combined |
| CURRENT: | | |
| Cash and cash equivalents | 2,182,913 | 2,921,562 |
| Short-term investments pledged as collateral | 41,487 | 32,359 |
| Trade accounts receivable, net | 2,578,498 | 2,411,695 |
| Inventories | 778,704 | 411,902 |
| Advances to suppliers | 1,550 | 1,275 |
| Deferred and recoverable taxes | 2,358,647 | 1,920,093 |
| Derivative contracts | 347,448 | 1,530 |
| Prepaid expenses | 316,622 | 235,737 |
| Other assets | 321,384 | 204,188 |
| Total current assets | 8,927,253 | 8,140,341 |
| NONCURRENT ASSETS: | | |
| Long-term assets: | | |
| Short-term investments pledged as collateral | 47,335 | 27,108 |
| Deferred and recoverable taxes | 2,720,322 | 2,695,687 |
| Derivative contracts | 285,303 | 8,965 |
| Prepaid expenses | 80,206 | 61,024 |
| Other assets | 46,291 | 59,975 |
| Investments | 1,424,389 | 667,542 |
| Property, plant and equipment, net | 7,183,908 | 7,047,323 |
| Intangible, net | 3,014,704 | 1,799,566 |
| Deferred assets, net | 55,393 | 58,833 |
| Total noncurrent assets | 14,857,851 | 12,426,023 |
| Total assets | 23,785,104 | 20,566,364 |

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2008 AND COMBINED BALANCE SHEET AS OF DECEMBER 31, 2007

| LIABILITIES AND SHAREHOLDERS EQUITY | 12.31.08 | 12.31.07 |
|---|--------------|------------|
| | Consolidated | Combined |
| CURRENT: | | |
| Payroll and related accruals | 185,471 | 208,267 |
| Trade accounts payable | 3,726,324 | 3,453,302 |
| Taxes payable | 785,603 | 711,679 |
| Loans and financing | 3,098,346 | 1,459,604 |
| Debentures | 21,502 | 539,912 |
| Interest on shareholders equity and dividends | 545,864 | 81,638 |
| Provision for contingencies | 91,136 | 81,395 |
| Derivative contracts | 105,352 | 438,876 |
| Other liabilities | 820,233 | 709,819 |
| Total current liabilities | 9,379,831 | 7,684,492 |
| NONCURRENT LIABILITIES: | | |
| Long-term liabilities: | | |
| Taxes payable | 263,572 | 193,844 |
| Loans and financing | 3,826,385 | 1,533,561 |
| Debentures | 1,056,923 | 1,006,226 |
| Reserve for contingencies | 102,947 | 126,641 |
| Derivative contracts | 97,971 | 102,327 |
| Concession licenses | - | 69,987 |
| Other liabilities | 202,144 | 154,021 |
| Total noncurrent liabilities | 5,549,942 | 3,186,607 |
| MINORITY INTEREST | | |
| | 587,804 | 177,605 |
| Shareholders equity: | | |
| Capital stock | 6,710,526 | 6,862,784 |
| Treasury shares | (11,070) | (11,070) |
| Capital reserves | 708,574 | 1,146,422 |
| Income reserves | 859,497 | 951,875 |
| Retained earnings | - | 567,649 |
| Total shareholders equity | 8,267,527 | 9,517,660 |
| Total liabilities and shareholders equity | 23,785,104 | 20,566,364 |

COMBINED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

| | 2008 | 2007 |
|--|-------------|-------------|
| Revenue from service | 18,925,467 | 16,353,186 |
| Sale of handsets and accessories | 3,286,183 | 3,223,252 |
| Gross operating revenue | 22,211,650 | 19,576,438 |
| Deductions from gross revenue | (6,392,732) | (5,722,930) |
| Net operating revenue | 15,818,918 | 13,853,508 |
| Cost of services provided | (5,859,332) | (5,099,733) |
| Cost of goods sold | (2,473,248) | (2,236,390) |
| Gross profit | 7,486,338 | 6,517,385 |
| Selling expenses | (4,184,257) | (3,851,302) |
| General and administrative expenses | (1,249,652) | (1,361,570) |
| Other operating income(expenses), net | (215,382) | (461,788) |
| Operating expenses | (5,649,291) | (5,674,660) |
| Operating income before net financial expenses | 1,837,047 | 842,725 |
| Financial expenses | (891,124) | (710,259) |
| interest on shareholders equity paid | (172,964) | (10,107) |
| Financial income | 350,358 | 270,992 |
| Monetary and exchange variation, net | (79,193) | 13,029 |
| Net income(loss) before taxes and reversion of the interest on shareholders equity | 1,044,124 | 406,380 |
| Income and social contribution taxes | (574,193) | (338,279) |
| Change in Shareholders Equity that not affecting the result | - | 1,007 |
| Income(loss) before reversion of the interest on shareholders equity | 469,931 | 69,108 |
| Reversion of the interest on shareholders equity | 172,964 | 10,107 |

| | | |
|-------------------------|---------|--------|
| Net income for the year | 642,895 | 79,215 |
|-------------------------|---------|--------|

38. SUBSEQUENT EVENTS

On January 14, 2009, Telemig Celular fully settled the US\$80,000 loan agreement in Unsecured Senior Notes, at interest rate of 8.75% per year, with scheduled maturity date on January 20, 2009. The total amount paid for principal and interests was R\$192,559 at the settlement date.

Additionally, on this same date, Telemig Celular settled the financial transactions with derivatives (Swaps), also in the amount of US\$80,000, which had been contracted for reducing the exchange variation risks of the foreign currency loan. The maturity of these contracts were scheduled for January 14, 2009 and the amounts paid totaled R\$70,800.

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39. SUMMARY OF THE DIFFERENCES BETWEEN BRAZILIAN GAAP AND U.S. GAAP APPLICABLE TO THE COMPANY

The Company's accounting policies comply with accounting practices adopted in Brazil, as prescribed (Brazilian GAAP), which differ significantly from accounting principles generally accepted in the United States of America (U.S. GAAP) as described below:

a) Change in basis of presentation

As mentioned in Note 2.b., the financial statements of the Company and of the subsidiaries have been prepared based on the accounting practices adopted in Brazil, as well as on the rules issued by the Brazilian Securities and Exchange Commission (CVM), with due regard to the accounting standards set forth in the corporation law (Law No. 6,404/76), which include the new provisions introduced, amended and revoked by Law No. 11,638, dated December 28, 2007 and by Provisional Executive Act No. 449, dated December 03, 2008.

In conformity with the provisions in CVM Resolution No. 565, dated December 17, 2008, which approved accounting statement CPC 13 Initial Adoption of Law No. 11,638/07 and of Provisional Executive Act No. 449/08, and with a view to meet the requirements set forth in CVM Resolution No. 506/06, dated June 19, 2006, the Company has set the *transition date* for adoption of the new accounting practices as being January 1, 2007. CPC 13, under paragraph 10, established a choice that the Company could elected the new accounting provisions as from January 1, 2008 or January 1, 2007.

However, the Company and its subsidiaries have elected not to adopt the exemption permitted in CPC 13; therefore, their financial statements for 2007 and 2008 have been presented in conformity with the same accounting practices and, thus, are comparable, except for the effects of the acquisition of the equity interest of Telemig Participações and Telemig Celular, as previously discussed in notes 1 and 2a.

The impact of the adoption of the new accounting standard provisions in the net income and the shareholders' equity under Brazilian GAAP are discussed in more details in Note 2.b.

For the years ended on December 31, 2008 and 2007, the reconciliation of net income and shareholders' equity under Brazilian GAAP to U.S. GAAP reflects the new accounting provisions by the initial adoption of Law No. 11,638/07. The Company has set the transition date as being January 1, 2007, as such, the net income reconciliation for the year ended December 31, 2006 does not reflect the new accounting provisions under Brazilian GAAP.

b) Different criteria for capitalizing and amortizing capitalized interest

Until December 31, 1998, under Brazilian GAAP, as applied to companies in the telecommunications industry, interest attributable to construction-in-progress was capitalized at the rate of 12% per year of the balance of construction-in-progress. For the three-year period ended December 31, 2008, the subsidiary did not capitalize interest attributable to construction-in-progress at the rate of 12%; rather, the actual effective interest related to construction-in-progress was used to determine capitalized interest.

Under U.S. GAAP, in accordance with the provisions of Statement of Financial Accounting Standards - SFAS No. 34, Capitalization of Interest Costs, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction-in-progress. The credit is a reduction of interest expense. Under U.S. GAAP, the amount of interest capitalized excludes monetary losses associated with local currency borrowings and the foreign exchange gains and losses on foreign currency borrowings, and other financial expenses related to borrowings.

The effects of these different criteria for capitalizing and amortizing capitalized interest are presented below:

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| | Consolidated | | |
|--|--------------|-----------|----------|
| | 2008 | 2007 | 2006 |
| Capitalized interest: | | | |
| U.S. GAAP capitalized interest | 75,433 | 35,038 | 19,277 |
| U.S. GAAP capitalized interest on disposals | (14,274) | (17,396) | (16,026) |
| Brazilian GAAP capitalized interest | (40,460) | (11,175) | (1,605) |
| Brazilian GAAP capitalized interest on disposals | 11,032 | 13,828 | 3,136 |
| U.S. GAAP difference | 31,731 | 20,295 | 4,782 |
| Amortization of capitalized interest: | | | |
| Amortization under Brazilian GAAP | 4,907 | 56,614 | 36,265 |
| Capitalized interest on disposals | (20,806) | (485) | (3,624) |
| Amortization under U.S. GAAP | (122,322) | (111,383) | (76,241) |
| Capitalized interest on disposals | 12,759 | 611 | 12,579 |
| U.S. GAAP difference | (125,462) | (54,643) | (31,021) |

c) Monetary restatement of 1996 and 1997

The amortization of the asset appreciation, which originated from the inflation accounting during 1996 and 1997, when Brazil was still considered as a high-inflationary economy for U.S. GAAP purposes, has been recognized in the reconciliation to U.S. GAAP. The loss related to monetary restatement on disposals of such assets is classified for U.S. GAAP purposes as a component of other operating expense. The resulting step-up is amortized over the remaining lives of the related assets.

d) Exchange of shares for minority interest

In January 2000, the Company exchanged 21,211,875,174 of its common shares and 61,087,072,187 of its preferred shares for all of the shares held by minority shareholders of Telesp Celular S.A. In 2002, TCO acquired the minority interest in its subsidiary, Telebrasília Celular S.A. (Telebrasília) by exchanging shares of TCO for the shares held by the minority shareholders of Telebrasília. The acquisition increased TCO's interest in Telebrasília from 88.25% to 100%. In 2004, TCO acquired the remaining minority interests in its other subsidiaries through an exchange offer. The exchange ratio for these share exchanges was based on the respective market value of the shares exchanged. Additionally, on November 29, 2000, TLE and TSD acquired minority interests from its subsidiaries Telebahia Celular, Telergipe Celular, Telerj Celular and Telest Celular through an exchange offer transaction.

Under Brazilian GAAP, the share exchanges were recorded at book value. An increase in capital was recorded based on the market value of the Company's shares and a capital reserve was recorded for the difference between the market price of the acquired company's shares and the book value of the shares.

Under U.S. GAAP, the exchange of shares for minority interests is accounted for using the purchase method of accounting. The purchase price of the shares is recorded based on the market price of the issuing Company's shares at the date of the exchange offer. The purchase price is allocated to the proportional assets and liabilities of the acquired minority interest based on their relative fair values. If the fair values of the net assets exceed the purchase price, the

difference is recorded as a reduction to the proportional long-lived assets acquired.

Under U.S. GAAP, the purchase price for the shares of Telesp Celular S.A. was the market price of the Company's shares at the date of the offer. The total purchase price was R\$313,643. The fair value of the net assets of Telesp Celular S.A. exceeded the purchase price by R\$101,671. Under U.S. GAAP, this difference is recorded as a reduction to the acquired fixed assets of Telesp Celular S.A. The adjustment to reconcile to U.S. GAAP is therefore a reduction of capital reserve and fixed assets of R\$101,671 and a reduction of depreciation expense, plus the tax effect, due to the reduction in fixed assets.

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Under U.S. GAAP, shares issued to purchase the minority interest in Telerj Celular S.A. and Telest Celular S.A. in 2000 were recorded at the fair value of R\$351,405 and R\$67,079, respectively. The step-up in the fair value of assets was allocated to fixed assets, subscriber base assets and concession intangibles in the amount of R\$31,522, R\$135,518 and R\$216,648, respectively. The step-up in the fair value of assets was fully amortized over remaining useful lives of the related fixed assets, subscriber base intangible asset, which was fully amortized over 48 months, representing the contractual relationship with subscribers and concession, which is being amortized based on the remaining concession period of the operating companies (until November 2005 for Telerj Celular S.A. and November 2008 for Telest Celular S.A.).

Under U.S. GAAP, shares issued to purchase the minority interest in Telebahia Celular and Telergipe Celular in 2000 were recorded at the fair value of R\$62,082. The step-up in the fair value of assets was allocated to fixed assets, subscriber base assets and concession intangibles in the amount of R\$7,215, R\$2,382 and R\$33,657, respectively. The step-up in the fair value of assets was fully amortized over remaining useful lives of the related fixed assets, subscriber base intangible asset, which was fully amortized over 48 months, representing the contractual relationship with subscribers and concession, which is being amortized based on the remaining concession period of the operating companies (until June 2008 for Telebahia Celular and December 2008 for Telergipe Celular).

Under U.S. GAAP, shares issued to purchase the minority interest in Telebrasília Celular in 2002, and the remaining minority interests in 2004 were recorded at the fair value of R\$64,799 and R\$48,542, respectively. The step-up in the fair value of assets was allocated to fixed assets and concession intangibles in the amount of R\$2,958 and R\$38,336, respectively, for Telebrasília Celular in 2002 and concession intangibles in the amount of R\$30,285 for the remaining minority interests acquired in 2004. The step-up in the fair value of assets is being amortized over 19 to 20 years for concession intangibles and was fully amortized for fixed assets.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to exchanges of shares for minority interest as of December 31, 2008 and 2007:

| | Consolidated | |
|--|--------------|-----------|
| | 2008 | 2007 |
| Telesp Celular: | | |
| Reduction of property, plant and equipment | (101,671) | (101,671) |
| Depreciation for the property, plant and equipment | 101,671 | 98,331 |
| Telerj Celular and Telest Celular: | | |
| Property, plant and equipment fair value adjustment | 31,522 | 31,522 |
| Depreciation of fair value of property, plant and equipment | (31,522) | (31,522) |
| Customer list intangible asset recorded in U.S. GAAP | 135,518 | 135,518 |
| Amortization of customer list | (135,518) | (135,518) |
| Intangible asset related to concession recorded in U.S. GAAP | 216,648 | 216,648 |
| Amortization of intangible asset related to concession | (216,648) | (212,000) |
| Telebahia Celular and Telergipe Celular: | | |
| Property, plant and equipment fair value adjustment | 7,215 | 7,215 |
| Depreciation of fair value of property, plant and equipment | (7,215) | (7,215) |
| Customer list intangible asset recorded in U.S. GAAP | 2,382 | 2,382 |
| Amortization of customer list | (2,382) | (2,382) |
| Intangible asset related to concession recorded in U.S. GAAP | 33,657 | 33,657 |

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| | | |
|---|----------|----------|
| Amortization of intangible asset related to concession | (33,657) | (31,450) |
| Telebrasília Celular: | | |
| Property, plant and equipment fair value adjustment | 2,958 | 2,958 |
| Depreciation of fair value of property, plant and equipment | (2,142) | (1,824) |
| Intangible asset related to concession recorded in U.S. GAAP | 68,621 | 68,621 |
| Amortization of intangible asset related to concession | (19,908) | (16,428) |
| Total of the U.S. GAAP adjustments related to exchange of shares of minority interest | 49,529 | 56,842 |

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e) Acquisitions

Under Brazilian GAAP, purchases of an equity interest of another company are recorded at book value. The difference between the purchased company's proportional net assets and the purchase price is recorded as goodwill. The goodwill is first attributed to any appreciation in the values of the property, plant and equipment acquired and amortized based on the useful lives of the underlying property, plant and equipment. Excess goodwill is generally amortized over ten years on a straight-line basis, based on estimated future profitability until December 31, 2008. Starting January 1, 2009 the net balance of goodwill will no longer be amortized under Brazilian GAAP and will be subject to impairment analysis.

Under U.S. GAAP, the cost of an acquired entity is allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the date of acquisition. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. Under U.S. GAAP, goodwill is not subject to amortization over its estimated useful life, but, rather, it is subject to at least an annual assessment for impairment by applying a fair-value-based test.

The differences between Brazilian GAAP and U.S. GAAP relate to: (i) the acquisition of an equity interest in Daini do Brasil S.A. (Daini), Globaltelcom Telecomunicações S.A. (Globaltelcom) and GTPS S.A. Participações em Investimentos de Telecomunicações (GTPS) (formerly Inepar S.A. Participação em Investimentos de Telecomunicações), the holding companies which controlled Global Telecom S.A. (collectively, the Holdings) on February 6, 2001; (ii) the acquisition of the remaining interest in the Holdings on December 27, 2002; (iii) the acquisition of TCO on April 25, 2003 and the tender offers to purchase additional shares of TCO in November 2003 and October 2004; and (iv) merger of Tele Sudeste Celular Participações S.A. (TSD), Tele Leste Celular Participações S.A. (TLE), Celular CRT Participações S.A. (CRT) and Tele Centro Oeste Celular Participações S.A. (TCO) into the Company through exchange of shares.

Acquisition of Global Telecom S.A. (GT) and Holdings

On February 6, 2001, the Company acquired 49% of the outstanding voting shares and 100% of the outstanding nonvoting preferred shares of each of the Holdings that collectively held 95% of the voting shares and 100% of the nonvoting shares of GT for a total purchase price of R\$914,964. The remaining 5% of the voting shares of GT were held by another investor who subsequently sold them to the three holding companies upon authorization by ANATEL in July 2001. This purchase was funded by an additional capital contribution by the Company to the Holdings in the amount of R\$17,400. The Company's investment in the Holdings represented an 83% aggregate indirect economic interest of the total equity of GT at December 31, 2001. The balance of the economic interest was held by the Holdings.

During 2002, TCP and TC made an intercompany loan to GT amounting to R\$3,161,709. On December 27, 2002, after obtaining approval from ANATEL, TCP purchased the remaining 51% of the outstanding common stock of each of the holding companies (representing an economic interest of 17%), for cash of R\$290,282, and began to consolidate the Holdings. The total purchase price, considered for U.S. GAAP purposes, amounted to R\$827,772, representing the cash paid plus the minority interest in the intercompany loans held by Holdings immediately prior to the date of acquisition. Considering TCP's direct and indirect interests, TCP owned 100% of the capital of GT. On December 30, 2002, R\$2,310,878 of the intercompany loan was capitalized, in exchange for additional shares of GT capital stock. The acquisition of GT was completed to increase market presence in the south of Brazil and to enable TC and GT to benefit from synergies to be derived from their operations and sales of handsets.

The excess purchase price was allocated to the following fair value adjustments: (i) property, plant and equipment which was amortized over approximately 11 years, representing the average remaining useful lives of the relating assets; (ii) customer list which is being amortized over two years, representing the average customer life; and (iii) debt which is being amortized by the effective interest method over the remaining maturities of the underlying GT debt obligations, and concession intangible which is being amortized on a straight-line basis over a 12-year period, representing the remaining term of the license.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to GT as of December 31, 2008 and 2007:

| | 2008 | 2007 |
|--|------------------|------------------|
| Purchase accounting on acquisition of the Holdings: | | |
| Reversal of goodwill recorded under Brazilian GAAP | (346,373) | (441,171) |
| Intangible related to concession recorded in U.S. GAAP | 1,176,727 | 1,176,727 |
| Amortization of intangible related to concession | (589,359) | (560,884) |
| Impairment recorded under U.S. GAAP | (89,533) | (89,533) |
| Reversal of valuation allowance against intangible asset related to the concession (*) | (383,939) | (383,939) |
| Property, plant and equipment fair value adjustment | (121,661) | (121,661) |
| Depreciation of fair value of property, plant and equipment adjustment | 105,776 | 92,539 |
| Customer list intangible asset recorded in U.S. GAAP | 140,035 | 140,035 |
| Amortization of customer list | (140,035) | (140,035) |
| Debt fair value adjustment | 25,800 | 25,800 |
| Amortization of debt fair value adjustment | (25,800) | (25,800) |
| Total of the U.S. GAAP adjustments related to acquisition Holdings | (248,362) | (327,922) |

(*) Under Brazilian GAAP, if a deferred tax asset of the acquiree which was not recognized at the time of the combination is subsequently recognized, the resulting credit is recorded in income for the period.

Under U.S. GAAP, pursuant to Emerging Issues Task Force (EITF) No. 93-7, "Uncertainties Related to Income Tax in a Purchase Business Combination", if a deferred tax asset of the acquiree which was not recognized at the time of the combination is subsequently recognized, the subsequent elimination of a valuation allowance recognized at the acquisition date for deferred tax assets would be applied first to eliminate any goodwill related to the acquisition, second to eliminate any non-current intangible assets to the acquisitions, and third to reduce income tax expense.

For U.S. GAAP purposes, the elimination of valuation allowance recorded by the Company in 2006, in the amount of R\$383,939, was recorded as a reduction of the intangible asset related to concession allocated at the acquisition of GT and the remaining was recorded as a credit in income tax expense for the period.

Acquisition of TCO

On April 25, 2003, the Company acquired 64.03% of the voting capital of TCO for approximately R\$1,505.6 million, and in November 2003 and October 2004, the Company completed public tender offers to acquire 26.70% of the voting capital and 32.76% of the preferred shares of TCO for R\$538.8 million and R\$901.5 million, respectively. After these acquisitions, TCP became the holder of 90.73% of the voting capital of TCO (51.42% of total capital). Additionally, the Company acquired a portion of the remaining balance of the special goodwill reserve of TCO, which

was partially capitalized in the amount of R\$63,893 on July 29, 2005 in its favor, increasing its interest in TCO to 52.47% of total capital.

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The excess purchase price was allocated to the following fair value adjustments: (i) the difference being amortized over approximately three years, representing the weighted-average remaining useful lives of the relating assets; (ii) the difference amortized over two years, representing the average customer life; (iii) the adjustment to long-term debt is being amortized by the effective interest method over the remaining maturities of the underlying TCO debt obligations; (iv) the intangible asset related to the concession is being amortized on a straight-line basis over approximately a period of 18 years, representing the remaining term of the license of Area 8 and the remaining term of the license of Area 7 which expire in 2008, plus one extension of 15 years; (v) the goodwill recorded for U.S. GAAP purposes represents the amount paid in excess of the fair value of TCO. Under Brazilian GAAP, TCP recorded goodwill amounting to R\$2,134,824.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to such acquisitions as of December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|----------------|----------------|
| Purchase accounting on acquisition of TCO: | | |
| Reversal of goodwill recorded under Brazilian GAAP | (232,787) | (613,194) |
| Intangible related to concession recorded in U.S. GAAP | 1,407,876 | 1,407,876 |
| Amortization of intangible related to concession | (501,858) | (425,243) |
| Property, plant and equipment fair value adjustment | 69,895 | 69,895 |
| Depreciation of fair value of property, plant and equipment adjustment | (58,831) | (54,869) |
| Customer list intangible asset recorded in U.S. GAAP | 321,995 | 321,995 |
| Amortization of customer list | (321,995) | (321,995) |
| Debt fair value adjustment | 5,125 | 5,125 |
| Amortization of debt fair value adjustment | (5,125) | (5,088) |
| Goodwill recorded under U.S. GAAP | 510,032 | 579,246 |
| Deferred income tax | (346,769) | (252,455) |
| Total of the U.S. GAAP adjustments related to acquisition of TCO | 847,558 | 711,293 |

Acquisition of Telemig Celular Participações S.A. and Telemig Celular S.A.

On April 3, 2008, the equity control of Telemig Participações (and, indirectly, of Telemig Celular) was transferred to the Company. The price paid on April 3, 2008 for the 7,258,108 common shares and 969,932 preferred shares of Telemig Participações, already added by the remuneration provided for in the Purchase and Sale Agreement entered into with Telpart, was R\$1,162,594. On this date, 53.90% of the voting capital and 22.73% of the total capital of Telemig Participações were transferred to the Company.

On April 8, 2008, the Company through its subsidiary TCO IP (Issuer), launched a Voluntary Public Offering (Voluntary VPO) for purchase of up to 1/3 of the outstanding preferred shares of Telemig Celular and of Telemig Participações. With the completion of the VPO on May 12, 2008, TCO IP acquired 7,257,020 preferred shares of Telemig Participações, representing 20.04% of the total capital and 89,492 preferred shares of Telemig Celular, representing 3.77% of the total capital, having paid the prices of R\$463,724 and R\$58,592, respectively. On July 25, 2008, TCO IP acquired 3,929 preferred shares of Telemig Celular, representing 0.16% of the total capital, for the amount of R\$2,572 and on September 09 and 10, TCO IP acquired 4,000 preferred shares of Telemig Celular, representing 0.17% of the total capital, for the amount of R\$2,619.

On July 15, 2008, the Company launched the Mandatory Public Offering for Disposal of Share Control for acquisition of the outstanding common shares, through its subsidiary TCO IP, in continuance with the process for acquisition of Telemig Participações and of Telemig Celular. Upon the completion of the Mandatory Public Offering on August 15, 2008, TCO IP had acquired 5,803,171 common shares of Telemig Participações, representing 16.03% of the total capital and 78,107 common shares of Telemig Celular, representing 3.29% of the total capital, having paid the prices of R\$732,650 and R\$171,239, respectively.

On November 12, 2008, at a Special Meeting of the Board of Directors of Telemig Participações, a capital increase was approved, to be made out of the special premium reserve, in the amount of R\$22,964, upon issue of 670,300 new registered, preferred shares, without par value, corresponding to the tax benefit of fiscal year 2007. After such capital increase, the Company started owning 58.90% of the total capital of Telemig Participações. During the acquisition period several expenses were incurred on the amount of R\$14,332, which were capitalized as transaction cost.

For U.S. GAAP purposes, the purchase price of such acquisitions was allocated as follows:

| | Acquisition 2008 |
|--|---------------------|
| Amounts representing 58.90% and 7.40% (total capital) of the historical net assets of Telemig Celular Participações S.A. and Telemig Celular S.A., respectively, under U.S. GAAP | 903,686 |
| Fair value adjustments: | |
| Inventory (a) | 2,729 |
| Value added tax credit (ICMS) (b) | (1,493) |
| Property, plant and equipment (c) | 176,401 |
| Intangible assets – software (d) | 3,073 |
| Intangible related to concession (e) | 1,693,203 |
| Debt obligations (f) | 1,668 |
| Goodwill | 466,753 |
| Deferred income tax | (637,698) |
| Purchase price | 2,608,322 |

(a) Difference being amortized over 2 months, representing the average inventory turn-over.

(b) Difference being amortized over 2 years, representing the realization of the tax benefit of state VAT (ICMS) added value tax credit.

(c) Difference being amortized over 5 years, representing the weighted-average remaining useful lives of the relating assets.

(d) Difference being amortized over 3 years, representing the weighted-average remaining useful lives of the relating intangible assets.

(e) The intangible asset related to the concession is being amortized on a straight-line basis over a period of approximately 30 years, representing the remaining term of the 3G license which expire in 2023, plus one extension of 15 years.

(f) Difference being amortized by the effective interest method over the remaining maturities of the underlying Telemig Celular debt obligations.

Despite this acquisition is under allocation period of one year there is no expectation of significant changes in the purchase price allocation presented, if any.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to such acquisitions as of December 31, 2008:

| | 2008 |
|--|-------------|
| Purchase accounting on acquisition of Telemig Celular Participações and Telemig Celular S.A.: | |
| Reversal of goodwill recorded under Brazilian GAAP | (1,619,069) |
| Intangible related to concession recorded in U.S. GAAP | 1,693,203 |
| Amortization of intangible related to concession | (35,157) |
| Property, plant and equipment fair value adjustment | 176,401 |
| Depreciation of fair value of property, plant and equipment adjustment | (22,360) |
| Software fair value adjustment | 3,073 |
| Amortization of software adjustment | (659) |
| Value added tax credit fair value adjustment | (1,493) |
| Amortization of added value tax credit fair value adjustment | 238 |
| Inventory fair value adjustment | 2,729 |
| Amortization of inventory fair value adjustment | (2,729) |
| Debt fair value adjustment | 1,668 |
| Amortization of debt fair value adjustment | - |
| Goodwill recorded under U.S. GAAP | 466,752 |
| Deferred income tax | (632,497) |
| Total of the U.S. GAAP adjustments related to acquisition of Telemig Celular Participações S.A. and Telemig Celular S.A. | 30,100 |

The Company's unaudited consolidated pro forma results under Brazilian GAAP for the years ended December 31, 2008 and 2007 is stated in Note 37, as if the acquisition of Telemig Celular Participações S.A. and Telemig Celular S.A. had been completed on January 1, 2007. The pro forma information is presented for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results.

Under Brazilian GAAP and as mentioned in the footnote 1.f the goodwill paid on Telemig's acquisition was restructured in accordance with CVM Instruction 319/99, turning the deductible portion of the goodwill (34%) in tax benefit (Tax credit acquired restructuring) as mentioned in the footnote 31.1. Therefore, the tax benefit of R\$504,958 and R\$45,524 was recorded at Telemig Participações and Telemig Celular level, respectively, being the credit of same amount recorded as Special goodwill reserve at Telemig Participações and Telemig's equity. The portion of the tax benefit utilized each year can be capitalized to the benefit of the controlling shareholder (the Company) in the subsequent year as mentioned in the footnote 23.c.2.

Under US GAAP the tax benefit recorded at Telemig level was reversed at the consolidated level and will be recorded only when realized on the tax return in accordance with the provisions of FAS 109 Accounting for Income Taxes, paragraph 262. For the year ended December 31, 2008 no tax benefit was realized and therefore, no effect was recorded at Vivo Participações S.A.

The Company paid a premium (*i.e.*, goodwill) over the fair value of the net tangible and identified intangible assets acquired for a number of reasons, including but not limited to the following:

- Telemig fills in the Company's licensed spectrum and network footprints by covering areas where it did not have licenses or network infrastructure;
- Telemig's subscriber base has a strong business subscriber component in the state of Minas Gerais, which allowed us to be very competitive in this state;

- The acquisition will reduce the Company's incollect roaming costs in the state of Minas Gerais;

Unaudited consolidated pro forma results

The following table presents the Company's unaudited consolidated pro forma results under U.S. GAAP for the years ended December 31, 2008 and 2007, as if the acquisition of Telemig had been completed on January 1, 2007. The pro forma information is presented for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results:

| | Year ended December 31, | |
|---|--------------------------------|-----------------------------|
| | 2008 (unaudited) | 2007 (unaudited) |
| Net operating revenues (1) | 20,992,073 | 17,606,978 |
| Operating income | 1,956,097 | 745,551 |
| Income before income taxes and minority interest | 1,374,564 | 356,632 |
| Net income (1) | 732,519 | 10,320 |
| Earnings per share - basic - common | 2.01 | 0.03 |
| Earnings per share - basic - preferred | 2.00 | 0.03 |
| Earnings per share - diluted - common and preferred | 2.00 | 0.03 |

(1) The 2008 pro forma net income includes a gain obtained by the subsidiary Telemig on the first quarter of 2008, before the acquisition, related to a judicial action challenging the ICMS (state VAT) on monthly subscription and value added services, amounting R\$251 million (net of taxes of R\$166 million).

f) Merger of Tele Sudeste Celular Participações S.A. (TSD), Tele Leste Celular Participações S.A. (TLE), Celular CRT Participações S.A. (CRT) and Tele Centro Oeste Celular Participações S.A. (TCO) into Vivo Participações S.A. (former Telesp Celular Participações S.A.) through exchange of shares.

As described above, in February 2006, the Company was merged with TSD, TLE and CRT, and acquired the remaining minority interest in TCO through share exchange transactions.

Under U.S. GAAP, the exchange of shares for minority interests is accounted for using the purchase method of accounting. The purchase price of the shares is recorded based on the market price of the issuing Company's shares at the date of the exchange offer. The purchase price is allocated to the proportional assets and liabilities of the acquired minority interest based on their relative fair values. If the fair values of the net assets exceed the purchase price, the difference is recorded as a reduction to the proportional long-lived assets acquired. For U.S. purposes, the purchase price of such exchanges of shares was allocated as follows:

| | Date of exchange of shares |
|--|----------------------------------|
| Amounts representing 8.97%, 49.33%, 31.23% and 47.53% of the historical net assets of TSD, TLE, CRT and TCO, respectively, under U.S. GAAP | 1,708,795 |
| Fair value adjustments: | |
| Property, plant and equipment (a) | 215,217 |
| Intangible assets - customer list (b) | 607,606 |
| Intangible related to concession (c) | 11,867 |
| Goodwill | 283,795 |
| Deferred income tax | (283,795) |
| Purchase price (d) | 2,543,485 |

(a) Difference being amortized over approximately 2.33 years, representing the weighted-average remaining useful lives of the relating assets.

(b) Difference being amortized over two years, representing the average customer life.

(c) The intangible asset related to the concession is being amortized on a straight-line basis over a period of approximately 17 years.

(d) The purchase was determined using the average market prices of the acquired companies' shares two days before and two days after the terms of the acquisition are agreed to and announced.

Following are the components of the U.S. GAAP adjustment in shareholders' equity related to such acquisitions as of December 31, 2008 and 2007:

Purchase accounting on merger of TSD, TLE and CRT and the acquisition of minority interest in TCO:

| | 2008 | 2007 |
|--|-----------|-----------|
| Property, plant and equipment fair value adjustment | 215,217 | 215,217 |
| Depreciation of fair value of property, plant and equipment adjustment | (215,217) | (174,922) |
| Customer list intangible asset recorded | 607,606 | 607,606 |
| Amortization of customer list | (607,606) | (582,289) |
| Intangible related to concession recorded | 11,867 | 11,867 |
| Amortization of intangible related to concession | (2,047) | (1,345) |

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| | | |
|--|---------|----------|
| Goodwill | 283,795 | 283,795 |
| Deferred income tax | (3,339) | (25,886) |
| Total of the U.S. GAAP adjustments related to merger of TSD, TLL,CRT and the acquisition of minority interest in TCO | 290,276 | 334,043 |

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g) Pension and other post-retirement benefits

The Company and its subsidiaries participate in two multiemployer benefit plans (PBS-A and PAMA) for its retired employees that are operated and administered by SISTEL and provide for the costs of pension and other post-retirement benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. For purposes of U.S. GAAP, the Company is only required to disclose its annual contributions to multiemployer plans. The Company and its subsidiary also sponsor a single-employer defined pension benefit plan (PBS) and single-employer defined contribution pension plans (Prev and Visão). Under Prev and Visão Plans, besides the contributions to the plans, the Company is responsible for funding the risks of death and disability of the participants, and for some participants of the TCO Prev who have migrated from PBS-TCO are also granted some defined pension benefits. The provisions of SFAS No. 87, *Employers Accounting for Pensions*, were applied for the multiemployer plan and the single employer plans were applied with effect from January 1, 1992, because it was not feasible to apply them from the effective date specified in the standard.

Under Brazilian GAAP, if there is sufficient information available, multiemployer defined benefit pension plans and other postretirement benefits should be accounted as if they were single employer plans. As such, under BR GAAP the Company recognized actuarial liabilities corresponding to its share in multiemployer plans, while under U.S. GAAP, the Company recognizes contributions due to the plan each year. See additional disclosures in Note 40.

A summary of the difference between Brazilian GAAP and U.S. GAAP in accrued pension and other post-retirement plans liabilities is as follows:

| | As of December 31, 2008 | | | As of December 31, 2007 | | |
|--|-------------------------|-------------------|---------------------------|-------------------------|-------------------|---------------------------|
| | U.S. GAAP | Brazilian GAAP | Accumulated difference | U.S. GAAP | Brazilian GAAP | Accumulated difference |
| Visão | (5,394) | - | (5,394) | (18,937) | - | (18,937) |
| PBS | (43,091) | - | (43,091) | (9,869) | - | (9,869) |
| Prev | (19,051) | 519 | (19,570) | (20,999) | 652 | (21,651) |
| PAMA | - | 11,853 | (11,853) | - | 3,308 | (3,308) |
| Accrued pension post-retirement benefit | (67,536) | 12,372 | (79,908) | (49,805) | 3,960 | (53,765) |

On December 31, 2006, the Company and its subsidiary adopted the SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans*, provisions related to recognition and disclosures, which requires an employer to recognize the over or unfunded status of a defined-benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The impact of the adoption of SFAS No. 158 was as a gain of R\$29,645, net of income taxes, which was recorded directly in accumulated other comprehensive income at year end.

Reconciliation of pension and other post-retirement benefit plans adjustment:

Year ended December 31,

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| | 2008 | 2007 | 2006 |
|---|---------|---------|---------|
| U.S. GAAP: | | | |
| Net periodic pension cost under U.S. GAAP | 8,818 | 6,311 | 4,970 |
| Settlements | 4,391 | - | - |
| Pension cost under Brazilian GAAP | (7,153) | (3,596) | (3,205) |
| Net reconciliation effect | 20,362 | 9,880 | 8,175 |

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The incremental effect of applying SFAS 158 on individual line items in the statement of financial position as of December 31, 2006 (inception date), is as follows:

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| | Before application of SFAS 158 | Adjustments | After the application of SFAS 158 |
|--|--------------------------------------|-------------|---|
| Pre paid assets for pension benefits | - | 44,917 | 44,917 |
| Deferred income taxes | 2,493,421 | (15,272) | 2,478,149 |
| Accumulated other comprehensive income | - | 29,645 | 29,645 |
| Total shareholders' equity | 9,096,550 | 29,645 | 9,126,195 |

h) Escrow deposits

Under Brazilian GAAP, the amounts of the escrow deposits linked to the reserve for contingencies are shown as deductions from the recorded liabilities. As shown in notes 18 and 20 escrow deposits amounting to R\$509,946 and R\$131,756 as of December 31, 2008 and 2007, respectively. Under U.S. GAAP it should be presented as separated in current or non-current assets instead of contra provision.

i) Income taxes

The Company and its subsidiary fully accrue for deferred income taxes on temporary differences between tax and accounting records. The existing policies for providing for deferred taxes are consistent with SFAS No. 109,

Accounting for Income Taxes, except that under Brazilian GAAP deferred tax assets are recorded by the amounts expected to be realized, whereas SFAS No. 109 requires deferred tax assets to be recognized in full, but reduced by a valuation allowance to an amount that is more likely than not to be realized.

Under Brazilian GAAP, the Company (Vivo Participações S.A.) did not recognize deferred income tax and social contribution assets of R\$845.1 million and R\$841.7 million as of December 31, 2008 and 2007, respectively, due to the uncertainties involving their realization. For U.S. GAAP purposes, the amounts not recognized represent the valuation allowances that were recorded under U.S. GAAP.

Effective January 1, 2007, the Company and its subsidiary adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The Interpretation prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. For each tax position, the enterprise must determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is then measured to determine the amount of benefit to recognize within the financial statements. No benefits may be recognized for tax positions that do not meet the more likely than not threshold. The benefit to be recognized is the largest amount that is more likely than not to be realized upon ultimate settlement.

As a result of implementing Interpretation 48, the Company has no uncertain tax positions for which it has recorded unrecognized income tax benefits; accordingly, there was no impact on the Company's results of operations from the adoption of this interpretation. In addition, as of the date of the adoption of FIN 48, the Company did not have any accrued interest and penalties related to unrecognized tax benefits. The Company and its subsidiary will recognize interest and penalties related to unrecognized tax benefits in financial expense and other operating expense, respectively.

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The Company and its subsidiary file, separately, income tax returns in the Brazilian federal jurisdiction and are generally no longer subject to federal income tax examinations by tax authorities for years before 2003. The Brazilian Internal Revenue Service (Brazilian IRS) is currently examining our subsidiary Vivo S.A. s (former Global Telecom) income tax returns for years 2003 to 2006. As a large tax payer, the Company is under continuous examination by the Brazilian federal tax authorities.

Management does not believe there will be any material changes related to uncertain tax positions over the next 12 months.

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j) Earnings per share

Under Brazilian GAAP, earnings (profit or loss) per share are calculated based on the number of shares outstanding at the balance sheet date.

Under US GAAP the Company applies the Financial Accounting Standards Board - FASB issued SFAS No. 128, Earnings per Share .

Since the preferred and common shareholders have different dividend, voting and liquidation rights, basic and diluted earnings per share have been calculated using the two-class method. The two-class method is an earning allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by the Company's bylaws and participation rights in undistributed earnings.

Basic earnings per common share is computed by reducing net income by distributable and undistributable net income available to preferred shareholders and dividing net income available to common shareholders by the number of common shares outstanding. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Net income available to preferred shareholders is the sum of the preferred stock dividends and the preferred shareholders' portion of undistributed net income. Undistributed net income is computed by deducting total dividends (the sum of preferred and common stock dividends) from net income. Undistributed net income is shared equally by the preferred and common shareholders on a pro rata basis. As of December 31, 2008, 2007 and 2006, the Company was obligated to issue shares to the controlling shareholder for the amount of the tax benefit realized relating to the corporate restructuring occurred in February, 2006. The number of shares issuable was computed considering the balance of the special goodwill reserve (R\$189,896 in 2008, R\$552,638 in 2007 and R\$552,638 in 2006). However, the potentially dilutive shares, consisting solely of the estimate of common shares issuable mentioned above, have been excluded from the computation for the years 2007 and 2006 as their effect would have been anti-dilutive.

For the periods presented below, the weighted-average number of shares outstanding reflect the effect of the reverse stock split described in Note 23. The computation of basic and diluted earnings per share is as follows:

| | Consolidated | | | | | |
|--|---|------------------|---|------------------|---|------------------|
| | For the year ended December 31, 2008 | | For the year ended December 31, 2007 | | For the year ended December 31, 2006 | |
| | <u>Common</u> | <u>Preferred</u> | <u>Common</u> | <u>Preferred</u> | <u>Common</u> | <u>Preferred</u> |
| | (in thousands, except per share data and percentages) | | | | | |
| Basic numerator: | | | | | | |
| Actual dividends paid | 58,829 | 102,284 | - | - | - | 16,808 |
| Allocated undistributed earnings | 123,690 | 216,102 | (109,625) | - | (477,328) | - |
| Allocated net income available for common and preferred shareholders | 182,518 | 318,387 | (109,625) | - | (477,328) | 16,808 |
| Basic denominator: | | | | | | |
| Weighted-average shares outstanding | 132,991,366 | 232,353,912 | 131,232,916 | 228,172,795 | 120,316,867 | 210,335,209 |

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| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Earnings (loss) per share basic | 1.37 | 1.37 | (0.84) | - | (3.97) | 0.08 |
| Diluted numerator: | | | | | | |
| Actual dividends paid | 58,829 | 102,284 | - | - | - | 16,808 |
| Allocated undistributed earnings | 124,240 | 215,552 | (109,625) | - | (477,328) | - |
| Allocated net income available for common and preferred shareholders | 183,068 | 317,837 | (109,625) | - | (477,328) | 16,808 |
| Diluted denominator: | | | | | | |
| Weighted-average shares outstanding | 133,924,147 | 232,353,912 | 131,232,916 | 228,172,795 | 120,316,867 | 210,335,209 |
| Earnings (loss) per share - diluted | 1.37 | 1.37 | (0.84) | - | (3.97) | 0.08 |

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The Company's preferred shares are nonvoting, except under certain limited circumstances, and are entitled to a preferential and noncumulative dividend and to priority over the common shares in the event of liquidation of the Company.

k) Presentation in statements of operations

Disposals of property, plant and equipment

Under Brazilian GAAP, gains and losses on disposals of property, plant and equipment were classified as nonoperating results until January 1, 2008. As from this date, with the first adoption of Law No.11,638, as described in Note 2.c., gains and losses on disposals of property, plant and equipment were classified as operating results for the years 2008 and 2007. Under U.S. GAAP, these items are recorded in operating results.

Interest income (expense)

Brazilian GAAP requires that interest be shown as part of operating income. Under U.S. GAAP interest expense would be shown after operating income and accrued interest would be included in accounts payable and accrued expenses.

Cash Rebates

Under Brazilian GAAP, cash rebates are classified as other operating expenses. Under U.S. GAAP cash rebates are recorded in the cost of services and goods sold.

l) Leases

The Company and its subsidiary have leased certain computer hardware and software under non-cancelable leases. Under Brazilian GAAP, all leases were considered to be operating leases, with lease expense recorded when paid until January 1, 2008. As from this date, with the first adoption of Law No. 11,638, in conformity with CPC 06 Leases, approved by CVM Resolution No. 554, dated November 12, 2008, this lease is considered a capital lease. Under CPC 06, the Company and its subsidiary are required to record the asset at the present value of the minimum lease payments with a corresponding debt obligation for the years 2008 and 2007. Depreciation is recorded over the shorter of the estimated useful life of the asset or the lease term. Interest expense is recognized over the term of the lease and payments under the lease are amortized to principal and interest under the effective interest method.

m) Valuation of long-lived assets and goodwill

Under accounting practices adopted in Brazil, an impairment was recognized on long-lived assets, such as property, plant and equipment and concession intangibles, if the expected net cash flows generated the respective asset is not sufficient to cover its carrying amount. As from January 1, 2008, with the first adoption of Law No. 11,638, under CPC 01 Reduction of the Recoverable Value of the Assets, approved by CVM Resolution No. 527, dated November 01, 2007, the Company and its subsidiary periodically evaluate the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. An impairment is recognized on long-lived assets, such as property, plant and equipment, intangible assets and deferred assets, if the expected discounted operating cash flows generated by the respective asset is not sufficient to recover its carrying amount. Under U.S. GAAP, the Company and its subsidiary evaluate long-lived assets for impairment using the criteria set forth in SFAS No. 144,

Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of . In accordance with this Standard, the Company and its subsidiary periodically evaluate the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is

considered impaired when the anticipated undiscounted cash flow from such assets is separately identifiable and is less than their carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the assets.

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The Company and its subsidiary have performed a review of its long-lived assets including property, plant and equipment, finite-lived intangible asset including concession and concluded that the recognition of an impairment charge was not required. The Company's evaluation of its ability to recover the carrying value of its long-lived assets was based upon projections of future operations that assumed a higher level of revenues and gross margin percentages that the Company has historically achieved. There can be no assurance that the Company will be successful in achieving these improvements in its revenues and gross margin percentages, mainly due to technological and competition environment. Should the Company be unable to achieve such improvements, future impairment provisions may be recorded related to its investments in property, plant and equipment and the licenses acquired to operate its cellular networks.

Under Brazilian GAAP, the amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows until January 1, 2008, date of the first adoption of Law No. 11,638/07. As from this date, under CPC 01 - Reduction of the Recoverable Value of the Assets, approved by CVM Resolution No. 527, dated November 01, 2007, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. The Company then determines the fair value of each reporting unit by expected discounted operating cash flows generated by the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized first to goodwill until it is reduced to zero and then proportionally to other long-lived assets.

Under U.S. GAAP, pursuant to SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized and is subject to a yearly impairment test. In performing the yearly impairment test, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. The Company then determines the fair value of each reporting unit and compares it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, a second step of the impairment test is performed which involves the determination of the implicit fair value of the reporting unit by performing a hypothetical purchase price allocation. If the implicit value of the goodwill exceeds the book value, an impairment is recognized. The Company performed an impairment test for goodwill under U.S. GAAP and determined that the recognition of an impairment loss was not required. The fair values of the reporting units were estimated using the present value of future cash flows. The Company performed its impairment testing as of December 31, 2008.

The changes in the carrying amount of goodwill as of December 31, 2008, 2007 and 2006 are as follows:

| | Vivo Participações S.A. (*) | |
|---|--------------------------------|-----------------|
| | <u>2008</u> | <u>2007</u> |
| Balance at January 1 | 579,246 | 648,460 |
| Addition acquisition of Telemig | <u>466,753</u> | = |
| Reduction of goodwill for tax benefits recognized | <u>(69,214)</u> | <u>(69,214)</u> |
| Balance at December 31 | <u>976,785</u> | <u>579,246</u> |

(*) As discussed in Note 39.f), during 2006 the Company completed restructurings resulting in a change in the Company's management structure and operating segments. As a result, the Company had one reportable segment, which represented a reporting unit as of December 31, 2008.

n) FISTEL fees

Under BR GAAP, the FISTEL fees assessed on each activation of a new cellular line is deferred beginning on January 1, 2001 for amortization over the customers' estimated subscription period. For U.S. GAAP purposes, this fee would be charged directly to the statement of operations. Therefore, the deferred FISTEL fees on activation fees as of December 31, 2008, 2007 and 2006 is being adjusted in the reconciliation of the income differences between Brazilian GAAP and U.S. GAAP.

o) Revenue recognition

Under U.S. GAAP, the Company and its subsidiary recognize service revenue as the services are provided. Prepaid service revenue is deferred and amortized based on subscriber airtime usage. Sales of handsets along with the related cost of the handsets are deferred and amortized over their estimated useful life. The excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale.

(i) Roaming

The Company and its subsidiary have roaming agreements with other cellular service providers. When a call is made from within one coverage area by a subscriber of another cellular service provider, that service provider pays the subsidiary for the service at the applicable rates. Conversely, when one of the subsidiary's customers roams outside the coverage area, the subsidiary pays the charges associated with that call to the cellular service provider in whose region the call was originated and charges the same amount to its subscriber. Under Brazilian GAAP, revenues for roaming charges are recorded net of the related costs when the services are provided. Under U.S. GAAP, revenues and costs for roaming charges should be recorded gross. Accordingly, this difference in accounting policy has no impact on net loss nor in the reconciliation of shareholders' equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of goods and services by R\$52,601, R\$46,796 and R\$32,057 for 2008, 2007 and 2006, respectively.

(ii) Value-added and other sales taxes

Under Brazilian GAAP, these taxes are recorded in revenue net of the related tax expense. Under U.S. GAAP, these taxes are recorded gross as revenue and related cost of services and goods. Accordingly, this difference in accounting has no impact in net loss nor in shareholders' equity. The impact of this difference under U.S. GAAP was to increase both revenues and cost of goods and services by R\$4,289,949, R\$3,380,046 and R\$3,091,000 for 2008, 2007 and 2006, respectively, as compared to amounts reported under Brazilian GAAP.

(iii) Deferred revenue sales of handsets

Under Brazilian GAAP, revenues and costs related to handset sales, including applicable value added and other sales taxes are recognized when sold. Under U.S. GAAP, revenue on sales of handsets, along with the related cost of the handset, including applicable value added and other sales taxes, are amortized over their estimated useful life. Any excess of the cost over the amount of deferred revenue related to handset sales is recognized on the date of sale. As substantially all of the subsidiary's handsets are sold below cost, this difference in accounting policy had no impact on net loss nor in shareholders' equity. The unamortized balance of deferred handset revenue and the related balance of unamortized deferred handset costs was R\$518,774, R\$1,267,138 and R\$1,176,302 as of December 31, 2008, 2007 and 2006, respectively. The impact of this difference under U.S. GAAP was to decrease both net revenues and cost of services and goods by R\$90,837 for 2007 and to increase both net revenues and cost of services and goods by R\$748,364 and R\$116,831 for 2008 and 2006, respectively. We have considered whether these handsets represent a separate unit of accounting under EITF 00-21 and believe the criterion in paragraph 9a has not been met because the handsets do not have value to the customer on a stand-alone basis, since our TDMA and CDMA technology handsets are not compatible with the GSM technology used by all other competitors. In the beginning of 2007 the subsidiary started the transition of CDMA technology to GSM. However, we concluded there was no impact in our revenue recognition policy under US GAAP, since the frequency utilized by our competitors during 2007 was not compatible with the frequency used by our GSM technology and therefore, the GSM handsets also do not have stand-alone value. Consequently, the revenue recognition policy under US GAAP for the sale of GSM handsets was consistent with policy used for the sale of CDMA for the year ended on December 31, 2007.

During 2008, the Company began to commercialize types of GSM handsets, which are compatible with the GSM technology used by all other competitors. Since it has been occurred, GSM handsets of the Company have an observable market value and therefore, stand-alone value. Consequently, the revenue recognition policy under US GAAP for the sale of GSM handsets is similar to Brazilian GAAP and the revenues and costs related to these handsets sales, including applicable value added and other sales taxes are recognized when sold.

(iv) Free minutes given in connection with sales of handsets

Under U.S. GAAP, pursuant to EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*, the subsidiary began to separately account for free minutes given in connection with the sales of handsets. Consequently, a portion of the revenue generated from the sale of handsets is allocated to the free minutes given and deferred based on the fair value of the minutes. The revenues associated with the free minutes are then recognized based on subscriber airtime usage. Under Brazilian GAAP, the subsidiary does not separately account for free minutes given in connection with sales of handsets. For the year ended December 31, 2008, the effects in net income (loss) of this accounting difference was R\$(925), in 2007 R\$93,608 and in 2006 R\$(24,305).

(v) Deferred revenue of free minutes given in connection with prepaid cards

The Company commercializes prepaid cards with credit minutes to its clients and gives free minutes in connection with its sales. Under U.S. GAAP, pursuant to EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*, the subsidiaries began to separately account for free minutes given in connection with the prepaid cards. Consequently, a portion of the revenue generated from the sale of prepaid cards is allocated to the free minutes given and deferred based on the fair value of the minutes. The revenues associated with the free minutes are then recognized based on subscriber airtime usage. Under Brazilian GAAP, the subsidiaries do not separately account for free minutes given in connection with sales of prepaid cards. For the year ended December 31, 2008, the effects in net income of this accounting difference was R\$(10,526), in 2007 and 2006 was immaterial.

p) Derivative financial instruments

As mentioned in Note 32 the Company and its subsidiary have entered into foreign-currency swap contracts at various exchange rates, in the notional amounts of US\$515.6 million and JPY 51,594.7million (US\$369.3 million, JPY 66,065.3 million and 15.2 million as of December 31, 2007). As of December 31, 2008, the Company had contracted interest rate swaps in the notional amount of R\$225.0 million (R\$1,097.6 million as of December 31, 2007) for local interest rates (CDI) and no foreign-currency interest rate (Libor) swap (US\$52.5 million as of December 31, 2007). As of December 31, 2008, the Company had contracted an inflation index swap (General Price Index - IGPM) in the notional amount of R\$110.0 million. Under Brazilian GAAP, foreign-currency swap contracts are recorded on a net basis as if they had been settled at the balance sheet date.

Under Brazilian GAAP, as required by Law no. 11,638/07, the Company and its subsidiaries started applying CPC 14 since the transition date on December 31, 2006. CPC 14 must be applied to all derivative instruments, and requires that such instruments are stated in the balance sheet at their fair value. Changes to the fair value of the derivatives are recognized in the income statement, save in case of compliance with specific accounting criteria such as hedge.

Under U.S. GAAP, the Company and its subsidiary apply SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and require that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets and liabilities or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, must be immediately recorded in earnings. Any portion of a change in a derivative's fair value that the Company and its subsidiary have elected to exclude from its measurement of effectiveness, such as the change

in time value of option contracts, will also be recorded in earnings.

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The Company and its subsidiary have designated certain swap contracts as fair value hedges. The Company and its subsidiary had R\$2,453.1 million (US\$433.0 million, JPY51,594.6 million and R\$110.0 million) as of December 31, 2008, and R\$1,794.5 million (US\$337.8 million, JPY66,065.2 million, 15.2 million and R\$110.0 million) as of December 31, 2007, of notional value swap contracts with a fair value of R\$2,394.0 million as of December 31, 2008 (R\$1,697.7 million as of December 31, 2007) designated as fair value hedges of a portion of the Company's foreign-currency denominated debt. The Company and its subsidiary are hedging the related foreign currency (U.S. dollar) and interest rate risk associated with such indebtedness. The Company and its subsidiaries calculate the effectiveness of these hedges both at inception and on an ongoing basis (i.e., at least quarterly). Since these derivative contracts qualify for hedge accounting under Brazilian GAAP and U.S. GAAP, the hedged debt is also adjusted to fair value under the fair value hedge rules.

Ineffectiveness amounting to R\$0.33 million and R\$0.48 million for the years ended December 31, 2008 and 2007, respectively, was included in current earnings. For the year ended December 31, 2006, ineffectiveness amounted to R\$2.8 million. Consequently, these derivative instruments have been highly effective in achieving offsetting changes in fair values due to changes in the risks being hedged. The Company and its subsidiaries' remaining derivative contracts for the years presented have not been accounted for using hedge accounting.

For the year 2008, the reconciliation of shareholders' equity does not reflect any difference between Brazilian GAAP and U.S. GAAP. For the year 2007, it reflects the debt marked-to-market adjustment for this debt assigned as fair value hedge under Brazilian GAAP that did not meet the criteria under U.S. GAAP. During the year 2008, such debt was settled and the difference between Brazilian GAAP and U.S. GAAP was eliminated.

q) License acquisition costs

The incurred interest between the date of the documentation and proposal submission to obtain the license acquisition to operate Band B mobile telephone services and the date of the initial operations of GT was recorded as deferred assets according to Brazilian GAAP. Under U.S. GAAP, the interest was capitalized as license acquisition cost. The amount of reversal relates to differences on interests accrued in 1998. This difference is being amortized over the license period. The effects of license acquisition costs on net income (loss) for the years ended 2008, 2007 and 2006 are R\$5,677, R\$6,001 and R\$6,159, respectively.

Additionally, GT recorded amortization of license acquisition costs during the start-up period as deferred assets according to Brazilian GAAP. Under U.S. GAAP, such amortization was reversed and the amortization period starts on the start-up date, January 1, 1999, the date GT began to operate.

r) Deferred assets

The Company has recorded pre-operational costs as deferred assets, to be amortized on a straight-line basis over 10 years, as allowed by Brazilian GAAP. Under U.S. GAAP, these costs are recorded as expenses when incurred. The effects of deferred assets amortization on net income (loss) for the years ended 2008, 2007 and 2006 are R\$(9,344), R\$35,871 and R\$35,871, respectively.

s) Grants

Under Brazilian GAAP, equipment received free of charge (grants) were recorded at fair value, with a corresponding credit to capital reserve, which is amortized into result of operations based on realization of the corresponding asset until January 1, 2008, date of the first adoption of Law No. 11,638. As from this date, grants were recorded at fair value, with a corresponding credit to deferred revenue, which is amortized into result of operations based on realization of the corresponding asset and the remaining balance existing on December 31, 2007 were kept in capital reserve, until its complete realization. For U.S. GAAP purposes, the credit to capital reserves would be classified as a reduction of the related asset and amortized to reduce depreciation expense.

t) Items posted directly to shareholders' equity.

Under Brazilian GAAP, various items are posted directly to shareholders' equity, which under U.S. GAAP would be posted to the statements of operations. The posting of such items to shareholders' equity gives rise to adjustments in the consolidated statement of changes in shareholders' equity. Since the original postings to the equity accounts would, under U.S. GAAP be made directly to the statements of operations, the adjustment is included in the reconciliation of net loss differences between U.S. and Brazilian GAAP. Write-off of tax loss carryforward of subsidiaries of R\$294,094 in 2006, tax reserve incentives balance of R\$3,589 at 2008, accumulated amount of grants of R\$43,889

through the years are adjusted in the Company's financial statements for U.S. GAAP purposes.

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u) Restructuring costs

The Company commenced a restructuring process in the end of 2005 that resulted in the exchange of shares of the Company for shares held by minority shareholders outside of companies controlled by Brasilcel N.V. The Company incurred certain costs directly related to the exchange of shares with minority shareholders in the restructuring that were expensed during the year ended December 31, 2005 under Brazilian GAAP. Under U.S. GAAP, pursuant to SFAS No. 141, *Business Combinations*, the costs of registering and issuing equity securities is recognized as a reduction of the otherwise determinable fair value of the securities and the direct costs including out-of-pocket or incremental costs directly related to an acquisition of minority interest, such as fees paid to outside consultants for accounting and legal issues and for appraisals, are included as part of the acquisition cost. Therefore, the amounts related to direct costs incurred for the registering and issuing of equity securities and the acquisition of minority interest was deferred as of December 31, 2005 under U.S. GAAP. In 2006, this restructuring process was finished and the costs directly related to the exchange of shares with minority shareholders were reclassified as a reduction in the fair value of the shares issued.

v) Present value of noncurrent recoverable value added tax credit (ICMS)

Under Brazilian GAAP, noncurrent governmental accounts receivable were not discounted to present value until January 1, 2008, date of the first adoption of Law No. 11,638/07. As from this date, under CPC 12 *Adjustment to Present Value*, approved by CVM Resolution No. 564 of December 17, 2008, the tax assets have been discounted to present value. As the Law No. 11,638/07 was applied retrospectively to the Company, the noncurrent governmental taxes receivable were discounted to present value for the year 2007.

Under U.S. GAAP, noncurrent governmental taxes receivable are not discounted to present value.

x) Reversal of proposed dividends

Under Brazilian GAAP, proposed dividends are accrued in the financial statements in anticipation of their approval at the shareholders meeting. Under U.S. GAAP, dividends are not accrued until they are formally approved by the shareholders.

The interest on shareholders equity is a legal liability from the date it is declared, therefore, these amounts are included as dividends in the year they are formally approved by shareholders meeting for U.S. GAAP purposes.

w) Comprehensive income

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The objective of the Statement is to report all changes in shareholders equity that result from transactions and other economic events of the period other than transactions with owners (comprehensive income). Comprehensive income is the total net income and other non-owner equity transactions that result in changes in net equity.

For the year ended December 31, 2008 and 2007, the component of comprehensive income includes only the accumulated effect of initial adoption of FAS No. 158, *Conforming Amendments to the Illustrations in FASB No. 87, No. 88 and No. 106 and to Related Staff Implementation Guidance*. For the years ended December 31, 2006 there was no component in the comprehensive income.

y) Inventories owned by the subsidiary and provided free of charge to corporate customers

The subsidiary has agreements with its corporate customers, through which handsets owned by the subsidiary are provided free of charge to the customer from periods varying from 12 to 24 months, through a right-of-use agreement. Under Brazilian GAAP these handsets are recorded as property, plant and equipment and depreciated over a period of 18 months. The period of 18 months represents the estimated contractual relationship with our subscribers and also the estimated useful life.

Under US GAAP the subsidiary has deferred the inventoriable cost of the handsets provided for customer under this revenue arrangement, as required in Accounting Research Bulletin No. 43 Restatement and Revision of Accounting Research Bulletins as amended by FASB Statement No. 151 Inventory Costs, an Amendment of ARB No. 43, Chapter 4 (ARB 43). Therefore, the cost of handsets under this type of agreement are reclassified from property, plant and equipment to costs of inventory subject to a deferred revenue arrangement, non-current, and amortized over the period of 18 months. The subsidiary expects to recover the cost through the non-cancellable service arrangement.

The amounts of inventoriable costs incurred by the Company and reclassified to non-current assets, net of amortization was R\$313,145, R\$290,398 and R\$292,944 as of December 31, 2008, 2007 and 2006, respectively.

z) Cash and cash equivalents

Under Brazilian GAAP the Company has defined cash and cash equivalents as being cash, positive balances of bank accounts and financial investments redeemable within 90 days from the balance sheet date.

Under US GAAP, cash equivalents are considered all highly liquid investments with maturities of three months or less when purchased to be cash equivalents cash and cash equivalents. No difference was noted between Brazilian GAAP and US GAAP for cash and cash equivalents.

Reconciliation of the net income (loss) differences between Brazilian GAAP and U.S. GAAP

| | Consolidated | | |
|---|--------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Brazilian GAAP net income (loss) for the year | 389,683 | (99,830) | 16,347 |
| Add (deduct)- Different criteria for: | | | |
| b) Capitalized interest | 31,731 | 20,295 | 4,782 |
| b) Amortization of capitalized interest | (125,462) | (54,643) | (31,021) |
| c) Amortization of monetary restatement of 1996 and 1997 | (474) | (3,524) | (3,591) |
| c) Loss on disposal of assets monetarily restated in 1996 and 1997 | - | - | (411) |
| d) Exchange of shares for minority interest: | | | |
| Depreciation effect from reduction of fixed assets | 3,022 | 9,727 | 10,199 |
| Amortization of concession | (10,335) | (12,989) | (12,989) |
| e) Acquisitions: | | | |
| Reversal of goodwill amortization according to Brazilian GAAP | 581,307 | 480,609 | 469,119 |
| Reversal of tax benefit on amortization of goodwill according to Brazilian GAAP | (45,681) | (45,681) | (45,681) |
| Depreciation of fixed assets | (13,085) | 7,269 | (2,747) |
| Amortization of software | (659) | - | - |
| Amortization of fair value adjustment to inventory | (2,729) | - | - |
| Amortization of fair value related to tax credits | 238 | - | - |
| Amortization of customer list | - | - | (59,291) |
| Amortization of intangible related to concession | (140,247) | (105,090) | (168,749) |
| Additional interest expense on purchase price allocation of debt | (37) | (1,046) | (1,729) |
| Reversal of valuation allowance | - | - | (383,939) |
| f) Merger of TSD, TLE, CRT and TCO | (66,314) | (389,477) | (369,079) |
| g) Pension and other post-retirement benefits | 20,362 | 9,880 | 8,175 |
| l) Difference in criteria for capital leases | (1,454) | 1,459 | (6,790) |
| n) FISTEL fees | (77,655) | (63,027) | 61,790 |
| o) Free minutes given in connection with sales of handsets | (925) | 93,608 | (24,305) |
| o) Free minutes given in connection with sales of prepaid cards | (10,526) | - | - |
| p) Derivative financial instruments | (5,330) | 2,655 | 65,724 |
| q) Amortization of license acquisition costs | (5,677) | (6,001) | (6,159) |
| r) Amortization of deferred assets | 3,440 | 35,871 | 35,871 |
| s) Grants | 3,613 | 3,132 | 2,683 |
| t) Tax reserve incentives | - | - | 24,162 |
| t) Write-off of tax loss carryforwards of subsidiaries | - | - | (294,094) |
| u) Restructuring costs | - | - | 2,202 |
| v) Reversal of present value of ICMS tax credit (note 2.c) | 4,181 | (154) | - |
| i) Deferred tax effect on the above adjustments | (31,792) | 7,332 | 249,416 |
| Minority interest on the above adjustments | 1,710 | - | (415) |

| | | | |
|--|---------|-----------|-----------|
| U.S. GAAP net profit (loss) for the year | 500,905 | (109,625) | (460,520) |
|--|---------|-----------|-----------|

Earnings (loss) per share in accordance with U.S. GAAP

| | Consolidated | | |
|---|--------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Common shares - basic | 1.37 | (0.84) | (3.97) |
| Weighted-average common shares - basic | 132,991,366 | 131,232,916 | 120,316,867 |
| Preferred shares - basic | 1.37 | - | 0.08 |
| Weighted-average preferred shares - basic | 232,353,912 | 228,172,795 | 210,335,209 |
| Common shares - diluted | 1.37 | (0.84) | (3.97) |
| Weighted-average common shares - diluted | 133,924,147 | 131,232,916 | 120,316,867 |
| Preferred shares - diluted | 1.37 | - | 0.08 |
| Weighted-average preferred shares - diluted | 232,353,912 | 228,172,795 | 210,335,209 |

As described in item (j), under EITF No. 03-06, net losses have not been allocated to preferred shares in the loss per share calculation since preferred shareholders have a liquidation preference over common shareholders. Additionally, as described in item (j), loss per share and share amounts have been retroactively restated to reflect the reverse stock split described in item (j).

Reconciliation of the shareholders equity differences between Brazilian GAAP and U.S. GAAP

| | Consolidated | |
|---|--------------|-----------|
| | 2008 | 2007 |
| Brazilian GAAP shareholders equity Law 11,638 | 8,267,527 | 8,296,339 |
| Add (deduct)- | | |
| Different criteria for: | | |
| b) Capitalized interest | 216,922 | 172,784 |
| b) Amortization of capitalized interest | (219,539) | (111,238) |
| c) Monetary restatement of 1996 and 1997, net | 4,549 | 5,023 |
| d) Exchange of shares for minority interest: | | |
| Adjustment to fixed assets | (59,976) | (59,976) |
| Accumulated depreciation | 60,792 | 57,770 |
| Adjustment to concession | 318,926 | 318,926 |
| Amortization of concession | (270,213) | (259,878) |
| Adjustment to client list | 137,900 | 137,900 |
| Amortization of client list | (137,900) | (137,900) |
| e) Acquisitions - purchase accounting allocations: | | |
| GT and Holdings | (248,362) | (327,922) |
| TCO | 847,558 | 711,293 |
| Telemig | 30,101 | - |
| f) Merger of TSD, TLE, CRT and TCO | 290,276 | 334,043 |
| g) Pension and other post-retirement benefits | 79,908 | 53,765 |
| l) Difference in criteria for capital leases | - | 1,454 |
| n) FISTEL fees | (199,851) | (110,304) |
| o) Free minutes given in connection with sales of handsets | (4,055) | (3,130) |
| o) Free minutes given in connection with sales of prepaid cards | (10,526) | - |
| p) Derivative financial instruments | - | 3,108 |
| q) Interest capitalized on license acquisition costs | 42,006 | 42,006 |
| q) Accumulated amortization of license acquisition costs | (17,866) | (12,189) |
| r) Deferred assets, net of accumulated amortization | (55,393) | (58,833) |
| s) Grants | (43,889) | (47,502) |
| v) Reversal of present value of ICMS tax credit (note 2.c) | 30,783 | 24,325 |
| i) Deferred taxes on the above adjustments | 43,325 | (5,477) |
| Minority interest on the above adjustments | (17,348) | - |
| Reversal of proposed dividends in excess of minimum mandatory | 265,685 | - |
| U.S. GAAP shareholders equity | 9,351,340 | 9,024,387 |

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Changes in the consolidated shareholders' equity under U. S. GAAP

| | Consolidated | | |
|--|--------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Shareholders' equity under U.S. GAAP as of beginning of the year | 9,024,387 | 9,126,195 | 7,165,630 |
| Merger of TSD, TLE, CRT and acquisition of TCO's minority interest | - | - | 2,385,520 |
| Prescribed dividends and interest on shareholders' equity | 14,063 | 11,936 | 22,728 |
| Net income (loss) | 500,905 | (109,625) | (460,520) |
| Net income allocation: | | | |
| Dividends | - | - | (16,808) |
| Interest on shareholders' equity | (161,113) | - | - |
| Accumulated other comprehensive income - FAS No. 158, net of tax and minority interest | (26,902) | (4,119) | 29,645 |
| Shareholders' equity under U.S. GAAP | 9,351,340 | 9,024,387 | 9,126,195 |

Disclosure of accumulated other comprehensive income balance

| | Pension plan - SFAS No. 158 - adjustment, net of tax | Accumulated other comprehensive income |
|--|---|---|
| Balance at December 31, 2006 | 29,645 | 29,645 |
| Current period change, net of tax (R\$2,122) | (4,119) | (4,119) |
| Balance at December 31, 2007, net of tax (R\$13,150) | 25,526 | 25,526 |
| Current period change, net of tax and minority interest (R\$15,694 and R\$3,563, respectively) | (26,902) | (26,902) |
| Balance at December 31, 2008, net of tax and minority interest (R\$2,544 and R\$3,563, respectively) | (1,376) | (1,376) |

U.S. GAAP supplementary informationReconciliation of operating income under Brazilian GAAP to operating income under U.S. GAAP

| | Consolidated | | |
|---|--------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Brazilian GAAP operating income (loss) as reported | 911,847 | 156,995 | (545,727) |
| Reversal of financial expense, net | 637,699 | 462,789 | 747,985 |
| U.S. GAAP adjustments: | | | |
| Amortization of monetary restatement of 1996 and 1997 | (474) | (3,524) | (3,591) |
| Loss on disposal of assets monetarily restated in 1996 and 1997 | - | - | (411) |
| Amortization on capitalized interest | (117,415) | (54,769) | (39,976) |
| Amortization of license acquisition costs | (5,677) | (6,001) | (6,159) |
| Difference in criteria for capital leases | (1,454) | 1,459 | (6,790) |
| FISTEL fees | (77,655) | (63,027) | 61,790 |
| Exchange of shares of minority interest: | | | |
| Depreciation effect from reduction of fixed assets | 3,022 | 9,727 | 10,199 |
| Amortization of concession | (10,335) | (12,989) | (12,989) |
| Amortization of deferred assets | 3,440 | 35,871 | 35,871 |
| Amortization of grants | 3,613 | 3,132 | 2,683 |
| Pension and other post-retirement benefits | 20,362 | 9,880 | 8,175 |
| Free minutes given in connection with sales of handsets | (925) | 93,608 | (24,305) |
| Free minutes given in connection with sales of prepaid cards | (10,526) | - | - |
| Advance to affiliate | - | - | - |
| Acquisitions: | | | |
| Reversal of goodwill amortization according to Brazilian GAAP | 581,307 | 480,609 | 469,119 |
| Amortization of intangible related to concession | (140,247) | (105,090) | (168,749) |
| Amortization of intangible related to software | (659) | - | - |
| Realization of fair value adjustment to inventory | (2,729) | - | - |
| Depreciation of fixed assets | (13,085) | 7,269 | (2,747) |
| Amortization of customer list | - | - | (59,291) |
| Merger of TSD, TLE, CRT and TCO | (66,314) | (389,477) | (369,079) |
| Provision for losses on assets | - | - | (277,987) |
| Loss on property, plant and equipment disposals | - | - | (2,715) |
| Disposal of capitalized interest | (11,289) | (3,442) | - |
| Other operating expenses | - | 282 | - |
| Provision for loss investments | - | - | (671) |
| Restructuring costs | - | - | 2,202 |
| U.S. GAAP operating income (loss) | 1,702,506 | 623,302 | (183,163) |

Reconciliation of net operating revenue and costs of services and goods sold under Brazilian GAAP to U.S. GAAP

| | Consolidated | | |
|---|--------------|--------------|-------------|
| | 2008 | 2007 | 2006 |
| Brazilian GAAP net revenue | 15,469,664 | 12,492,494 | 10,936,714 |
| Reclassification to cost of services and goods value-added and other sales taxes | 4,289,949 | 3,380,046 | 3,091,000 |
| Roaming charges | 61,800 | 46,796 | 32,057 |
| Deferred revenues on sales of handsets, net of amortization | 748,364 | (90,837) | 116,831 |
| U.S. GAAP adjustments: | | | |
| Free minutes given in connection with sales of handsets | (925) | 93,608 | (24,305) |
| Free minutes given in connection with sales of prepaid cards | (10,526) | - | - |
| U.S. GAAP net revenue | 20,558,326 | 15,922,107 | 14,152,297 |
| Brazilian GAAP cost of services and goods sold | (8,141,499) | (6,623,290) | (5,564,168) |
| Reclassification to cost of services and goods sold: | | | |
| Value-added and other sales taxes | (4,289,949) | (3,380,046) | (3,091,000) |
| Roaming charges | (61,800) | (46,796) | (32,057) |
| Deferred cost on handset sales, including taxes on sales, net of amortization during the year | (748,364) | 90,837 | (116,831) |
| Reclassification from selling expense- | | | |
| Rewards program expense | (57,153) | (11,336) | (15,273) |
| Cash Rebates | 47,779 | 10,243 | 13,568 |
| U.S. GAAP adjustments: | | | |
| Amortization of monetary restatement of 1996 and 1997 | (474) | (3,524) | (3,591) |
| Amortization on capitalized interest | (117,415) | (54,769) | (39,976) |
| Amortization of license acquisition costs | (5,677) | (6,001) | (6,159) |
| Difference in criteria for capital leases | - | (4,756) | (6,790) |
| FISTEL fees | (77,655) | (63,027) | 61,790 |
| Exchange of shares of minority interest: | | | |
| Depreciation effect from reduction of fixed assets | 3,022 | 9,727 | 10,199 |
| Amortization of concession | (10,335) | (12,989) | (12,989) |
| Amortization of grants | 3,613 | 3,132 | 2,683 |
| Pension and other post-retirement benefits | 21,933 | 9,880 | 8,175 |
| Acquisitions: | | | |
| Amortization of intangible related to concession | (140,247) | (105,090) | (168,749) |
| Depreciation of fixed assets | (13,085) | 7,269 | (2,747) |
| Amortization of intangible related to software | (659) | - | - |
| Realization of fair value adjustment related to inventory | (2,729) | - | - |
| Amortization of customer list | - | - | (59,291) |
| Merger of TSD, TLE, CRT and TCO | (66,314) | (389,477) | (369,079) |
| U.S. GAAP cost of services and goods | (13,658,579) | (10,570,013) | (9,392,285) |

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| | | | |
|--|------------|------------|------------|
| U.S. GAAP gross profit | 6,899,747 | 5,352,094 | 4,760,012 |
| Supplementary balance sheet information U.S. GAAP: | | | |
| Total assets | 26,576,896 | 22,508,441 | 18,392,470 |
| Current liabilities | 9,167,303 | 9,480,393 | 5,772,070 |
| Non-current liabilities | 8,058,253 | 4,003,661 | 3,438,303 |
| Net property, plant and equipment | 6,973,528 | 6,078,929 | 6,333,273 |

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40. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a) Pension and other post-retirement benefits

As described in Notes 33 and 39.g), the Company and its subsidiary's employees receive pension and post-retirement pension benefits under funded and unfunded defined benefit plans, defined contribution plans and multiemployer plans. The Company uses a December 31 measurement date for its plans assets. Disclosures on the Company's contributions to defined contribution and multiemployer plans are included in Note 33.

Although TCP Prev and TCO Prev are defined contribution plans, there is a risk of death and disability of participants, which is born by the sponsor, requiring an actuarial calculation. Following is the obligation and funded status information on the Company's single-employer benefit plans under U.S. GAAP:

Change in benefit obligation

| | Consolidated | |
|---|--------------|---------|
| | 2008 | 2007 |
| Benefit obligation at the beginning of the year | 75,392 | 75,099 |
| Service cost | 3,543 | 2,302 |
| Interest cost | 12,594 | 7,473 |
| Plan participants contributions | (3,435) | - |
| Actuarial gain | 16,345 | (6,568) |
| Benefits paid | (4,118) | (3,566) |
| Settlement | (22,116) | - |
| Telemig's plans | 61,020 | - |
| Vivoprev plan | - | 652 |
| Benefit obligation at the end of the year | 139,225 | 75,392 |

Change in plan assets

| | Consolidated | |
|--|--------------|---------|
| | 2008 | 2007 |
| Fair value of plan assets at the beginning of the year | 125,197 | 122,624 |
| Actual return on plan assets | (10,912) | 3,656 |
| Actual contributions | 2,672 | 2,483 |
| Benefits paid | (4,118) | (3,566) |
| Telemig's plans | 109,767 | - |
| Settlement | (15,845) | - |
| Fair value of plan assets at the end of the year | 206,761 | 125,197 |

Reconciliation of funded status

| | Consolidated | |
|---------------|--------------|----------|
| | 2008 | 2007 |
| Funded status | (67,536) | (49,805) |

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Amounts recognized in the statement of financial position

| | Consolidated | |
|-----------------------|--------------|--------|
| | 2008 | 2007 |
| Non-current assets | 68,302 | 50,457 |
| Current liability | (74) | (98) |
| Non-current liability | (692) | (554) |
| Net amount recognized | 67,536 | 49,805 |

Components of net periodic pension cost and other benefit cost

| | Consolidated | | |
|--|--------------|----------|----------|
| | 2008 | 2007 | 2006 |
| Service cost (net of employee contributions) | 2,779 | 2,170 | 1,864 |
| Interest cost on PBO | 12,594 | 7,473 | 7,695 |
| Expected return on assets | (22,739) | (14,451) | (13,763) |
| Amortization of initial transition obligation | 609 | 609 | 609 |
| Amortization of gains | (2,127) | (2,141) | (1,404) |
| Amortization of prior service cost | 66 | 29 | 29 |
| Net periodic pension cost and other benefit cost | (8,818) | (6,311) | (4,970) |

Accumulated other comprehensive income

| | 2008 | 2007 |
|-----------------------|---------|----------|
| Actuarial gain | 2,915 | (43,918) |
| Transition obligation | 3,592 | 4,200 |
| Prior service cost | 978 | 1,044 |
| Total | (7,485) | (38,674) |

Changes in items not yet recognized in net periodic pension cost

Consolidated

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| | 2008 | | | 2007 | | |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Actuarial (gain) loss | Transition obligation | Prior service cost | Actuarial (gain) loss | Transition obligation | Prior service cost |
| Balance at the beginning of the year | (43,918) | 4,200 | 1,044 | (50,146) | 4,809 | 421 |
| Amount generated in the period | 44,706 | - | - | 4,087 | - | 652 |
| Amount recycled to profit and loss | 2,127 | (608) | (66) | 2,141 | (609) | (29) |
| Balance at ending of year | 2,915 | 3,592 | 978 | (43,918) | 4,200 | 1,044 |

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Assumptions

| | Consolidated | | |
|---|--|--------|--------|
| | 2008 | 2007 | 2006 |
| Discount rate for determining projected benefit obligations | 10.14% | 10.77% | 10.24% |
| | 6.44% for PBS plans and 7.10% for Prev and Visão plans | | |
| Rate of increase in compensation levels | | 6.59% | 6.08% |
| Benefit adjustments | 4.90% | 4.50% | 4.00% |
| Expected long-term rate of return on plan assets | 11.18% | 11.00% | 11.84% |
| Inflation | 4.90% | 4.50% | 4.00% |

Plan assets

The Company's weighted-average pension plan asset allocations by asset category at the end of 2008 and 2007, and the target allocation for 2009, are as follows:

| | Target allocation for 2009 | Percentage of plan assets at year end | |
|-------------------|----------------------------------|--|--------|
| | | 2008 | 2007 |
| Asset category: | | | |
| Equity securities | 11.51% | 17.9% | 18.8% |
| Loans | 0.18% | - | 1.3% |
| Fixed income | 87.83% | 81.0% | 74.0% |
| Other | 0.48% | 1.1% | 5.9% |
| Total | 100.0% | 100.0% | 100.0% |

The investment strategy for these pension plans is based on a long-term macroeconomic scenario, which takes into consideration the assumption of maximization of return commensurate to the risks of the several kinds of investments (fixed income, equity securities and loans), according to limits of allocation imposed by Conselho Monetário Nacional Resolutions. The expected return on plan assets is average after-tax return of each asset category weighted by target allocations. Asset categories returns as based on long-term macroeconomic scenarios.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Single-employer
amount

| | |
|-----------------|--------|
| 2009 | 7,714 |
| 2010 | 8,478 |
| 2011 | 9,354 |
| 2012 | 10,589 |
| 2013 | 12,019 |
| Years 2014-2018 | 76,073 |

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A summary of the SISTEL multiemployer defined-benefit pension plan (inactive employees pension plan - PBS-A) as of December 31, 2008 and 2007, which the Company and its subsidiary participate is as follows:

Inactive employees pension plan - PBS-A

| | Consolidated | |
|------------------------------|--------------|-------------|
| | 2008 | 2007 |
| Funded status: | | |
| Projected benefit obligation | 4,977,285 | 4,225,533 |
| Fair value of plan assets | (6,828,191) | (6,853,284) |
| Funded status | (1,850,906) | (2,627,751) |

A summary of the SISTEL multiemployer post-retirement benefits plan (health care plan - PAMA), which the Company and its subsidiary participate, is as follows:

Health care plan - PAMA

| | Consolidated | |
|---|--------------|-----------|
| | 2008 | 2007 |
| Funded status: | | |
| Accumulated post-retirement benefit obligation: | | |
| Active participants | 37,110 | 33,710 |
| Fully eligible active plan participants | 9,098 | 7,823 |
| Inactive participants | 1,506,410 | 1,185,019 |
| | 1,552,618 | 1,226,552 |
| Fair value of plan assets | (554,595) | (561,415) |
| Obligations in excess of plan assets | 998,023 | 665,137 |

b) Intangible assets

Following is a summary of the Company's intangible assets subject to amortization under U.S. GAAP:

Consolidated

2008

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| | Concession | Software use rights | Customer list | Other |
|--------------------------|-------------|------------------------|------------------|-----------|
| Gross | 6,906,067 | 4,023,438 | 1,207,536 | 65,924 |
| Accumulated amortization | (2,173,361) | (2,533,114) | (1,207,536) | (53,882) |
| Write-off of concession | (473,472) | - | - | - |
| Net | 4,259,234 | 1,490,324 | - | 12,042 |
| Amortization expense | 262,022 | 453,778 | 25,317 | 6,540 |
| Amortization period | (*) | 5 years | 2 years | 4.4 years |

Consolidated

2007

| | Concession | Software use rights | Customer list | Other |
|--------------------------|-------------|------------------------|------------------|-----------|
| Gross | 3,984,293 | 3,334,738 | 1,207,536 | 62,372 |
| Accumulated amortization | (1,887,403) | (2,080,128) | (1,182,219) | (49,657) |
| Write-off of concession | (473,472) | - | - | - |
| Net | 1,623,418 | 1,254,610 | 25,317 | 12,715 |
| Amortization expense | 190,837 | 394,936 | 303,803 | 8,218 |
| Amortization period | (*) | 5 years | 2 years | 7.6 years |

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(*) Amortized on a straight-line method over the major term for 3G License until 2038.

The estimated aggregate amortization expense for the next five years is as follows:

| | Amount |
|------|-----------|
| 2009 | 1,167,002 |
| 2010 | 981,346 |
| 2011 | 325,513 |
| 2012 | 324,858 |
| 2013 | 243,924 |

c) Fair Value Measurements (SFAS 157)

We adopted SFAS 157 on January 1, 2008, which provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value; therefore, it does not expand the use of fair value in any new circumstance.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). Additionally, SFAS 157 requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

SFAS 157 establishes a three-level hierarchy to be used when measuring and disclosing fair value. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. Following is a description of the three hierarchy levels:

Level 1 - Inputs are quoted prices in active markets for identical asset or liabilities as of the measurement date. Additionally, the entity must have the ability to access the active market, and the quoted prices cannot be adjusted by the entity.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

In accordance with SFAS 157, we measure our cash equivalents, foreign currency and interest rate derivative swap contracts at fair value. Our cash equivalents is classified within Level 1, because it is valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Our foreign currency, interest rate derivative swap contracts and financing and loans assigned as fair value hedge are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

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The following table summarizes our financial assets and liabilities recorded at fair value as of December 31, 2008:

| Description | December 31, 2008 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|----------------------|---|---|--|
| Assets | | | | |
| Cash Equivalents | | | | |
| Short-term investments | 2,126,875 | 2,126,875 | - | - |
| Derivative contracts | | | | |
| Foreign currency derivative contracts | 2,432,082 | - | 2,432,082 | - |
| Interest rate derivative contracts (Swap CDI x Prefixed) | 226,248 | | 226,248 | |
| Interest rate derivative contracts (Swap IGP-M x CDI) | 156,703 | | 156,703 | |
| Total Assets | 4,941,908 | 2,126,875 | 2,815,033 | - |
| Liabilities | | | | |
| Loans and financing under fair value hedge | 2,393,694 | - | 2,393,694 | - |
| Derivative contracts | | | | |
| Foreign currency derivative contracts | 1,920,551 | - | 1,920,551 | - |
| Interest rate derivative contracts (Swap CDI x Prefixed) | 227,461 | | 227,461 | |
| Interest rate derivative contracts(Swap IGP-M x CDI) | 141,080 | | 141,080 | |
| Total Liabilities | 4,682,786 | - | 4,682,786 | - |

The valuation method used for the calculation of fair value of loans, financing and derivative instruments (foreign currency and interest rate derivative swap contracts) was the discounted cash flow considering the expected settlements and realization of such financial assets and liabilities at effective market rate as of reporting date. For derivative instruments the method used for the calculation of fair value is presented in more details in Note 32.c.

For the year ended on December 31, 2008, short-term investments generated a gain of R\$271,244, which was included as financial expense, net in our results of operations. The short-term investments refer to fixed income transactions, indexed to the variation of the Interbank Deposit Certificates (CDI), with immediate liquidity.

Also, during the year ended on December 31, 2008, our foreign currency derivative contracts generated a gain of R\$511,532 and losses of R\$1,214 and R\$15,623 for interest rate swap (CDI x prefixed) and (IGP-M x CDI), respectively, which have been included as financial expense, net in our results of operations.

d) Capital leases

The following summarizes the amounts related to the assets and accumulated depreciation for U.S. GAAP purposes of the related assets under the Company and its subsidiaries capital lease obligations:

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| | <u>2008</u> |
|--------------------------------|---------------|
| Property, plant and equipment: | |
| Software | 70,774 |
| Less- Accumulated amortization | (60,575) |
| | 10,199 |

There is no minimum payment to be disclosed since there are no lease obligations on December 31, 2008.

e) Concentration of risks

Credit risk with respect to trade accounts receivable is diversified. The Company and its subsidiaries continually monitor the level of trade accounts receivable and limits the exposure to bad debts by cutting access to the telephone network if any invoice is 15 days past due. Exceptions comprise telephone services that must be maintained for reasons of safety or national security.

In conducting their business, Vivo S.A. and Telemig Celular S.A are fully dependent upon the cellular telecommunications authorizations, granted by the Federal Government.

There is no concentration of available sources of labor, services, concessions or rights, other than those mentioned above, that could, if suddenly eliminated, severely impact the Company and its subsidiaries operations.

f) Commitments (unaudited)

Budgeted capital expenditure commitments for 2009 are approximately R\$2.6 billion, of which R\$2.2 billion refer to Vivo S.A. operational budget and R\$0.4 billion refer to Telemig Celular Participações S.A. consolidated operational budget. For 2008, the budgeted capital expenditure commitments were approximately R\$6.1 billion, of which R\$3.4 billion refer to Vivo's consolidated operational budget (of which R\$1.2 billion refer to the 3G licenses and frequencies including the Northeast region). The effective capital expenditures in 2008 totaled R\$6.7 billion, being R\$2.7 billion related to Telemig's recent acquisition and R\$4.0 billion related to infrastructure, information technology, transmission equipment and the acquisition of 3G licenses.

As established in our authorizations and original concession agreements, the Company and its subsidiary are subject to obligations concerning quality of services, network expansion and modernization, as established in their authorizations and their original concession agreements. The Company believes that it is currently in compliance with its quality of service and expansion obligations.

g) Segment information

By the end of the year ended December 31, 2008, the Company had one operating segment, cellular telecommunications services. Consequently, no separate segment information has been presented for U.S. GAAP purposes. See footnote 24 for the analysis of the net operating revenue for each product and service provided by the Company and its subsidiaries.

h) Asset Retirement Obligation

SFAS No. 143, *Accounting for Asset Retirement Obligations* requires the subsidiary to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and capitalize that amount as part of the book value of the long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the subsidiary either settles the obligation for its recorded amount or incurs a gain or loss.

The subsidiary has certain legal obligations related to network infrastructure, principally tower assets, which fall within the scope of SFAS 143. These legal obligations include obligations to remediate leased land on which the subsidiary's network infrastructure assets are located. The significant assumptions used in estimating the subsidiary's asset retirement obligations include the following: a probability that each of the subsidiary's network infrastructure assets will be remediated at the lessor's directive, expected settlement dates that coincide with lease expiration dates plus estimates of lease extensions, remediation costs that are indicative of what third party vendors would charge the subsidiary to remediate the sites, expected inflation rates that are consistent with historical inflation rates, and credit-adjusted risk-free rates that approximate the subsidiary's incremental borrowing rates.

The changes in asset retirement obligation were as follows:

| | |
|------------------------------|---------|
| Balance at December 31, 2006 | 129,907 |
| Additions in 2007, net | 12,066 |
| Accretion expense | 3,974 |
| Balance at December 31, 2007 | 145,947 |
| Acquisition of Telemig | 15,536 |
| Additions in 2008, net | 15,490 |
| Accretion expense | 6,414 |
| Balance at December 31, 2008 | 183,387 |

The asset retirement obligation is also recorded under Brazilian GAAP. See footnote 22.

i) Deferred Income taxes

Under Brazilian GAAP, deferred taxes are classified as current or non-current based upon the expected period of reversal. Under US GAAP, deferred taxes are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards, are classified according to the expected reversal date of the temporary difference. The classification of our deferred tax assets and liabilities under USGAAP is as follows as of December 31, 2008 and 2007. Current deferred tax asset of R\$1,098,429 and R\$814,729, respectively, current deferred tax liability of R\$36,036 and R\$15,634, respectively, non-current deferred tax asset of R\$1,249,659 and R\$1,459,485, respectively and non-current deferred tax liability of R\$1,091,753 and R\$363,956, respectively.

Additionally, under Brazilian GAAP, the Company (Vivo Participações S.A.) did not recognize deferred income tax and social contribution assets of R\$845.1 million and R\$841.7 million as of December 31, 2008 and 2007, respectively, due to the uncertainties involving their realization. Under US GAAP Vivo Participações S.A. recorded those amounts, and as a result of the uncertainty involving their realization, a full valuation allowance in the same amount was also recorded in 2008 and 2007.

j) New accounting pronouncements

Recently Adopted Standards

In December 2008, the Financial Accounting Standard Board (FASB) issued FASB Staff Position (FSP) FASB Interpretation (FIN) 46(R)-8, Disclosures about Variable Interest Entities (FSP FIN 46(R)-8). FSP FIN 46(R)-8 requires enhanced disclosures about a company's involvement in VIEs. The enhanced disclosures required by this FSP are intended to provide users of financial statements with a greater understanding of: (i) the significant judgments and assumptions made by a company in determining whether it must consolidate a VIE and/or disclose information about its involvement with a VIE; (ii) the nature of restrictions on a consolidated VIEs assets reported by a company in its statement of financial position, including the carrying amounts of such assets; (iii) the nature of, and changes in, the risks associated with a company's involvement with a VIE; (iv) how a company's involvement with a VIE affects the company's financial position, financial performance, and cash flows. This FSP was effective for the year ended December 31, 2008 and had no impact on the Consolidated Financial Statements.

In May 2008, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement was effective for the year ended December 31, 2008.

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 was effective for the year ended December 31, 2008 and had no impact on the Consolidated Financial Statements as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

In September 2006, the FASB issued SFAS 158, which requires companies to (i) fully recognize, as an asset or liability, the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans; (ii) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; (iii) measure the funded status of defined benefit pension and other postretirement benefit plans as of the date of the company's fiscal year end; and (iv) provide enhanced disclosures. The provisions of SFAS 158 were effective for the year ended December 31, 2006, except for the requirement to measure the funded status of retirement benefit plans on Company's fiscal year end, which was effective for the year ended December 31, 2008. Since the Company's measurement date was already December of each year, this change had no impact on its Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require any new fair value measurements. This statement is initially effective for financial statements issued for fiscal years beginning after November 15, 2007 (calendar year 2008), and is to be applied prospectively as of the beginning of the year in which it is initially applied. For all nonrecurring fair value measurements of nonfinancial assets and liabilities, the statement is effective for fiscal years beginning after November 15, 2008 (calendar year 2009). Since the Company has not changed its current practice, this change had no impact on its Consolidated Financial Statements. See Note 32 on Financial Instruments and Note 40.c.

In October 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective for the Company on December 31, 2008 for all financial assets and liabilities recognized or disclosed at fair value in the Consolidated Financial Statements on a recurring basis (at least annually). The adoption of FSP FAS 157-3 had no impact on the Consolidated Financial Statements.

Recently Issued Standards

In December 2008, the FASB issued FSP No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets, (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends SFAS No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plans. This guidance is intended to ensure that an employer meets the objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of the following: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for the year ending December 31, 2009. As FSP FAS 132(R)-1 only requires enhanced disclosures, management anticipates that the adoption of FSP FAS 132(R)-1 will not have an impact on the Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. This FSP is effective prospectively for intangible assets acquired or renewed after January 1, 2009. The Company will apply FSP 142-3 to future acquisitions of intangible assets.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – An Amendment of SFAS No. 133 (SFAS 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (i) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (ii) the disclosure of derivative features that are credit risk-related; and (iii) cross-referencing within footnote disclosures to enable financial statement users to locate important information about derivative instruments. As SFAS 161 only requires enhanced disclosures, management anticipates that the adoption of SFAS 161 will not have an impact on the Consolidated Financial Statements.

In February 2008, the FASB issued FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which states that SFAS No. 13, Accounting for Leases, (SFAS 13) and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13 are excluded from the provisions of SFAS 157, except for assets and liabilities related to leases assumed in a business combination that are required to be measured at fair value under SFAS No. 141, Business Combinations, (SFAS 141) or SFAS No. 141 (revised 2007), Business Combinations, (SFAS 141(R)). The Company will apply FSP FAS 157-1 to future leasing transactions.

Also in February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective beginning January 1, 2009. The Company is still in the process of evaluating the impact that SFAS 157 will have on its nonfinancial assets and liabilities not valued on a recurring basis (at least annually).

In December 2007, the FASB also issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51. This statement clarifies that a non-controlling (minority) interest in a Operating Subsidiary is an ownership interest in the entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and non-controlling interest, with disclosure on the face of the consolidated income statement of the amounts attributed to the parent and to the non-controlling interest. This statement will be effective prospectively for fiscal years beginning after December 15, 2008 (calendar year 2009), with presentation and disclosure requirements applied retrospectively to comparative financial statements. The Company is currently evaluating the provisions of this statement.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), Business Combinations. Statement 141(R) establishes principles and requirements for how an acquiring entity in a business combination recognizes and measures the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. This statement will be effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (calendar year 2009). The impact of the adoption of SFAS 141R on the Company's consolidated financial position, results of operations will largely be dependent on the size and nature of the business combinations completed after the adoption of this statement.

In November 2008, the Emerging Issues Task Force issued EITF No. 08-6, *Equity Method Investment Accounting Considerations* (EITF 08-6) that addresses how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, how an equity method investee's issuance of shares should be accounted for, and how to account for a change in an investment from the equity method to the cost method. EITF 08-6 shall be effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. EITF 08-6 shall be applied prospectively with early application prohibited. The adoption of EITF 08-6 is not expected to have a material impact on our consolidated financial condition or results of operations.

In November 2008, the Emerging Issues Task Force issued EITF No. 08-7, *Accounting for Defensive Intangible Assets* (EITF 08-7) that addresses the determination of the unit of accounting and subsequent measurement of intangible assets acquired, including intangible assets acquire in a business combination, in situations in which the

acquirer does not intend to actively use the asset but intends to hold the asset to prevent its competitors from obtaining access to the asset (a defensive intangible asset). EITF 08-7 shall be effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the adoption of EITF 08-7 on the Company's consolidated financial position, results of operations will largely be dependent on the size and nature of the business combinations completed after the adoption of this statement.

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41. SUBSEQUENT EVENTS

The Board of Directors of the Company approved in an extraordinary meeting held on February 12, 2009, the capital increase of the Company as a result of the corporate restructuring process involving the Company and its subsidiaries. The goodwill amortization resulting from this corporate restructuring resulted in an accrued fiscal benefit in the total amount of R\$189,896 corresponding to the fiscal year ended on December 31, 2008. It also represents the credits held by of the controlling shareholder Portelcom Participações S.A. (Portelcom), used to increase the capital stock of the current R\$ 6,710,527 to R\$6,900,423, with the issuance of 5,819,678 new shares, being 2,124,989 common shares and 3,694,689 preferred shares, without par value and book-entry form and it granted the preemptive right stated in article 171 of Law No. 6,404/76. The totality of the amount resulting from the exercise of the preemptive right shall be credited to the shareholder Portelcom. The issuance price was R\$32.63 per common and preferred share corresponds to 100% of the weighted average price in the main market of the preferred shares of the 10 trading sessions of Bovespa, from January 28, 2009 until February 10, 2009, inclusive.

At Special Shareholders Meeting held on March 19, 2009 the Proposal for Allocation of Profit for Fiscal Year ended on 12/31/2008 having been fully approved by unanimous vote of the shareholders attending the meeting, without any restriction or qualification whatsoever. In consequence of such approval, it has been expressly resolved that the allocation of the Net Profit for the Fiscal Year, in the amount of R\$399,901, posted to the account of Retained Earnings, shall be as follows:

| | |
|--|----------------|
| Net Profit for the Year | 399,901 |
| Allocation to Legal Reserve | (19,995) |
| Adjusted Net Profit | 379,906 |
| Interest on Shareholders' Equity (gross) RCA of 12/17/2008 | (161,113) |
| LLA (Adjusted Net Profit) Balance 2008 | 218,793 |
| Realization of Profit Reserves of Prior Fiscal Years (Expansion Reserve) | 46,893 |
| Total LLA + use of expansion reserve | 265,686 |
| Total dividends to be distributed | 265,686 |
| Total dividends + JSCP (Interest on Shareholders' Equity) (gross) | 426,799 |
| Total dividends + JSCP (Interest on Shareholders' Equity) (net) | 402,632 |

In compliance with the provisions in article 7, combined to articles 26 of the Company's Bylaws, in items I, II, III of article 202 of Law 6,404/76, the attendees have unanimously approved the payment of dividends to the preferred shares of 6% of the capital stock, as shown below. Therefore, the payment of dividend per preferred share of R\$1.095907422398 was approved, in the same conditions as to payment of dividends to common shares, in the total amount of R\$402,632.

Such dividends, declared on the basis of the 2008 closing balance sheet to the holders of common and preferred shares, is made up by the interest on the shareholders' equity, as approved at a meeting of the Board of Directors of the Company, held on 12/17/2008, deducted in conformity with article 9 of Law 9,249/95, in the amount of R\$161,113 which, net of withholding income tax, results in R\$136,946, and dividends in the amount of R\$265,685, as shown below:

Distribution between JSCP (Interest on Shareholders Equity) and dividends and deduction of JSCP is shown below:

| | |
|--|----------------|
| Interest on Shareholders Equity, Gross | 161,113 |
| (-) Withholding Income Tax | (24,166) |
| Net Amount of Interest Deducted from Dividends | 136,947 |
| Dividends | 265,685 |
| Dividends / JSCP Net | 402,632 |
| Number of common and preferred Shares (excluding treasury shares) | 367,395,631 |
| Interest on Shareholders Equity per Share (gross) | 0.438528010149 |
| Interest on Shareholders Equity per Share (net of withholding income tax - IRRF) | 0.372748808626 |

The distribution of Dividends is shown as follows:

| | |
|----------------------|---------|
| Dividend R\$ | 265,685 |
| Common Shares R\$ | 97,012 |
| Preferred Shares R\$ | 168,673 |

| | |
|--|----------------|
| Dividend in R\$ per share | Amount |
| Number of common Shares | 134,150,345 |
| Number of preferred Shares (excluding treasury shares) | 233,245,286 |
| PN Shares | 0.723158613772 |
| ON Shares | 0.723158613772 |

This amount results in an aggregate of JSCP plus net dividends of R\$1.095907422398 per common or preferred share.

The amounts for JSCP and dividends shall be paid until December 30, 2009.

The managements of Vivo Participações S.A. (Vivo Part.), Telemig Celular Participações S.A., ("TCP") and Telemig Celular S.A. (TC) (jointly referred to as Companies), in compliance with and for the purpose of Instructions CVM Nr. 319/99 and 358/02, inform that it was approved on March 20, 2009 by their respective Board of Directors, the proposal to be submitted to the shareholders of the Companies, of a corporate restructuring for the merger of shares of TC into TCP and of TCP into Vivo Part., for the conversion of TC into the wholly-owned subsidiary of TCP and of TCP into the wholly-owned subsidiary of Vivo Part. (Corporate Restructuring). As TC shall be a wholly-owned subsidiary of TCP and that TCP shall become a wholly-owned subsidiary of Vivo Part., their registries with CVM and with BOVESPA will be cancelled, as well as the registries of TCP with the U.S. Securities and Exchange Commission SEC and with the New York Stock Exchange NYSE , in order to eliminate the costs related thereto. Management point out that the referred transaction will not change the final composition of the control of the involved companies. The totality of shares of TC will be merged into TCP, and the holders of the merged shares of TC shall receive in exchange for their shares, new shares to be issued by TCP. On the same date, the shares of TCP shall be merged into Vivo Part., and the holders of the merged shares of TCP shall receive in exchange for their shares, new shares to be issued by Vivo Part., in accordance with the exchange ratio to be established by the Companies. This Corporate Restructuring shall be submitted to Agência Nacional de Telecomunicações - ANATEL. Considering that it is a Corporate Restructuring of companies of the same economic group, the transaction herein described is not subject to the approval by the *Conselho Administrativo de Defesa Econômica* CADE (Brazilian antitrust committee). The holding of the shareholders meeting that shall resolve on the Corporate Restructuring is subject to the effectiveness of the

registration with the SEC, in the terms required by the regulation of such commission, in view of the negotiation of ADRs of TCP in the New York Stock Exchange.

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