

ECHELON CORP
Form 8-K
May 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of

The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

May 5, 2011

ECHELON CORPORATION

(Exact name of registrant as specified in its charter)

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(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

550 Meridian Avenue

San Jose, California 95126

(Address of principal executive offices, including zip code)

(408) 938-5200

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

The following information is furnished (not filed) as Exhibit 99.1 hereto. This information shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), nor incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

On May 5, 2011, Echelon Corporation issued a press release reporting on its results of operations for the quarter ended March 31, 2011. The full text of this press release is furnished in this report as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

Exhibit

Number	Description
99.1	Press Release dated May 5, 2011, of Echelon Corporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ECHELON CORPORATION

By: /s/ Oliver R. Stanfield
Oliver R. Stanfield

Executive Vice President and

Chief Financial Officer

Date: May 5, 2011

EXHIBIT INDEX

**Exhibit
Number**

Description

99.1 Press Release dated May 5, 2011, of Echelon Corporation.

> DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES 122 ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES 124 ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS 124 ITEM 15. CONTROLS AND PROCEDURES 124 ITEM 16. [RESERVED] 125 ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT 125 ITEM 16B. CODE OF ETHICS 125 ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES 125 ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES 126 ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASERS 126 ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT 126 ITEM 16G. CORPORATE GOVERNANCE 126 ITEM 17. FINANCIAL STATEMENTS 128 ITEM 18. FINANCIAL STATEMENTS 128 ITEM 19. EXHIBITS 128

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;

BM&FBOVESPA are to the *BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros*, 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, by Law 11,638 of December 28, 2007; and to Law No. 11,941 of May 27, 2009;

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;

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

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

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

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

NYSE are to the New York Stock Exchange;

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

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

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

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

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

TDMA are to Time Division Multiple Access, a radio interface technology for cellular networks based on spectral spreading of the radio signal and channel division in the time domain;

TCO are to *Tele Centro Oeste Celular Participações*, which includes TCO's B band subsidiary and NBT, formerly Vivo subsidiaries prior to our corporate restructuring;

TCP are to *Telesp Celular Participações S.A.*, our predecessor company;

TLE are to *Tele Leste Celular Participações S.A.* and its consolidated subsidiaries, formerly Vivo subsidiaries prior to our corporate restructuring;

TSD are to *Tele Sudeste Celular Participações S.A.* and its consolidated subsidiaries, formerly Vivo subsidiaries prior to our corporate restructuring;

Telebrás are to *Telecomunicações Brasileiras S.A.* Telebrás;

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

Telemig 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.*;

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

US\$, dollars or U.S. dollars are to United States dollars;

Vivo, the Company, we, our and us are to Vivo Participações S.A. (formerly Telesp Celular Participações S.A. 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, Celular CRT and Telemig Celular S.A., 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);

Vivo also operates in Area 4 state of Minas Gerais and Area 10 states of Pernambuco, Alagoas, Paraíba, Rio Grande do Norte, Ceará and Piauí.

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, 2009, 2008 and 2007 and for the three years in the period ended December 31, 2009, 2008 and 2007, 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 33 and 34 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).

In addition, GAAP convergence is a high priority on the agendas of many countries' standards setting bodies and convergence is a term that suggests elimination of differences or coming together of standards. In Brazil, a number of steps have been taken towards the use of International Financial Reporting Standards (IFRS), with two distinct but related paths to IFRS adoption being taken.

Firstly, the Brazilian securities regulator, the Comissão de Valores Mobiliários (locally CVM), has determined that IFRS should be used for consolidated financial statements of public companies from 2010 onwards, with early adoption being permitted. Secondly, a new corporate Law 11,638, which was enacted in 2007 and took effect from 2008, requires all Brazilian companies to prepare their financial statements in accordance with a new set of local standards which are currently being issued and are based on IFRS standards. This means that all Brazilian companies, both public and non-public, are currently required to use certain local standards which are similar to IFRS.

The local standards are being issued by *Comitê de Pronunciamentos Contábeis* (locally CPC), a newly established Brazilian accounting standard setter. These new standards replace the existing accounting standards (*Normas Profissionais de Contabilidade* or NPCs issued by Instituto dos Auditores Independentes do Brasil - IBRACON) and other guidance issued by regulators.

As of December 31, 2009, the newly issued and effective CPC standards, as listed in the notes to our financial statements, have been applied to the financial statements and others are required to be applied for calendar year 2010. Consequently, for the year to be ended December 31, 2010, Vivo Participações S.A. will present its financial statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB). As permitted by the U.S. SEC rules, starting in 2010 Vivo will no longer present reconciliation to U.S. GAAP for its primary financial statements.

FORWARD LOOKING STATEMENTS

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

statements concerning our operations and prospects;

the size of the Brazilian telecommunications market;

estimated demand forecasts;

our ability to secure and maintain telecommunications infrastructure licenses, rights of way and other regulatory approvals;

our strategic initiatives and plans for business growth;

industry conditions;

our funding needs and financing sources;

network completion and product development schedules;

expected characteristics of competing networks, products and services;

quantitative and qualitative disclosures about market risks;

other statements of management's expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts; and

other factors identified or discussed under Item 3.D. Key Information Risk Factors.

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

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

the cost and availability of financing;

uncertainties relating to political and economic conditions in Brazil;

inflation, interest rate and exchange rate risks;

the Brazilian government's telecommunications policy; and

the adverse determination of disputes under litigation.

We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

PART I**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain significant respects from U.S. GAAP. See Notes 33 and 34 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, 2009 and 2008, and (iii) a reconciliation to U.S. GAAP of our net income or loss for each of the three years in the period ended December 31, 2009.

Prior to 2006, the Company was under common control with TSD, TLE and Celular CRT. 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 non-controlling interest in TCO by exchanging shares of the Company for the shares held by non-controlling 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. Selected financial information combining the historical operations of TSD, TLE and Celular CRT has been presented for the year ended December 31, 2005. In the combined financial information, all inter-company transactions have been eliminated. The acquisitions of non-controlling 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.

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

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 and 2009 financial statements.

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 2009 ⁽¹⁾	Consolidated 2008 ⁽¹⁾	Consolidated 2007 ⁽¹⁾	Consolidated 2006 ⁽¹⁾	Combined 2005 ⁽²⁾
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(in millions of *reais*, except per share data)**Income Statement Data:***Brazilian GAAP*

Net operating revenue	16,363.2	15,469.7	12,492.5	10,936.7	11,253.8
Cost of services and goods	(8,951.5)	(8,179.0)	(6,623.3)	(5,564.2)	(5,337.3)
Gross profit	7,411.7	7,290.7	5,869.2	5,372.5	5,916.5
Operating expenses:					
Selling expenses	(4,357.4)	(4,107.0)	(3,532.8)	(3,751.1)	(3,614.9)

Year ended December 31,

	Consolidated 2009 ⁽¹⁾	Consolidated 2008 ⁽¹⁾	Consolidated 2007 ⁽¹⁾	Consolidated 2006 ⁽¹⁾	Combined 2005 ⁽²⁾
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(in millions of reais, except per share data)

General and administrative expenses	(1,334.3)	(1,164.2)	(1,207.2)	(1,099.7)	(1,031.4)
Other net operating expenses	240.8	(469.9)	(509.4)	(319.5)	(491.6)
Operating income before net financial expenses	1,960.8	1,549.6	619.8	(202.2)	778.6
Net financial expenses	(487.2)	(637.7)	(462.8)	(748.0)	(913.1)
Operating income (loss)	1,473.6	911.9	157.0	(545.8)	(134.5)
Net non-operating income (expenses)				(289.0)	(96.5)
Income (loss) before income taxes and non-controlling interests	1,473.6	911.9	157.0	(834.8)	(231.0)
Income taxes	(590.5)	(469.5)	(256.8)	859.1	(363.0)
Non-controlling interests	(25.6)	(52.7)		(8.0)	(173.5)
Net income (loss)	857.5	389.7	(99.8)	16.3	(767.5)
Net income (loss) per share (R\$)	2.1807	1.0885	(0.0694)	0.0113	(0.6919)
Dividends declared per thousand preferred shares (R\$)	1.82778	0.723		0.018	0.037
Dividends declared per thousand common Shares (R\$)	1.82778	0.723			0.047
U.S. GAAP					
Operating revenue	21,355.9	20,558.3	15,922.1	14,152.3	14,407.8
Operating income (loss)	1,725.2	1,702.5	623.3	(183.2)	929.7
Net financial expenses	(488.2)	(603.6)	(437.5)	(666.3)	(914.7)
Net non-operating expenses			(0.3)	(11.6)	(14.8)
Income (loss) before income taxes and non-controlling interests	1,237.0	1,098.9	185.5	(861.1)	0.2
Income taxes	(484.4)	(547.0)	(295.1)	409.0	(319.0)
Net income (loss) ⁽⁴⁾	752.6	551.9	(109.6)	(452.1)	(318.8)
Net income (loss) attributable to parent company ⁽⁴⁾	726.4	500.9	(109.6)	(460.5)	(494.2)
Net income (loss) attributable to non-controlling interest ⁽⁴⁾	26.2	51.0	-	8.4	175.4
Basic net income (loss) per share attributable to parent company					
common (R\$)	1.89	1.37	(0.84)	(3.97)	(4.76)
Basic net income (loss) per share attributable to parent company					
preferred (R\$)	1.89	1.37		0.08	0.20
Weighted average common shares outstanding basi ⁽³⁾	136,458,308	132,991,366	131,232,916	120,316,867	110,999,179
Weighted average preferred shares outstanding basi ⁽³⁾	248,555,838	232,353,912	228,172,795	210,335,209	159,444,173

Diluted net income (loss) per share common (R\$)	1.89	1.37	(0.84)	(3.97)	(4.76)
Diluted net income (loss) per share preferred (R\$)	1.89	1.37		0.08	0.20
Weighted average common shares outstanding diluted ⁽¹⁾	136,458,308	133,924,147	131,232,916	120,316,867	110,999,179
Weighted average preferred shares outstanding diluted ⁽²⁾	248,555,838	232,353,912	228,172,795	210,335,209	159,444,173

- (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. The financial information presented for 2009 represents information from Vivo's and Telemig consolidated financial statements.
- (2) The financial information presented for the 2005 fiscal year 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, 2005, 2006, 2007, 2008 and 2009. The potentially diluted shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for the year ended December 31, 2007 as their effect would have been anti-dilutive. As described in Note 33 (j) to the Company's financial statements for the year ended December 31, 2009, the Company applies accounting guidance for Participating Securities and the Two-Class Method. Since preferred shareholders have a liquidation preference over common shareholders, net losses are not allocated to preferred shareholders. Additionally, net income (loss) per share and share amounts for all periods retroactively reflect the effect of the reverse stock split described in Note 21 to the Company's financial statements.
- (4) Effective January 1, 2009, Vivo adopted the new accounting guidance for Non-controlling interests in consolidated financial statements. The prior periods have also been adjusted for the adoption of this guidance.

Year ended December 31,

	Consolidated 2009 ⁽¹⁾	Consolidated 2008 ⁽¹⁾	Consolidated 2007 ⁽¹⁾
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Cash Flow Data:

(in millions of reais)

Brazilian GAAP

Cash flows from operating activities	4,044.4	3,722.1	3,196.7
Cash flows from investing activities	(2,264.9)	(4,694.9)	(2,011.5)
Cash flows from financing activities	(2,703.8)	964.8	(396.2)

As of December 31,

	Consolidated 2009 ⁽¹⁾	Consolidated 2008 ⁽¹⁾	Consolidated 2007 ⁽¹⁾	Consolidated 2006 ⁽¹⁾	Combined 2005 ⁽²⁾
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(in millions of reais, except per share data)

Balance Sheet Data:*Brazilian GAAP*

Property, plant and equipment, net	6,445.1	7,183.9	6,316.9	6,467.2	6,683.2
Total assets	22,017.1	23,796.8	18,099.5	17,544.7	19,259.3
Loans and financing	5,124.5	8,003.2	4,385.7	4,509.9	5,652.8
Shareholders' equity	10,190.8	8,267.5	8,296.3	8,371.7	7,047.5
Capital Stock	8,780.2	6,710.5	6,347.8	6,347.8	8,232.4
Number of shares as adjusted to reflect changes in capital	399,590	367,396	1,437,623	1,437,623	1,109,225

U.S. GAAP

Property, plant and equipment, net	6,158.2	6,973.5	6,078.9	6,333.3	6,536.4
Total assets	23,191.7	26,576.9	22,508.4	18,392.5	20,367.1
Total liabilities	12,952.9	17,225.6	13,484.0	9,210.4	11,294.7
Equity ⁽³⁾	10,238.8	10,040.0	9,024.4	9,126.2	8,732.0
Equity attributable to parent company ⁽³⁾	10,238.8	9,351.3	9,024.4	9,126.2	7,165.6
Equity attributable to non-controlling interest ⁽³⁾	-	688.7	-	-	1,566.4
Capital stock	7,520.5	6,688.3	6,325.6	6,325.6	8,232.4
Number of shares as adjusted to reflect changes in capital	399,590	367,396	359,406	359,406	277,306

(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. The financial information presented for 2009 represents information from Vivo's and Telemig consolidated financial statements.

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

(3) Effective January 1, 2009, Vivo adopted the new accounting guidance for Non-controlling interests in consolidated financial statements. The prior periods have also been adjusted for the adoption of this guidance.

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 that it received for the amortization of the intangibles related to the concession 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, 2005, 2006, 2007, 2008 and 2009. The potentially diluted shares, consisting solely of the estimate of issuable shares mentioned above, have been excluded from the computation for the year ended December 31, 2007, as their effect would have been anti-dilutive. As described in Note 33 (j) to the Company's financial statements for the year ended December 31, 2009, the Company applies the accounting guidance Participating Securities and the Two-Class Method. 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 21 to the Company's financial statements.

Exchange Rates

The Brazilian Central Bank allows the *real*/dollar exchange rate to float freely. The *real*/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. However, 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. It is not possible to 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.

The Brazilian government has been introducing significant changes aimed at simplifying the Brazilian foreign exchange market. Prior to 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.

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 the 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 currency exchange transactions from 360 to 750 days.

Since October 2009, in accordance with Decree No. 6,983/09, the IOF tax is levied at 2% for foreign exchange transactions related to the inflow of funds to invest in the financial and capital markets. The IOF rate is zero for foreign exchange transactions for outflow for these funds.

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,				
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
2009	1.702	2.429	1.996	1.741

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.

Month Ended	Exchange Rate of R\$ per US\$	
	Low	High
October 31, 2009	1.703	1.784
November 30, 2009	1.702	1.759
December 31, 2009	1.709	1.788
January 31, 2010	1.722	1.874
February 28, 2010	1.804	1.877
March, 2010 (through March 30, 2010)	1.764	1.823

Source: Brazilian Central Bank, PTAX.

Although the *real* depreciated against the US\$ in the fourth month period ended April 30, 2009 as a result of an increase in the risk aversion towards investing in the *real*, the *real* appreciated against the US\$ at the end of 2009. The average exchange rate in 2009 was 1.99R\$ to 1US\$, which was higher than the average exchange rate of 1.84R\$ to 1US\$ in 2008. Nevertheless, the year end exchange rate in 2009 was 1.74R\$ to 1US\$, which was lower than the year end exchange rate in 2008 of 2.34R\$ to 1US\$, thereby reflecting an appreciation of 26% in 2009. These fluctuations in the R\$/US\$ exchange rate did not affect our liquidity or ability to raise funds. In 2009, we received the last installment of loans from BNB and BNDES, and we issued our fourth debentures series.

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 drastic changes in policy and regulations. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other things. Our business, financial condition, results of operations and the market price of our preferred shares and

ADSs may be adversely affected by changes in government policies, as well as general economic factors, including:

currency fluctuations;

exchange control policies;

internal economic growth;

inflation;

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. Those uncertainties are especially probable during presidential elections and campaigns are currently underway in Brazil to elect a new president on October 3, 2010. 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 and our ability to attract foreign capital

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 subsidiaries to us and on our revenues and operating results.

In 2009, the Brazilian government extended the IOF (Imposto sobre Operações Financeiras) to tax foreign investments, more specifically fixed income and stocks investments, except for IPOs. In 2008, prior to this extension, only fixed income was taxed. The adoption of this tax aimed to reduce speculation on Brazilian markets and to reduce the volatility of appreciation of the *real*. Other institutional changes may be used to control the appreciation of the real. This may discourage foreign investment due to higher transaction costs. There is also the risk of reducing the potential value increase in the investment achievable solely as a result of currency rate changes.

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. Current or future 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.

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. In the long term, as a consequence, global investor confidence will likely remain low and credit will likely remain relatively lacking. Hence, additional volatility in the global financial markets may occur.

Nevertheless, during 2009, there was an increasing perception that Brazil was one of the few countries least affected by the crisis. This perception resulted in a relatively strong investor interest in Brazil and in Brazilian companies with good credit ratings, generally enabling these companies to obtain adequate credit. Furthermore, these companies could rely on public banks, such as the National Economic and Social Development Bank (BNDES), that offered better credit terms and conditions than those offered in the international markets.

However, additional volatility in the global financial markets may occur. Continued or worsening disruption and volatility 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.

Brazil has historically experienced high rates of inflation. 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 4.3% in 2009, remained below the target fixed by the National Monetary Council of 4.5% and within the accepted range of 2.5% to 6.5%. The inflation rate was 5.9% in 2008, 4.5% in 2007, 3.1% in 2006 and 5.7% in 2005.

The inflation target for 2010 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.

Depreciation 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 real market value of our preferred shares and the U.S. dollar market value of our 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. In 2009, the *real* appreciated against the U.S. dollar, increasing 25%. 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 our Brazilian custodian, Banco Itaú S.A. (acting as the agent for the depositary) 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, 2005, 2006, 2007, 2008 and 2009, the basic interest rate was 18.0%, 13.3%, 11.3%, 13.8% and 8.8%, respectively. For 2010, the target for inflation is 4.5%, and increases in interest rates aiming to control inflation 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, including, therefore, our ability to grow by acquiring other telecommunications businesses;

telecommunications resource allocation;

service standards;

technical standards;

interconnection and settlement arrangements; and

universal service obligations.

Brazil's telecommunications regulatory framework is continuously evolving. The interpretation and enforcement of regulations, the assessment of compliance with regulations and the flexibility of regulatory authorities are all marked by uncertainty. We operate under authorization from the Brazilian government, and our ability to retain this authorization is a precondition to our success. However, in light of the regulatory framework, we cannot assure you that ANATEL will not modify the terms of our authorization adversely. Furthermore, according to the terms of our operating authorizations, 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 authorizations. Any partial or total revocation of any our operating authorizations 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 businesses, financial conditions, revenues, results of operations and prospects could be materially adversely affected.

Therefore, our businesses, results of operations, revenues and financial conditions could be negatively affected by the actions of the Brazilian authorities, including, in particular, the following:

the introduction of new or stricter operational and/or service requirements;

the granting of operating licenses in our areas;

delays in the granting of, or the failure to grant, approvals for rate increases; and

anti-trust limitations imposed by ANATEL and the Administrative Council for Economic Defense (CADE).

Brazilian anti-trust regulation is based on Law No. 8,884 of June 11, 1994 which prohibits any practice or transactions aimed at restricting free competition, dominating the relevant market of goods or services, arbitrarily increasing profits, or abusively exercising a dominant market position. The Economic Law Office, or SDE, and the Secretariat for Economic Monitoring, or SEAE, also act towards promoting the principle of free, ample and fair competition among all providers, as well as toward correcting the effects of imperfect competition and repressing violations against economic order. We cannot continue to expand our growth through acquisition of other service providers given the anti-trust objections of ANATEL along with the fact that we currently already render SMP service all over the country. Consolidation of the other players in the telecommunications market will increase the competitive pressure on us due to the increase in their economies of scale and reduction of operational costs, and 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 may be negatively affected by the application of the SMP rules.

Under the SMP regime, our subsidiaries receive payment for the use of their networks in accordance with a network usage payment plan, which includes outbound long distance calls. Until June 30, 2004, SMP service providers were able to opt to establish a price cap or freely negotiate our interconnection charges. In early 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 of 4.5% increase for VU-M fees for long-distance calls, or VC-2, VC-3, and international calls, among the same operators that had made the VC-1 agreement in July 2005. Currently, free negotiation is the rule, subject to ANATEL regulations.

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 approximately 1.97% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of approximately 2.25% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). There have been no changes to these annual adjustment rates for the year ended December 31, 2009.

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, for the period since January 2004, that provides for an annual adjustment of 4.5% as of March 2006 and an annual adjustment of approximately 1.97% or approximately 2.25% as of July 2007. There have been no changes to these annual adjustment rates for the year ended December 31, 2009.

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 approximately 1.89% to interconnection fees in Region I (Telemar's Region) and an annual adjustment of approximately 2.06% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region). There have been no changes to these annual adjustment rates for the year ended December 31, 2009.

In March 2009, 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, for the period from 2007 to 2008, that provides for an annual adjustment of approximately 1.89% in Region I (Telemar's Region) or approximately 2.06% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region) as of July 2008.

In September 2009, even though it had a provisional agreement between the fixed line operators Telefônica, Telemar, Brasil Telecom and Sercomtel and the mobile operators, without CTBC Celular, ANATEL decided not to approve the readjustment of the local (VC-1) and long-distance (VC-2 and VC-3) fixed-to-mobile calls. In February 2010, this readjustment of the VC-1, VC-2 and VC-3, relative to the period from 2008 to 2009, was approved by ANATEL and the provisional agreement of VU-M readjustment (68.5% of the approved readjustment of approximately 0.97% for the VC-1) could be applied.

The 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), states that, in the maximum allowed period of eighteen months from the publication of the Terms of Authorization (that occurred on April 30, 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 (PGA-SMP). In accordance with this determination, in January 2010, ANATEL published an act determining the unification of our SMP authorizations in Regions II (states of Paraná, Santa Catarina, Rio Grande do Sul, Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and the Distrito Federal) and III (state of São Paulo) of the PGA-SMP, with an SMP authorization for each one of these Regions (Terms of Authorization No. 005/2010 and 006/2010, signed in January 2010, for Region II and III, respectively). Moreover, ANATEL also determined that, from November 1, 2009 (eighteen months from April 30, 2008), in each Region of the PGA-SMP, the value of the VU-M must be unified for that Region and freely negotiated. Until such date, the mobile operators charged a value of VU-M for authorization of the SMP. In February 2010, ANATEL defined the VU-M to be paid for Oi (fixed and mobile operators) and for Brasil Telecom (fixed and mobile operators) to Claro, TIM, Vivo and Telemig Celular, for region of the PGA-SMP, as a result of the unification of the SMP authorizations.

The free negotiation process for interconnection charges has been extended and will proceed until 2010, when a cost based reference interconnection value is expected to be set by ANATEL according to the rules and the regulation on SMP Network Usage Fees issued in July 2006 (Resolution 438/2006). Under Resolutions 438/2006, 480/2007, 483/2007 and 503/2008, the ANATEL 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 438/2006, the free negotiation of the cost of use of mobile networks VU-M was maintained. However, in the arbitration by ANATEL, while the cost model 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 438/2006, 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.

ANATEL also issued Regulation No. 460/2007 regarding number portability that implemented and developed fixed and wireless number portability in Brazil effective as of March 2009, with most costs to be borne by the operators. For SMP, number portability is applied for wireless codes of access of the same registration area. Until December 2009, there were 173.9 million cell phones in Brazil. After the start of number portability in September 2008, 543,609 people changed our subsidiaries as operator as of December 31, 2009. 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 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. We cannot assure you that the interconnection rates we negotiated will be upheld or that future negotiations will be as favorable as those that were previously set by ANATEL. If the readjustments that we negotiated are cancelled or if freely negotiated interconnection fees in the future are less favorable to us, our business, financial condition, revenues, results of operations and prospects will be adversely affected.

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 new regulation regarding interconnection and network usage fees could have an adverse effect on our results.

Since the beginning of 2005, ANATEL published the following new regulations on interconnection and network usage fees of SMP providers, some of which could have an adverse effect on our results: (1) new General Regulation of Interconnection (*Regulamento Geral de Interconexão* Resolution No. 410/2005, or RGI); (2) the Regulation of Separation and Allocation of Costs (Resolution No. 396/2005); (3) the Regulation for Network Usage Fees of SMP providers (*Regulamento de Remuneração pelo Uso de Redes de Prestadoras do SMP* Resolution No. 438/2006 and Resolutions No. 480/2007, 483/2007 and 503/2008); (4) the Regulation for Usage of Spectrum in the 800, 900, 1800, 1900 and 2100MHz bands (Resolution No. 454/2006); (5) the Regulation for Methodology of the Calculation of the WACC (Resolution No. 535/2009); (6) the Invitation Document numbered 002/2007/SPV-ANATEL, relating to the auction organized by ANATEL of new 3G licenses, and stating that, in the maximum allowed period of eighteen months from April 30, 2008, the authorizations resulting from this auction must be combined with the existing SMP authorizations given to the bid winners when pertaining to the same region of the general authorization plan of SMP; and (7) the general plan for updating the Brazilian telecommunications regulation (Resolution No. 516/2008, or PGR). The following are some of the changes in the regulation that may adversely affect our results:

two SMP providers controlled by the same economic group can receive only one instead of two interconnection charges (VU-M) for calls originated and terminated in their networks ((3) and (6) above);

new negotiation rules for VU-M prices by which ANATEL will have a role in determining reference prices rather than the current free-market negotiation of prices. The reference prices will apply to SMP providers that have significant market power, which may be the case of Vivo and Telemig Celular (until further decision by ANATEL, all operators are considered to have significant market power) ((3) above). In February 2010, ANATEL published the

Public Consoultation No. 5/2010, with a proposal to amend Resolution No. 438/2006 regarding the identification of SMP providers that have Significant Market Power in voice call termination on individual mobile networks ((3) and (7) above);

reference prices were cost based commencing in 2008 in compliance with Resolution No. 483/2007. The prices are calculated according to the regulation on Costs Separation and Allocation (Resolution No. 396/2005) ((2) and (3) above);

VU-M prices must follow the discounts granted to fixed telephony customers for out-of-business hours calls ((3) above);

when receiving calls from public telephones, VU-M will adopt the same tariff rules that apply to public telephones ((3) above);

creation of VU-M price unification among SMP providers of the same economic group having significant market power ((3), (6) and (7) above);

the interconnection payments between SMP operators for traffic in the same registration area may occur independently of the traffic balance between the operators (this regime is referred to as full billing) ((1) and (3) above). Before the adoption of the above-mentioned regulation, payments between SMP operators for traffic in the same area only occurred when the traffic balance between any two companies was either less than 45% or in excess of 55% (this regime is referred to as partial bill and keep);

the Invitation Document numbered 002/2007/SPV-ANATEL relates to the auction organized by ANATEL in December 2007 of new licenses (3G licenses) for the 1900-2100 MHz radio frequency bands denominated the F, G, I and J bands, and states that, in the maximum allowed period of eighteen months from the publication of the Terms of Authorization on April 30, 2008, the authorizations resulting from this auction will be combined with the existing SMP authorizations given to the bid winners when pertaining to the same region of the general authorization plan of SMP. Vivo and Telemig Celular acquired spectrum licenses for the J band in regions where we possess SMP licenses. In addition, the Invitation Document modifies the rule for the renewal of radio frequency licenses and includes in the calculation of operating profits the remuneration received for the use of the SMP network together with the profits earned from the service plans. In accordance with this Invitation Document, in January 2010, ANATEL published an act determining the unification of our SMP authorizations in Regions II (states of Paraná, Santa Catarina, Rio Grande do Sul, Goiás, Tocantins Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and the Distrito Federal) and III (state of São Paulo) of the PGA-SMP, with only one SMP authorization for each one of these Regions (Terms of Authorization No. 005/2010 and 006/2010, signed in January 2010, for Region II and III, respectively). Moreover, ANATEL also determined that, from November 1, 2009 (eighteen months from April 30, 2008), in each Region of the PGA-SMP, the value of the VU-M must be unified for that Region (two SMP providers controlled by the same economic group can receive only one instead of two interconnection charges (VU-M) for calls originated and terminated in their networks), and freely negotiated. Until such date, the mobile operators charged a value of VU-M for authorization of the SMP. In February 2010, ANATEL defined the VU-M to be paid for Oi (fixed and mobile operators) and for Brasil Telecom (fixed and mobile operators) to Claro, TIM, Vivo and Telemig Celular, for the region of the PGA-SMP, as a result of the unification of the SMP authorizations ((1), (3) and (6) above);

in 2008, ANATEL published the general plan for updating the Brazilian telecommunications regulation (*Plano Geral de Atualização da Regulamentação das Telecomunicações no Brasil* Resolution number 516/2008, or PGR) ((7) above).

in December 2009, ANATEL published the Public Consultation No. 50/2009, with a proposal for the regulation of the mobile virtual network operator (MVNO) ((7) above);

in October 2009, ANATEL published Resolution No. 535/2009 relating to the Methodology of the Calculation of the WACC ((5) above);

in December 2008, Decree 6523/2008 was effective, relating to the general norms of customer interaction service by telephone, with the objective of improving the quality of services ((7) above);

in December 2009, ANATEL published the Public Consultation No. 51/2009, with a proposal for the invitation document related to the auction of new SMP licenses for the 1900-2100 MHz radio frequency band denominated the H band, for extension bands and for available frequencies at A , D , E , M and TDD bands ((4) and (7) above);

in June 2009, ANATEL published the Public Consultation No. 24/2009, with a proposal of amending the regulation of the 450 MHz to 470 MHz band, allowing it to apply additionally to mobile services ((7) above);

in August 2009, ANATEL published the Public Consultation No. 31/2009, with a proposal of amending the regulation of the 2500 MHz to 2690 MHz band, allowing it to apply additionally to mobile services ((7) above);

in February 2010, ANATEL published Resolution No. 537/2010 relating to amending in the regulation of the 3400 MHz to 3600 MHz band, allowing it to apply additionally to mobile services ((7) above); and

in April 2009, ANATEL published Resolution No. 527/2009 relating to the regulation of the Broadband Power Line (BPL), allowing this service to apply to multimedia communication (Serviço de Comunicação Multimídia SCM) ((7) above).

Such new regulations could have an adverse effect on our results of operations because: (1) our interconnection charges could drop significantly, thereby reducing our revenues; (2) ANATEL may allow more favorable prices for economic groups without significant market power; (3) the prices we charge in some regions in which we operate are higher than those in certain other regions, and consolidation of those prices, competitive pressures and other factors would reduce our average prices and thereby reduce our revenues; (4) the granting of new licenses may increase competition in our area from other operators, which could adversely affect our market share, thereby reducing our revenues; (5) the inclusion in the calculation of operating profits the remuneration received for the use of the SMP network will increase the cost of renewing licenses; (6) in ANATEL's general plan of updating the telecommunications regulation, ANATEL targets several areas of vital importance for the mobile telecommunications business, such as regulation to improve the quality of services that can cause the rise of operational costs, regulation of the virtual mobile operation (MVNO) that can cause an increase in competitive pressure, regulation against significant market power (Poder de Mercado Significativo PMS) arising from VU-M price unification among SMP providers of the same economic group having significant market power, that can reduce our revenues, and regulation of multimedia communication (Serviço de Comunicação Multimídia SCM), that can cause an increase in competitive pressure.

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 indirectly with companies that provide fixed-line telecommunications and Internet access services, due to the trend towards the convergence of these 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 29.84% as of December 31, 2008 to 29.75% as of December 31, 2009, and our market share of net additions to our customer base increased from 25.5% for the twelve months ended December 31, 2008 to 29.2% for the twelve months ended December 31, 2009. In addition, our net additions of customers increased by 10.1% from December 31, 2008 to December 31, 2009, including clients of Telemig.

The ultimate impact that existing competition will have on our business is not yet clear. Our competitors may be able to offer lower prices than we do and to develop and deploy more rapidly new or improved wireless technologies, services and products. Our response to competition may require us to lower rates or extend higher subsidies to our customers for the acquisition of handsets, thereby adversely affecting our margins.

In addition, market participants in other areas of Brazil may also seek to operate in our area, most likely through acquisitions. 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. We could be negatively affected by anti-trust limitations imposed by ANATEL and the Administrative Council for Economic Defence, or CADE. Brazilian competition regulation is based on Law No. 8,884 of June 11, 1994 which prohibits any practice aimed at restricting free competition, dominating the relevant market of goods or services, arbitrarily increasing profits, or abusively exercising dominant market position. The Economic Law Office, or SDE, and the Secretariat for Economic Monitoring, or SEAE, also act towards promoting the principle of free, ample and fair competition among all providers, as well as toward correcting the effects of imperfect competition and repressing violations against economic order. We cannot continue to expand our growth through acquisitions given the anti-trust objections of ANATEL along with the fact that we currently already render SMP service all over the country. However, consolidation of the other players will increase the competitive pressure on us due to an increase in their economies of scale and a reduction in operational costs.

While our subsidiary Telemig was initially the only cellular operator in the State of Minas Gerais, the emergence of other wireless telecommunications operators in that area has created an intensely competitive environment for Telemig in Minas Gerais. Currently, in addition to Telemig there are four other wireless service providers operating within that same authorization area in Minas Gerais. Telemig faces 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 (in July 2009, ANATEL published Act No. 3804/2009 determining the conditions to be followed to guarantee total separation between TIM and our subsidiaries) and operates in the entire State of Minas Gerais using TDMA and GSM 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 technology; in the auction of 3G licenses, Oi acquired spectrum licenses for the I band in the entire State of Minas Gerais and operates using 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 in an area that comprises most of the State of Minas Gerais using GSM technology Claro is not present in the *Triângulo Mineiro* region; and, (d) CTBC Celular, an A band operator that provides services only in the *Triângulo Mineiro* region CTBC Celular is controlled by CTBC, a fixed-line operator and uses both TDMA and GSM technologies; in the auction of 3G licenses, CTBC Celular acquired spectrum licenses for the G band in the *Triângulo Mineiro* region and operates using 3G technology. In 2009, the intense competition in Telemig's market in Minas Gerais did not hinder the increase of its total market share, which was an estimated 33% on December 31, 2009, as compared to 28.7% and 29.1% on December 31, 2008 and 2007, respectively.

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. 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 their rate of customer turnover, including limited network coverage, lack of sufficient reliability of their 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 developed specific legislation for the deployment of radio frequency transmission stations that supersedes the existing state and municipal laws. In May 2009, the Brazilian government published Law No. 11934/2009 that limits the exposure for fields with frequencies up to 300 GHz. The new law uses the exposition limits determined by the International Commission on Non-Ionizing Radiation Protection (ICNIRP) and recommended by the World Health Organization (WHO). 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, 2009, the amount of goodwill of the Company was R\$2,700.6 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 33 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\$948.0 million as of December 31, 2009. 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 as well as on assumptions that market place participants will make in valuing similar assets. 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 33(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, 2009, *PT Móveis SGPS, S.A.* and *Telefónica S.A.*, our principal shareholders, owned, directly and indirectly, approximately 88.9% of our common shares and 59.4% 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. 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 were paid on December 2, 2009 and, upon this payment, the voting rights of holders of Vivo's preferred shares that previously existed due to Vivo's failure to pay all requested dividends were terminated. Additionally, on February 9, 2010, the Board of Directors meeting approved the payment of dividends in the approximate amount of R\$818.9 million for the fiscal year ended December 31, 2009. See Our preferred shares and our ADSs generally do not have voting rights.

Telemig Celular and Telemig Participações have paid dividends for the fiscal year ended in December 31, 2008 in an amount that is greater than that required by their respective by-laws. In November 13, 2009, Telemig Participações was merged into Vivo and consequently cease to exist. As of December 31, 2009, we had become the direct owner of 100% of the shares of Telemig Celular. Consequently, as of that date, we owned all of the shares of Telemig Celular and the Brazilian corporate provisions of the Telemig Celular by-laws requiring payment of dividends equal to at least 25% of Telemig Celular's annual net income no longer were applicable. Nevertheless, since we are a holding company, our income consists exclusively 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. The payment of dividends and interest on capital shall be paid in two equal installments of 50% on April 19, 2010 and

50% on October 25, 2010. Our ability to pay future dividends on our common shares, preferred shares and ADSs will depend on the financial results of our wholly-owned subsidiaries, Vivo S.A. and Telemig Celular.

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 of holders of our ADSs to exchange their ADSs for the underlying preferred shares and then to sell the preferred shares at a price and time at which holders wish to do so. The São Paulo Stock Exchange had a market capitalization of US\$1.3 trillion as of December 31, 2009, and an average monthly trading volume of approximately US\$53.9 billion for the first twelve months of 2009.

In comparison, the NYSE had a domestic market capitalization of US\$11.8 trillion (excluding funds and non-U.S. companies) as of December 31, 2009. 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. Moreover, 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, 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 Brazilian law. 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 were paid on December 2, 2009 and, upon this payment, the voting rights of holders of Vivo's preferred shares that previously existed due to Vivo's failure to pay all requested dividends were terminated. Additionally, on February 9, 2010, the Board of Directors meeting approved the payment of dividends in the approximate amount of R\$818.9 million for the fiscal year ended December 31, 2009. 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 or its equivalent under Brazilian law. 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 Mellon, 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, article 26, 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 3, 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, 2009:

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 51.7 million customers as of December 31, 2009, according to market share data published by ANATEL. Its operations cover all of Brazil and its approximately 191 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, Matto Grosso do Sul, Pará, Rondônia, Roraima and Tocantis and in the Federal District, Brasilia.

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 BM&FBOVESPA, 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 non-controlling shareholders of TCO's subsidiaries.

VTO Voluntary Public Tender Offer

On October 8, 2004, Telesp Celular Participações concluded its public tender offer (VTO) for up to 84,252,534,000 preferred shares of TCO by TCP. The number of preferred shares tendered in the VTO exceeded the maximum number to be acquired by TCP. Due to a pro-rata allocation, TCP purchased 0.5547 preferred shares for each preferred share tendered by a TCP holder. After the VTO, on January 7, 2005, the number of TCO shares held by

TCP represents 32.76% of the total preferred shares and 50.65% of the total capital stock of TCO. Also under the VTO, Avista Participações Ltda., a subsidiary of Brasilcel, purchased:

common shares of TLE representing 10.0% of TLE's total common shares and preferred shares of TLE representing 29.51% of TLE's total preferred shares;

common shares of TSD representing 3.27% of TSD's total common shares and preferred shares of TSD representing 4.89% of TSD's total preferred shares; and

common shares of Celular CRT representing 4.48% of Celular CRT's total common shares and preferred shares of Celular CRT representing 23.44% of Celular CRT's total preferred shares.

Rights Offering

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

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

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

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 S.A. 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 non-controlling 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 million regarding Tele Norte Participações). On November 9, 2007, ANATEL approved Vivo's acquisition of Telemig pursuant to Action (*Ata*) 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 (*Ata*) 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 BM&FBOVESPA 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 BM&FBOVESPA, 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.

Corporate Restructuring and Deregistration of Telemig Participações 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 Participações, and Telemig Celular agreed to submit to the shareholders of all three companies a proposal for a corporate restructuring consisting of the merger of the shares of Telemig Celular into Telemig Participações and of the shares of Telemig Participações into Vivo, with the objective of making Telemig

Celular into a wholly-owned subsidiary of Telemig Participações and making Telemig Participações into a wholly-owned subsidiary of Vivo (Corporate Restructuring).

The purpose of the proposed Corporate Restructuring was to simplify the former organizational structure that comprised three publicly-held companies, two of them with ADRs traded outside of Brazil. The simplified structure reduces administrative costs and allows 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.

At a Special Shareholders Meeting held on July 27, 2009, the shareholders of Telemig Participações and Telemig Celular approved the Protocol of Merger of Shares and Instrument of Justification executed on May 29, 2009, which provided for the merger into Telemig Participações of all the shares of Telemig Celular, with the holders of the merged Telemig Celular shares receiving, without any further action by these holders, 17.4 common shares, no par value, of Telemig Participações for each Telemig Celular common share they held and 17.4 preferred shares, no par value, of Telemig Participações for each Telemig Celular preferred share they held, regardless of the class of Telemig Celular preferred shares held, but, as described below, the Telemig Participações shares that they received were exchanged for Vivo shares so that each holder of a Telemig Celular common share or a Telemig Celular preferred share ultimately received, without any further action by the holder, 23.838 Vivo common shares or 23.838 Vivo preferred shares, respectively, plus, in each case, cash instead of any fractional Vivo shares for which the Telemig Celular common shares and preferred shares ultimately were exchanged as a result of the Corporate Restructuring (the Telemig Merger of Shares).

On the same date, at a Special Shareholders Meeting, the shareholders of the Company approved the Protocol of Merger of Shares and Instrument of Justification executed on May 29, 2009, which provided for the merger into Vivo Participações of the shares of Telemig Participações, including those raised in the Telemig Celular merger of shares described above, with the holders of the merged shares of Telemig Participações receiving, without any further action by these holders, 1.37 common shares, no par value, of Vivo for each Telemig Participações common share they held, and 1.37 preferred shares, no par value, of Vivo for each Telemig Participações preferred share they held plus, in each case, cash instead of any fractional shares (the Vivo Merger of Shares).

The mergers of the shares of Telemig Celular and Telemig Participações did not result in any change in the number or types of outstanding shares of these companies or in the terms of any of these shares. Instead, Vivo became the owner, directly or indirectly, of all of these shares, with Telemig Participações becoming a wholly-owned subsidiary of Vivo and with Telemig Celular becoming a wholly-owned subsidiary of Telemig Participações. Ultimately, all of the non-controlling shareholders of Telemig Celular and Telemig Participações became Vivo shareholders and each shareholder received the same class of Vivo share (common or preferred) as that shareholder previously held in Telemig Celular or Telemig Participações.

The Corporate Restructuring was submitted to ANATEL for review, but its approval was not required to merge Telemig Celular into Telemig since this part of the Corporate Restructuring plan involves companies of the same economic group. Moreover, such merger was not subject to the approval of *CADE - Conselho Administrativo de Defesa Econômica*.

The charts below show the simplified organizational charts showing the corporate structure of Vivo, Telemig and Telemig Celular before and after the Corporate Restructuring.

Pre-Restructuring

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 did not change the final composition of the control of the three companies involved.

Post-Restructuring

The Corporate Restructuring resulted in the following:

non-controlling holders of Telemig ADSs received 2.74 Vivo ADSs for each Telemig ADS they held plus cash instead of any fractional ADSs;

Vivo became a significantly larger company and more diversified, owning 100% of the capital stock of Telemig, which in turn owned 100% of the capital stock of Telemig Celular. Telemig's interest in the net book value and net income (loss) of Telemig Celular therefore increased to 100%, and Vivo's interest in the net book value and net

income (loss) of Telemig therefore increased to 100%;

the preferred shares and ADSs of Telemig ceased trading on the NYSE on September 28, 2009, and were deregistered under the Exchange Act on December 15, 2009, and Telemig no longer files Annual Reports on Form 20-F or reports on Form 6-K;

the common shares and preferred shares of Telemig and Telemig Celular were delisted from the BM&F BOVESPA and deregistered from the CVM on October 16 and 19, 2009, respectively; and

the Restructuring allowed holders of common shares and preferred shares of Telemig and Telemig Celular to receive Vivo securities having substantially the same rights as their prior securities but that instead are expected to enjoy greater liquidity than the securities previously held by them.

The holders of common and preferred shares of Telemig and of Telemig Participações and of common shares of Vivo Participações who dissented from the merger of shares of Telemig and of Telemig Participações, were entitled, for a period of 30 days following publication of the minutes of the special shareholders' meetings of the companies relating to the Corporate Reorganization, to withdraw themselves from the respective companies. The aggregate amount paid by Vivo or its affiliates with respect to all of the withdrawal rights exercised by holders entitled to withdraw from the companies was R\$23.3 thousand for 405 shares.

The calculations prepared for the exchange ratios of shares of Telemig for shares of Telemig Participações and of shares of Telemig Participações for shares of Vivo Participações resulted in share fractions which were replaced on the market at auctions held on September 24 and 29, 2009 at BM&FBOVESPA. These over-allotment shares represent 54,169 common shares and 42,595 preferred shares, representing a net value of approximately R\$40.95 per common share, and approximately R\$43.20 per preferred share, to be paid pro-rata to the fractions held by the shareholders and investors prior to the auctions.

At a Special Shareholders' Meeting held on November 13, 2009, the actual merger of Telemig Participações into Vivo Participações (as opposed to the merger of the shares) and the subsequent termination of Telemig Participações was approved, the appraisal and prior approval of which was submitted to ANATEL. ANATEL approved the actual merger of Telemig Participações into Vivo Participações on November 4, 2009. As a result of such merger, Telemig Celular became a direct wholly-owned subsidiary of Vivo Participações. See Note 1(d) to our 2009 financial statements.

Post-merger of Telemig Participações into Vivo

Currently, to further simplify our corporate structure, we are seeking to also merge the operations of Telemig Celular into Vivo Participações, subsequent to which Telemig Celular will cease to exist. At a Special Shareholders Meeting held on November 30, 2009, the inclusion into the corporate purpose of the Bylaws of the Company of the activity of providing cellular mobile telephone service was approved in order to enable this future merger of Telemig Celular into Vivo, with a relevant notice of this future merger previously released to the market on October 8, 2009.

On December 7, 2009, the Company communicated to its shareholders and to the market in general that, on December 3, 2009, it had filed with ANATEL a request for approval of the actual merger of Telemig Celular into Vivo Participações (as opposed to the merger of shares), in conformity with the provisions of Law no. 9.472/97 General Telecommunications Law, on the Regulation for Verification of Share Control and Transfer of Share Control in Telecommunication Service Providers, as approved by Resolution no. 101/1999, and with the other applicable regulatory instruments. ANATEL is currently analyzing this merger.

Corporate Reorganization of Our Controlling Shareholders

A corporate reorganization was carried out in November 2009 between Vivo's controlling companies, resulting in the actual merger, into Portelcom Participações S.A. (Portelcom), of the companies Tagilo Participações Ltda., Sudestecel Participações Ltda. and Avista Participações Ltda., after which the merged companies were extinguished. Vivo Brasil Comunicações Ltda., 100% of which was previously owned by Brasilcel N.V., was also merged into Portelcom. At this same date, Brasilcel N.V. increased the capital stock of Portelcom by transferring 1,910,428 common shares of Vivo to Portelcom. Nevertheless, the ultimate shareholding control was not changed and the reorganization does not involve Vivo, but rather only the controlling group companies holding shares in Vivo.

Dividends and Interest on Shareholders' Equity

Year ended December 31, 2008

In compliance with our by-laws, the general shareholders meeting on March 19, 2009 approved the payment of dividends in a total amount of approximately R\$402.6 million). Such dividends, declared on the basis of the 2008 closing balance sheet, include the interest on shareholders' equity (*Juros Sobre o Capital Próprio - JSCP*) in the approximate net amount of R\$136.9 million, as approved at a meeting of the Board of Directors of the Company held on December 17, 2008, and dividends in the amount of approximately R\$265.7 million.

This amount results in an aggregate of interest on shareholders' equity (*Juros Sobre o Capital Próprio* or *JSCP*) plus net dividends of approximately R\$1.10 per common or preferred share. The above mentioned amounts were paid on December 2, 2009.

Year ended December 31, 2009

In compliance with our by-laws, the Board of Directors meeting held on February 9, 2010 approved the payment of dividends in the approximate amount of R\$818.9 million. Such dividends, declared on the basis of the 2009 closing balance sheet, include the interest on shareholders' equity (*JSCP*) in the approximate net amount of R\$88.5 million, as approved at the Board of Directors meeting held on December 14, 2009, and dividends in the amount of approximately R\$730.3 million. The above mentioned dividends will be paid in two equal payments, on April 19, 2010 and October 25, 2010.

Capital Expenditures

The primary focus of our capital expenditure program has been, and continues to be, the improvement of the capacity and quality 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,		
	2009 ⁽¹⁾	2008 ⁽¹⁾	2007 ⁽¹⁾
	(in millions of reais)		
Switching equipment	237.6	533.1	417.3
Transmission equipment	1,283.6	1,446.9	726.9
Information technology	346.0	286.5	267.2

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Others ⁽²⁾	500.3	1,730.9	494.3
Total capital expenditures	2,367.5	3,997.4	1,905.7

Year ended December 31,				
State of São Paulo Areas 1 and 2	2009⁽¹⁾	2008⁽¹⁾	2007⁽¹⁾	
(in millions of reais)				
Switching equipment	61.5	146.8	133.4	
Transmission equipment	321.9	411.7	267.1	
Information Technology	281.3	243.9	238.2	
Others ⁽²⁾	201.3	373.1	143.8	
Total capital expenditures	866.0	1,175.5	782.5	

Year ended December 31,				
States of Rio de Janeiro and Espírito Santo Area 3	2009⁽¹⁾	2008⁽¹⁾	2007⁽¹⁾	
(in millions of reais)				
Switching equipment	58.4	65.3	86.4	
Transmission equipment	119.6	223.7	115.3	
Information technology	3.3	2.3	5.6	
Others ⁽²⁾	71.2	305.3	106.5	
Total capital expenditures	252.5	596.6	313.8	

Year ended December 31,				
States of Paraná and Santa Catarina Area 5	2009⁽¹⁾	2008⁽¹⁾	2007⁽¹⁾	
(in millions of reais)				
Switching equipment	6.3	11.8	56.2	
Transmission equipment	106.1	131.2	89.8	
Information Technology	0.3	1.1	2.2	
Others ⁽²⁾	48.1	251.1	65.6	
Total capital expenditures	160.8	395.2	213.8	

Year ended December 31,				
State of Rio Grande do Sul Area 6	2009⁽¹⁾	2008⁽¹⁾	2007⁽¹⁾	
(in millions of reais)				
Switching equipment	13.3	119.7	69.1	
Transmission equipment	84.6	22.3	73.8	

Information technology	3.0	1.1	5.9
Others ⁽²⁾	62.0	231.0	62.3
Total capital expenditures	162.9	374.1	211.1

Year ended December 31,

Central Western and Northern regions Areas 7 and 8 2009⁽¹⁾ 2008⁽¹⁾ 2007⁽¹⁾

(in millions of reais)

Switching equipment	38.7	68.7	46.4
Transmission equipment	240.0	246.6	119.3
Information Technology	3.3	2.6	8.1
Others ⁽²⁾	58.6	269.8	78.7
Total capital expenditures	340.6	587.7	252.5

Year ended December 31,

States of Bahia and Sergipe Area 9 2009⁽¹⁾ 2008⁽¹⁾ 2007⁽¹⁾

(in millions of reais)

Switching equipment	12.0	33.2	25.8
Transmission equipment	57.9	77.3	61.6
Information technology	1.0	1.2	7.2
Others ⁽²⁾	24.4	120.5	37.4
Total capital expenditures	95.3	232.2	132.0

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Northeast region Area 10	Year ended December 31, 2009	Year ended December 31, 2008 ⁽¹⁾
Switching equipment	12.4	19.3
Transmission equipment	200.7	212.5
Information technology	6.3	1.7
Others ⁽²⁾	12.2	71.2
Total capital expenditures	231.6	304.7

State of Minas Gerais Area 4	Year ended December 31, 2009	Year ended December 31, 2008
Switching equipment	35.0	68.3
Transmission equipment	152.8	121.6
Information technology	47.5	32.6
Others ⁽²⁾	22.5	108.9
Total capital expenditures	257.8	331.4

- (1) The financial information presented for 2007, 2008 and 2009 represents information from Vivo's consolidated financial statements.
- (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 2010 is approximately R\$2.49 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 Norte, 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 , L and J band that covers 100% of the municipalities in its authorized areas in the state of São Paulo. On December 31, 2009, Vivo S.A. had 15.7 million cellular lines in service in these areas, which represented a 10.8% increase from December 31, 2008, and a market share of approximately 35.3% in São Paulo.

In Area 3, Vivo S.A. uses the band A , L and J 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, 2009, Vivo S.A. had 7.7 million cellular lines in service in this area, which represented a 48.8% net increase from December 31, 2008, and a market share of approximately 38.5% in those states.

In Area 4, Vivo S.A. through its holding of Telemig Celular uses a frequency range known as A , E and J band that covers 71.5% of the municipalities and 92.3% of the population in the state of Minas Gerais. On December 31, 2009, Telemig Celular had 6.0 million cellular lines in service in this area, which represented a 29.4% net increase from December 31, 2008, and a market share of approximately 33.0% in Minas Gerais.

In Area 5, Vivo S.A. uses a frequency range known as B band that covers 66.6% of the municipalities in the states of Paraná and Santa Catarina and 93.7% of the population of Paraná and Santa Catarina. On December 31, 2009, Vivo S.A. had 3.6 million cellular lines in service in this area, which represented a 7.6% net increase from December 31, 2008, and a market share of approximately 23.0% in those states.

In Area 6, Vivo S.A. uses the band A, L and J frequency range that covers 81.1% of the municipalities and 97.6% of the population in the state of Rio Grande do Sul. On December 31, 2009, Vivo S.A. had 4.6 million cellular lines in service in this area, which represented a 11.0% net increase from December 31, 2008, and a market share of approximately 42.2% 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, B, L and J band that covers 54.8% 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 84.3% of the population in these states. On December 31, 2009, Vivo S.A. had 9.7 million cellular lines in service in these areas, which represented a 17.7% net increase from December 31, 2008, and a market share of approximately 33.1% in those states.

In Area 9, Vivo S.A. uses the band A, L and J frequency range that covers 59.8% of the municipalities and 85.8% of the population in the States of Bahia and Sergipe. On December 31, 2009, Vivo S.A. had 3.6 million cellular lines in service in this area, which represented a 20.5% net increase from December 31, 2008, and a market share of approximately 29.6% in those states.

In Area 10, Vivo S.A. uses the band L and J frequency range that covers 22.9% of the municipalities and 64.4% of the population in the States of Alagoas, Ceará, Pernambuco, Piauí, Paraíba and Rio Grande do Norte. On December 31, 2009, Vivo S.A. had 0.8 million cellular lines in service in this area, which represented a 147.6% net increase from December 31, 2008 and a market share of approximately 3.6% 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 then acquired by Telemig Celular and now by Vivo.

Our Operations

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,		
	2009	2008	2007
Cellular lines in service at year-end (in thousands)	15,731	14,197	12,142
Contract customers	3,111	2,671	2,125
Prepaid customers	12,620	11,526	10,017

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Growth in cellular lines in service during year	10.8%	16.9%	13.6%
Churn ⁽¹⁾	29.0%	28.8%	25.4%
Estimated population of concession areas (in millions) ⁽²⁾	41.4	40.8	41.2
Estimated covered population (in millions) ⁽³⁾	41.4	40.8	41.2
Percentage of population covered ⁽⁴⁾	100%	100%	100%
Penetration at year-end ⁽⁵⁾	108.1%	92.8%	71.0%
Percentage of municipalities covered	100%	100%	100%
Market share ⁽⁶⁾	35,3%	37.4%	41.5%

Year ended December 31,

States of Rio de Janeiro and Espírito Santo Area 3	2009	2008	2007
Cellular lines in service at year-end (in thousands)	7,723	7,100	5,947
Contract customers	1,760	1,608	1,391
Prepaid customers	5,963	5,492	4,556
Customer growth during the year	8.8%	19.4%	20.9%
Churn ⁽¹⁾	31.7%	28.3%	25.5%
Estimated population of Region at year-end (millions) ⁽²⁾	19.5	19.2	19.4
Estimated covered population at year-end (millions) ⁽³⁾	19.5	19.5	19.4
Percentage of population of Region covered at year-end ⁽⁴⁾	100%	100%	100%
Penetration at year-end ⁽⁵⁾	103.7%	95.7%	76.8%
Percentage of municipalities covered	100%	100%	100%
Market share ⁽⁶⁾	38.5%	38.7%	39.9%

Year ended December 31,

State of Minas Gerais Area 4	2009	2008	2007
Cellular lines in service at year-end (in thousands)	5,985	4,627	3,901
Contract customers	1,051	975	833
Prepaid customers	4,934	3,652	3,067
Customer growth during the year	29.4%	18.6%	13.5%
Churn ⁽¹⁾	31.9%	45.6%	36.8%
Estimated population of region at year-end (million) ⁽²⁾	20.0	19.9	19.7
Estimated covered population at year-end (million) ⁽³⁾	18.5	18.3	17.1
Percentage of population covered at year-end ⁽⁴⁾	92.3%	91.9%	84.4%
Penetration at year-end ⁽⁵⁾	90.0%	80.8%	67.6%
Percentage of municipalities covered	71.5%	70.8%	73.6%
Estimated market share ⁽⁶⁾	33.0%	28.7%	29.1%

Year ended December 31,

States of Paraná and Santa Catarina Area 5	2009	2008	2007
Cellular lines in service at year-end (in thousands)	3,571	3,317	2,823
Contract customers	743	635	494
Prepaid customers	2,828	2,682	2,329
Growth in cellular lines in service during year	7.6%	17.5%	9.9%
Churn ⁽¹⁾	34.5%	31.3%	34.5%
Estimated population of concession areas (in millions) ⁽²⁾	16.8	16.7	16.7
Estimated covered population (in millions) ⁽³⁾	15.8	15.4	15.4
Percentage of population covered ⁽⁴⁾	93.7%	92.5%	92%
Penetration at year-end ⁽⁵⁾	91.7%	80.6%	65.7%
Percentage of municipalities covered	66.6%	60.4%	60.0%
Market share ⁽⁶⁾	23.0%	24.6%	25.8%

Year ended December 31,

State of Rio Grande do Sul Area 6	2009	2008	2007
Cellular lines in service at year-end (in thousands)	4,632	4,172	3,647
Contract customers	1,245	1,119	939
Prepaid customers	3,386	3,053	2,709
Growth in cellular lines in service during year	11.0%	14.4%	9.8%
Churn ⁽¹⁾	22.3%	24.0%	24.1%
Estimated population of concession areas (in millions) ⁽²⁾	10.9	10.9	10.7
Estimated covered population (in millions) ⁽³⁾	10.6	10.6	10.4
Percentage of population covered ⁽⁴⁾	97.6%	96.8%	96.4%
Penetration at year-end ⁽⁵⁾	100.5	89.7%	78.7%
Percentage of municipalities covered	81.1%	75.0%	72.7%
Market share ⁽⁶⁾	42.2%	42.8%	43.1%

Year ended December 31,

Central Western and Northern regions Areas 7 and 8	2009	2008	2007
Cellular lines in service at year-end (in thousands)	9,692	8,233	6,713
Contract customers	1,285	1,128	899
Prepaid customers	8,407	7,105	5,814
Growth in cellular lines in service during year	17.7%	22.6%	13.6%
Churn ⁽¹⁾	31.5%	34.3%	33.2%
Estimated population of concession areas (in millions) ⁽²⁾	35.6	35.6	35.3
Estimated covered population (in millions) ⁽³⁾	30.0	29.1	28.7
Percentage of population covered ⁽⁴⁾	84.3%	81.7%	81.5%
Penetration at year-end ⁽⁵⁾	81.0%	69.4%	56.0%
Percentage of municipalities covered	54.8%	47.2%	46.4%
Market share ⁽⁶⁾	33.1%	33.3%	34.0%

Year ended December 31,

States of Bahia and Sergipe Area 9	2009	2008	2007
Cellular lines in service at year-end (in thousands)	3,561	2,956	2,212
Contract customers	446	420	399
Prepaid customers	3,116	2,536	1,813
Customer growth during the year	20.5%	33.6%	34.3%
Churn ⁽¹⁾	31.1%	30.6%	29.7%
Estimated population of region at year-end (million) ⁽²⁾	16.7	16.6	16.2
Estimated covered population at year-end (million) ⁽³⁾	14.3	13.8%	13.4%
Percentage of population covered at year-end ⁽⁴⁾	85.8%	83.1%	82.5%
Penetration at year-end ⁽⁵⁾	71.7%	62.2%	49.8%
Percentage of municipalities covered	59.8%	51.6%	50.2%
Estimated market share ⁽⁶⁾	29.6%	28.6%	27.4%

Northeast regions Area 10	Year ended December 31, 2009	Year ended December 31, 2008
Cellular lines in service at year-end (in thousands)	850	343
Contract customers	143	6
Prepaid customers	707	337
Customer growth during the year	147.8%	
Churn ⁽¹⁾	61.9%	0.2%
Estimated population of region at year-end (million) ⁽²⁾	30.6	30.6
Estimated covered population at year-end (million) ⁽³⁾	19.7	7.5
Percentage of population covered at year-end ⁽⁴⁾	64.4%	24.4%
Penetration at year-end ⁽⁵⁾	76.1%	65.1%
Percentage of municipalities covered	22.9%	2.2%
Estimated market share ⁽⁶⁾	3.6%	1.7%

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- (1) Churn is the number of customers that leave us during the year, calculated as a percentage of the simple average of customers at the beginning and the end of the year.
- (2) Projections based on estimates of the *Instituto Brasileiro de Geografia e Estatística* (IBGE).
- (3) Number of people within our Region that can access our cellular telecommunications signal.
- (4) Percentage of the population in our Region that can access our cellular telecommunications signal.
- (5) Number of cellular lines in service in our Region, including those of our competitors, divided by the population of our Region.
- (6) Percentage 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 Família a location based service that allows children to be located and monitored by their parents via cellular phones or the internet;

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

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

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

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

Vivo ao Vivo new interface for Vivo GSM terminals;

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

Vivo Chip - a service menu on GSM SIM Cards;

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

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

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

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

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

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

In 2007, we launched:

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

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

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

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

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

Search and mobile marketing agreements signed with Yahoo;

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

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

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

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

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

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

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

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.

In 2009, we launched:

Vivo Twittando a social networking and microblogging service that enables its users to send and receive tweets via the Short Message Service (SMS);

Open Vivo a platform that developers can use to create and sell software in Vivo Download Store;

Vivo Alerta Email an email notification solution with the option of setting up personal accounts on mobile phones to receive the notification by SMS or WAP Push;

Vivo Foto Notícia a combination of mobile communication and a traditional newspaper that provides users flexibility to read newspapers on their mobile phones;

SDP a platform that simplifies the implementation of new products and services; this project is part of a joint project between Telefonica and Vivo;

Vivo Mobile TV a mobile TV service allowing the client to watch TV on their mobile phone;

Kantoo English an exclusive mobile learning platform focused on a basic English course for beginners, with reading, writing and verbal communication; with this application, Vivo launched the concept of mobile learning, which will help to better prepare our customers for the workplace and for their personal activities;

Number portability a common project with other operators which allows the possibility of changing operators without changing the clients' phone number;

Videocall service a service that allows transmission of voice and image in real time;

Vivo Me Liga a service that allows users without credit on their phones to ask others - via SMS - to call them;

Vivo Transferência de Crédito a service that enables users to transfer pre-paid credit to other Vivo customers;

Co-branded Credit Card with Itaú a credit card issued by Banco Itaú that gives benefits to Vivo customers;

Insurances Partnership - with Santander a line of insurance policies developed by Santander and sold exclusively to Vivo customers;

Prepaid Internet a service that provides internet connectivity through three different packages - daily, weekly and monthly.

Our Region

Vivo provides mobile telecommunications services in all of the Brazilian states in addition to the *Distrito Federal*, the Federal district, representing a total of approximately 8.5 million square kilometers and a population of approximately 191.5 million people. Vivo became a national operator when, on September , 2007, 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 Capital/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) and Itumbiara Region (GO)	15+15
J	10+10	IX	Franca Region	15+15
J	10+10	X	MG without triângulo mineiro	15+15
J	10+10	XI	Municipalities of Londrina and 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	Frequency Range (Band)	On July 31, 2009		Last Available IBGE Data from 2007		
		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	41,384	21.61%	902,784	33.92%	22,667
Paraná state	B, L and J	10,686	5.58%	161,582	6.07%	15,711
Santa Catarina state	B, L and J	6,119	3.20%	104,623	3.93%	17,834
Goiás state	A, L and J	5,926	3.09%	65,210	2.45%	11,548
Tocantins state	A, L and J	1,292	0.67%	11,094	0.42%	8,921
Mato Grosso state	A, L and J	3,002	1.57%	42,687	1.60%	14,954
Mato Grosso do Sul state	A, L and J	2,360	1.23%	28,121	1.06%	12,411
Rondônia state	A, L and J	1,504	0.79%	15,003	0.56%	10,320
Acre state	A, L and J	691	0.36%	5,761	0.22%	8,789
Amapá state	B and J	627	0.33%	6,022	0.23%	10,254
Amazonas state	B and J	3,393	1.77%	42,023	1.58%	13,043
Maranhão state	B and J	6,367	3.33%	31,606	1.19%	5,165
Pará state	B and J	7,431	3.88%	49,507	1.86%	7,007
Roraima state	B and J	421	0.22%	4,169	0.16%	10,534
Federal District	A, L and J	2,607	1.36%	99,946	3.76%	40,696
Bahia state	A, L and J	14,637	7.64%	109,652	4.12%	7,787
Sergipe state	A, L and J	2,020	1.05%	16,896	0.63%	8,712
Rio de Janeiro state	A, L and J	16,010	8.36%	296,768	11.15%	19,245
Espírito Santo state	A, L and J	3,487	1.82%	60,340	2.27%	18,003

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Rio Grande do Sul state	A, L and J	10,914	5.70%	176,615	6.64%	16,689
Alagoas state	L and J	3,156	1.65%	17,793	0.67%	5,858
Ceará state	L and J	8,548	4.46%	50,331	1.89%	6,149
Pernambuco state	L and J	8,810	4.60%	62,256	2.34%	7,337
Piauí state	L and J	3,145	1.64%	14,136	0.53%	4,662
Paraíba state	L and J	3,770	1.97%	22,202	0.83%	6,097
Rio Grande do Norte state	L and J	3,138	1.64%	22,926	0.86%	7,607
Minas Gerais state	A, E and J	20,034	10.46%	241,293	9.07%	12,519
Vivo		191,481	100.00%	2,661,345	100.00%	14,465

(1) According to the last revision published by IBGE in 2009.

According to the most recent IBGE data (2007). Nominal Brazilian GDP was R\$2,661,345 million as of

(2) December 2007 calculated by IBGE, subject to revision.

Marketing and Sales

We closely follow the developments in the markets where we operate and constantly launch new promotions and advertising campaigns. All communications efforts reinforce our commitment to maintaining a superior level of quality in the products and services offered to our customers. A strong customer acquisition objective and increased voice and data usage objective have 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, 2009, Vivo possessed 336 sales outlets (92 in São Paulo, 49 in the states of Rio de Janeiro and Espírito Santo, 35 in the state of Rio Grande do Sul, 37 in the states of Paraná and Santa Catarina, 21 in the states of Bahia and Sergipe, 30 in the states of Minas Gerais, 7 in the states that make up the northwest regions of Brasil and 65 in the states that make up the midwestern and northern regions of Brazil). It also has an efficient network of 11,142 authorized retail and resales dealerships. Consequently, Vivo has maintained its market leadership position, with a total of 11,478 points of sale.

Prepaid telephone card recharging was available at 514,584 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

At the end of 2009, the Customers Protection Office (PROCON), an office subordinated to the Ministry of Justice, passed a regulation to improve the quality of call center services. The new rules were extremely strict, and VIVO was mentioned in the press as one of companies with the best performance in the telecommunications sector for having met the stringent requirements of this new legislation.

In 2009, VIVO installed Genesys®, a modern platform that allows for better management of call-center calls, while also allowing the possibility to create bundles from our customers database, allowing us to provide better and faster support by analysing our customers' behavior.

Last year, we also created a project for inbound telemarketing sales that allowed us to make customized offers to VIVO's customers improving VIVO's revenue. We hired new partners for our outbound services whose payments are made in correlation with their performance, so that payment is due only if such partners carry out their expected sales.

We continue to be the top telecommunications company in ANATEL's ranking of mobile operators in Brazil. At the end of 2009, ANATEL's ranking demonstrated that VIVO had the best performance among the largest companies operating in Brazil as measured by the IDA Attendance Performance Index.

Our challenges in 2010 are to define a model of customer interaction relationships using all contact channels (Internet, SMS, Call Center inbound and outbound, Chat, Email, etc.) through the Genesys platform and to install a new front office for all attendants, improving quality, reducing call time and creating a better process.

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 in 2009), we also took steps designed to improve the level of service of our customer care, generate greater customer satisfaction with our call centers and stores and reduce billing errors, leading to fewer claims against us. This strategy has been successful in increasing our customer satisfaction rating in 2009 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, 2009, 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. Vivo S.A.'s main suppliers in the state of São Paulo are 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.

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, 2009, the telecommunications network in PR/SC, which provided CDMA digital, GSM digital and WCDMA digital services, covered 66.6% of the municipalities, or 93.74% 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. Vivo S.A.'s main suppliers in PR/SC are Motorola do Brasil Ltda. (presently Motorola Industrial Ltda. and Motorola Services Ltda.), Huawei do Brasil Telecomunicações Ltda., Alcatel Telecomunicações S/A and Ericsson Telecomunicações S.A..

As of December 31, 2009, Vivo S.A. in the midwestern and northern regions (CO/N) provided WCDMA digital, CDMA Digital and GSM digital services, covering 54.77% of the municipalities, or 84.26% 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. Vivo S.A.'s principal suppliers in CO/N are 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.

As of December 31, 2009, the telecommunications network of Vivo S.A. in Bahia and Sergipe (BA/SE) covered 59.76% of the municipalities, or 85.81% 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. Vivo S.A.'s main suppliers in BA/SE are 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.

As of December 31, 2009, 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. Vivo S.A.'s principal suppliers in these states are Nortel Networks Northern Telecom do Brasil, Ericsson Telecomunicações S.A., Huawei do Brasil Telecomunicações Ltda. and Lucent Technologies do Brasil, Ind. e Com. Ltda.

As of December 31, 2009, Vivo S.A.'s network in the state of Rio Grande do Sul (RS) provided WCDMA digital, CDMA digital and GSM digital, covering 81.05% of the municipalities, or 97.57% 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. Vivo S.A.'s principal suppliers in RS are Nortel Networks Northern Telecom do Brasil, Huawei do Brasil Telecomunicações Ltda., and Ericsson Telecomunicações S.A.

As of December 31, 2009, Vivo S.A.'s network in the northeast regions (NE) provided WCDMA digital and GSM digital services, covering 22.95% of the municipalities, 64.37% 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. Vivo S.A.'s principal suppliers in NE are Huawei do Brasil Telecomunicações Ltda. and Ericsson Telecomunicações S.A.

As of December 31, 2009, 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 71.51% of the municipalities, 92.31% 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. Vivo S.A.'s principal suppliers in MG are Nortel Networks Northern Telecom do Brasil, Huawei do Brasil Telecomunicações Ltda., and Ericsson Telecomunicações S.A..

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), Bahia, Sergipe, 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,		
	2009	2008	2007
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	10,477.8	10,014.0	8,000.8
Sales of wireless devices and accessories	2,932.2	3,258.1	3,105.7
Interconnection	6,301.6	6,140.3	5,109.3
Other	3,160.0	2,293.9	1,428.5
Total gross operating revenue	22,871.6	21,706.3	17,644.3
Value-added and other indirect taxes	(4,637.9)	(4,295.5)	(3,385.9)
Sales and services discount and return of goods sold	(1,870.5)	(1,941.1)	(1,765.9)
Net operating revenues ⁽¹⁾	16,363.2	15,469.7	12,492.5

State of São Paulo Areas 1 and 2	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	3,253.9	3,241.9	2,958.4
Sales of wireless devices and accessories	1,125.7	1,259.0	1,174.9
Interconnection	2,109.2	2,118.1	1,945.1
Other	1,074.3	787.9	536.3
Total gross operating revenue	7,563.1	7,406.9	6,614.7
Value-added and other indirect taxes	(1,419.3)	(1,359.2)	(1,161.8)
Sales and services discount and return of goods sold	(618.3)	(649.8)	(683.4)
Net operating revenues	5,525.5	5,397.9	4,769.5

States of Rio de Janeiro and Espírito Santo Area 3	Year ended December 31,		
	2009	2008	2007

	(in millions of reais)		
Usage and additional charges and monthly subscription charges	1,773.1	1,826.8	1,657.3
Sales of wireless devices and accessories	501.1	565.2	654.3
Interconnection charges	1,060.8	1,097.1	1,016.9
Other	496.1	368.2	254.4
Total gross operating revenue	3,831.1	3,857.3	3,582.9
Value-added and other indirect taxes	(873.5)	(849.3)	(747.5)
Discounts granted and return of goods	(285.3)	(284.1)	(362.0)
Net operating revenues	2,672.3	2,723.9	2,473.4

States of Paraná and Santa Catarina Area 5	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	651.4	605.5	490.8
Sales of wireless devices and accessories	181.7	216.2	209.6
Interconnection	426.9	416.9	371.9
Other	232.8	184.2	128.4
Total gross operating revenue	1,492.8	1,422.8	1,200.7
Value-added and other indirect taxes	(294.3)	(270.9)	(217.1)
Sales and services discount and return of goods sold	(104.3)	(111.5)	(106.0)
Net operating revenues	1,094.2	1,040.4	877.6

State of Rio Grande do Sul Area 6	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	1,043.8	1,013.3	861.1
Sales of wireless devices and accessories	226.9	240.8	238.5
Interconnection charges	542.2	544.1	481.0
Other	323.6	232.5	162.9
Total gross operating revenue	2,136.5	2,030.7	1,743.5
Value-added and other indirect taxes	(451.5)	(427.3)	(351.6)
Discounts granted and return of goods	(136.5)	(129.2)	(121.3)
Net operating revenues	1,548.5	1,474.2	1,270.6

Central Western and Northern regions Areas 7 and 8	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	1,852.0	1,789.5	1,564.7
Sales of wireless devices and accessories	485.0	605.6	606.0
Interconnection	1,089.0	1,094.7	984.3
Other	559.1	402.4	261.0

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Total gross operating revenue	3,985.1	3,892.2	3,416.0
Value-added and other indirect taxes	(874.8)	(837.8)	(701.9)
Sales and services discount and return of goods sold	(319.8)	(333.6)	(347.0)
Net operating revenues	2,790.5	2,720.8	2,367.1

Year ended December 31,

States of Bahia and Sergipe Area 9	2009	2008	2007
	(in millions of reais)		
Usage and additional charges and monthly subscription charges	586.4	547.9	468.5
Sales of wireless devices and accessories	150.4	186.0	222.4
Interconnection charges	348.7	348.5	310.1
Other	168.9	140.9	85.5
Total gross operating revenue	1,254.4	1,223.3	1,086.5
Value-added and other indirect taxes	(262.9)	(253.3)	(206.0)
Discounts granted and return of goods	(88.7)	(96.0)	(146.2)
Net operating revenues	902.8	874.0	734.3

Northeast region Area 10	Year ended December 31,	
	2009	2008
Usage and additional charges and monthly subscription charges	41.3	4.3
Sales of wireless devices and accessories	76.8	28.9
Interconnection charges	29.0	1.5
Other	51.1	0.9
Total gross operating revenue	198.2	35.6
Value-added and other indirect taxes	(41.0)	(5.2)
Discounts granted and return of goods	(37.1)	(12.4)
Net operating revenues	120.1	18.0

State of Minas Gerais Area 4	Period from	Period from
	January 1, 2009 to December 31, 2009	April 1, 2008 to December 31, 2008
Usage and additional charges and monthly subscription charges	1,275.9	986.3
Sales of wireless devices and accessories	184.6	156.4
Interconnection charges	695.8	519.4
Other	254.6	177.2
Total gross operating revenue	2,410.9	1,839.3
Value-added and other indirect taxes	(420.6)	(292.5)
Discounts granted and return of goods	(280.5)	(324.5)
Net operating revenues	1,709.8	1,222.3

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

Vivo Intercompany net operating revenues	Year ended December 31,		
	2009	2008	2007

(in millions of reais)

Net operating revenues	(0.5)	(1.8)
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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.

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 4 7 areas in the state of Minas Gerais.

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

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

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

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 authorized dealers we sell only GSM and WCDMA devices such as handsets, smartphones, broadband USB modems and netbooks that are certified to be compatible with the Vivo network and service. We have special offers on smartphones, USB modems and other data devices for customers of bundled packages. Our current handset suppliers are Motorola, LG, Samsung, Nokia, SonyEricsson, ZTE, HTC, Palm, Apple, Semp-Toshiba, RIM (BlackBerry) 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 Regulation.

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. In June 2010, Vivo's CDMA outbound roaming will be deactivated.

Taxes on Telecommunications Services and Wireless Device Sales

In accordance with Brazilian tax laws, the principal taxes that apply to the telecommunications industry are:

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 tax is divided into 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 Celular 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.

In July 2009, Telemig Celular concluded its centralization process to conform its billing practices to VIVO's prepaid platform (NGIN). The billing system for postpaid customers will be centralized during 2010 when Telemig Celular will complete its process to conform all the billing practices.

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 45 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 overdue by 90 days, except for accounts receivables from interconnection fees, 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 2009, Vivo and Telemig reinforced their efforts to achieve their goals of reducing both the number of instances of fraud and the impact of fraud on financial results. During the year ended December 31, 2009, we focused our efforts on the two main types of frauds, cloning fraud and subscription fraud. Cloning is a type of 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. 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.

Due to the improvements we made for detecting these two types of fraud, we fulfilled our goals for 2009 by reducing the occurrence of these types of fraud by an overall 45.13% from December 2008 to December 2009. This represented the largest decrease of such fraud in our history. The number of cloning fraud cases for Vivo and Telemig decreased by 90.63% from December 2008 to December 2009. Financial costs for Vivo and Telemig associated with cloning fraud were reduced by 87.74% when comparing 2008 with 2009. In addition, the number of subscription fraud cases for Vivo and Telemig decreased by 40.59% from December 2008 to December 2009. Financial costs for Vivo and Telemig associated with subscription fraud were reduced by 44.29% when comparing 2008 with 2009. In addition, financial costs for Vivo and Telemig associated with subscription and cloning frauds represented 99% and 1%, respectively, of our financial costs associated with frauds.

Competition

We face intense competition in all the areas in which we operate, principally from other cellular service providers and also, indirectly, 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.

In general, the principal competitors of VIVO are Claro, TIM and Oi.

Our principal cellular competitor in the state of São Paulo is Claro. Other competitors are TIM, Oi, CTBC Celular and Aeiou. 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 TIM Celular or TIM. 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 and TIM Celular or TIM, 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) and TIM is the fourth competitor.

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 (in July 2009, ANATEL published Act No. 3804/2009 determining the conditions to be followed to guarantee total separation between TIM and our subsidiaries) 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 was 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 authorized 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 Licenses

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 L 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.

Our 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.

Our 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-Espírito Santo (L band) until 2023 (renewed in 2008); Vivo-Bahia (L band) and Vivo-Sergipe (L band) until 2023 (renewed in 2008); Vivo-São Paulo (L band) until 2023 or 2024, for the cities of Ribeirão 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/Cear/Paraba/Piaui/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), 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.

Interconnection Regulation

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. More specifically, 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. Since 2005, telecommunications service providers have been permitted to freely negotiate the terms and conditions upon which interconnection will be provided, subject to price caps and other rules established by ANATEL. For example, providers must enter into agreements regarding, among other things, tariffs, commercial conditions and technical issues with all parties on a non-discriminatory basis and starting in 2005, in order to have a more homogeneous system and to accelerate the negotiation of interconnection contracts, ANATEL has required a standard interconnection network from STFC and SMP Operators through an offer made publicly and equitably.

If parties to an interconnection agreement cannot agree upon the terms and conditions of interconnection, ANATEL may determine those terms and conditions by arbitration. Interconnection agreements must be approved by ANATEL and may be rejected if they are contrary to the principles of free competition and the applicable regulations. Anatel has adopted, from time to time, various regulations governing interconnection rules. The following are the material regulations currently applicable to our business:

the new General Regulation of Interconnection (*Regulamento Geral de Interconexo* 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 (*Explorao 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);

the general norms of customer interaction service by telephone, with the objective of improving the quality of services (Decree No. 6523/2008);

the Methodology of the Calculation of the WACC (Resolution No. 535/2009);

amendment of the regulation of the 3400 MHz to 3600 MHz band, allowing it to apply additionally to mobile services (Resolution No. 537/2010);

the regulation of the Broadband Power Line (BPL), allowing this service to apply to multimedia communication (SCM) (Resolution No. 527/2009); 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 stated that, within a maximum allowed period of eighteen months from the publication of the Terms of Authorization (it occurred on 30 of April of 2008), the authorizations resulting from this auction would be combined with the existing SMP authorizations of the bid winners when pertaining to the same region of the general authorization plan of SMP. In accordance with this Invitation Document, in January 2010, ANATEL published an act determining the unification of our SMP authorizations in Regions II (states of Paraná, Santa Catarina, Rio Grande do Sul, Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and the Distrito Federal) and III (state of São Paulo) of the PGA-SMP, with only one SMP authorization for each of these Regions (Terms of Authorization No. 005/2010 and 006/2010, signed in January 2010, for Region II and III, respectively). VIVO acquired spectrum licenses in band J in regions where it possess SMP licenses. Moreover, the Invitation Document modified the rule for the renewal of radio frequency licenses and requires the inclusion in the calculation of the operating profits both the profits arising from remuneration for the use of the SMP network and the profits of the service plans.

Other Regulatory Issues

On November 21, 2008, the Brazil Government published the 6654/2008 Decree, dated November 20, 2008, 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 commence the process of acquiring Brasil Telecom. This acquisition is currently being analysed by ANATEL, therefore the process of acquisition has not yet been completed.

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 places limits on the period of time during which customers may not 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. In 2009, we continued establishing retail stores in the cities within our coverage areas, pursuant to the provisions of Resolution 477/2007. In 2009, we also established mediation centers to attend to users with hearing and speech impediments,

pursuant to the provisions of Resolution 477/2007. Our plans for achieving the goals set by this new regulation will extend to August 13, 2011. 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. While Vivo is not obligated to use Telefónica's fixed line network due to the affiliation relationship, it also cannot receive its own fixed line license in the event of disagreements with Telefónica since Telefónica has the fixed nationwide licence and an affiliate cannot have the same type of licence in the same area. Since Vivo is not permitted to have a fixed license, Vivo is only able to receive interconnection fees from wire line carriers that have traffic originating or terminating on their network but not from wireless carriers using their fixed line network. Some of our wireless competitors are also unable to earn such a fixed license due to their affiliations. For example, Oi cannot have a fixed licence because it is affiliated with Telemar and Claro cannot have a fixed licence because it is affiliated with Embratel. Tim has a fixed licence because is not affiliated with any fixed operator, but in July 2009, ANATEL published Act No. 3804/2009 determining the conditions to be followed to guarantee total separation between Tim (Telecom Italia) and our subsidiaries.

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).

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. Since 2005, ANATEL has permitted 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 March 2009, 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, for the period from 2007 to 2008, that provides for an annual adjustment of 1.89409% in Region I (Telemar's Region) or 2.06308% in Region II (Brasil Telecom's Region) and Region III (Telefônica's Region) as of July 2008.

In September 2009, even though it had a provisional agreement between the fixed line operators Telefônica, Telemar, Brasil Telecom and Sercomtel and the mobile operators, without CTBC Celular, ANATEL decided not to approve the readjustment of the local (VC-1) and long-distance (VC-2 and VC-3) fixed-to-mobile calls. In February 2010, this readjustment of the VC-1, VC-2 and VC-3, for the period from 2008 to 2009, was approved by ANATEL and the provisional agreement of VU-M readjustment (68.5% of the approved readjustment, of approximately 0.97%, for the VC-1) could be applied.

As indicated above, the 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), stated that, within a maximum allowed period of eighteen months from the publication of the Terms of Authorization (that occurred on April 30, 2008), the authorizations resulting from this auction would be combined with the existing SMP authorizations of the bid winners when pertaining to the same region of the general authorization plan of SMP (PGA-SMP) and accordingly our authorizations were combined in Regions I and II. ANATEL also determined that, from November 1, 2009 (eighteen months from April 30, 2008), in each Region of the PGA-SMP, the value of the VU-M must be unified for that Region and freely negotiated. Until such date, the mobile operators charged a value of VU-M for authorization of the SMP. In February 2010, ANATEL defined the VU-M to be paid for Oi (fixed and mobile operators) and for Brasil Telecom (fixed and mobile operators) to Claro, TIM, Vivo and Telemig Celular, for each region of the PGA-SMP as a result of the unification of the SMP authorizations.

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 Licenses* 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

Following the merger of Telemig Participações into us, our subsidiaries are: Vivo S.A. and Telemig Celular S.A. See *Our History and Development Corporate Restructuring of Our Operating Subsidiaries and Corporate Restructuring and Deregistration of Telemig Participações and Telemig Celular*. Substantially all of our assets consist of shares in Vivo S.A. and Telemig Celular. We rely very substantially on dividends from our subsidiaries to meet our needs for

cash, including cash to pay dividends to our own shareholders. See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources. Currently, we are seeking to merge Telemig Celular into Vivo Participações, subsequent to which Telemig Celular will cease to exist and Vivo S.A. will remain our sole subsidiary.

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

Acquisition of Telpart, Telemig and Tele Norte.

On August 2, 2007, Vivo signed a stock purchase agreement with Telpart to acquire control of Telemig Participações and Tele Norte Participações and 22.72% and 19.34%, respectively, of their total capital for an aggregate amount of R\$1.2 billion, subject to certain price adjustments. On December 20, 2007, Vivo signed another 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](#) .

Restructuring of Vivo, Telemig and Telemig Participações

At a Special Shareholders Meeting held on July 27, 2009, the shareholders of Telemig Participações and Telemig Celular approved the Protocol of Merger of Shares and Instrument of Justification executed on May 29, 2009, which provided for the merger into Telemig Participações of all the shares of Telemig Celular, with the holders of the merged Telemig Celular shares receiving 17.4 new shares of Telemig Participações for each share of Telemig Celular that they owned.

On the same date, at a Special Shareholders Meeting, the shareholders of the Company approved the Protocol of Merger of Shares and Instrument of Justification executed on May 29, 2009, which provided for the merger into Vivo Participações of the shares of Telemig Participações, including those raised in the Telemig Celular merger of shares described above, with the holders of the merged shares of Telemig Participações receiving 1.37 new shares of Vivo Participações for each Telemig Participações share that they owned.

The mergers of the shares of Telemig Celular and Telemig Participações did not result in any change in the number or types of outstanding shares of these companies or in the terms of any of these shares. Instead, Vivo became the owner, directly or indirectly, of all of these shares, with Telemig Participações becoming a wholly-owned subsidiary of Vivo and with Telemig Celular becoming a wholly-owned subsidiary of Telemig Participações. Ultimately, all of the non-controlling shareholders of Telemig Celular and Telemig Participações became Vivo shareholders and each shareholder received the same class of Vivo share (common or preferred) as that shareholder previously held in Telemig Celular or Telemig Participações.

At a Special Shareholders Meeting, held on November 13, 2009, the actual merger (as opposed to the merger of shares) into Vivo Participações and subsequent termination of Telemig Participações was approved, the appraisal and prior approval of which was submitted to ANATEL. The approval from ANATEL was obtained on November 4, 2009. As of December 31, 2009, Vivo became a holder of 100% of the total capital in Telemig Celular. See Note 1(d) to our 2009 financial statements and [Information on the Company](#) [Our History and Development](#) [Corporate Restructuring and Deregistration of Telemig Participações and Telemig Celular](#).

Currently, to further simplify our corporate structure, we are also seeking to merge the operations of Telemig Celular into Vivo Participações (as opposed to merging the shares), subsequent to which Telemig Celular will cease to exist. At a Special Shareholders Meeting held on November 30, 2009, the inclusion into the corporate purpose of the Bylaws of the Company of the activity of providing cellular mobile telephone service was approved in order to enable this future merger of Telemig Celular into Vivo, with a relevant notice of this future merger previously released to the market on October 8, 2009.

On December 7, 2009, the Company communicated to its shareholders and to the market in general that, on December 3, 2009, it had filed with ANATEL a request for approval of the actual merger of Telemig Celular into Vivo Participações, in conformity with the provisions of Law no. 9.472/97 - General Telecommunications Law, on the Regulation for Verification of Share Control and Transfer of Share Control in Telecommunication Service Providers, as approved by Resolution no. 101/1999, and with the other applicable regulatory instruments. ANATEL is currently analyzing this merger.

Control by Portugal Telecom and Telefonica

As of December 31, 2009, our voting shares were indirectly controlled by two major shareholders: Portugal Telecom and Telefónica, through Brasilcel N.V., with 88.9% of our voting stock, 44.1% of our preferred shares representing 59.4% of our total capital stock. Portugal Telecom and Telefónica share their participation in Brasilcel in equal percentages after the Merger.

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, 2009, we had 64 cellular switches in São Paulo and other equipment installed in 12 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 6,070 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 seven administrative areas (approximately 78,244 square meters), five kiosks and 82 retail stores.

As of December 31, 2009, Vivo S.A., in the states of Paraná and Santa Catarina (PR/SC), had 19 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 2,264 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 three administrative facilities (approximately 2,425 square meters), and 36 retail stores.

As of December 31, 2009, Vivo S.A. in the Midwest region (CO) had 25 cellular switches and other equipment installed in six 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 2,410 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), and leases one administrative facilities (approximately 1,412 square meters) and 34 retail stores.

As of December 31, 2009, Vivo S.A. in the northern region had 18 cellular switches and other equipment installed in 15 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 1,001 base stations were installed in cell sites, administrative buildings and administrative facilities. In addition, Vivo S.A. leases seven administrative facilities (approximately 4,790 square meters), and 21 retail stores.

As of December 31, 2009, Vivo S.A. in the states of Bahia and Sergipe had 9 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 1,275 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 19 retail stores throughout this region.

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As of December 31, 2009, Vivo S.A. in the states of Rio de Janeiro and Espirito Santo had 23 cellular switches and other equipment installed in four owned spaces, 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 3,346 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), 8 kiosks and 46 retail stores throughout this Region.

As of December 31, 2009, Vivo S.A. in the state of Rio Grande do Sul had 13 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 2,390 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 28 retail stores throughout this Region.

As of December 31, 2009, 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 2,185 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, 2009, Vivo S.A. in the state of Minas Gerais through its subsidiary Telemig Celular had 17 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 2,637 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 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 and 2009 financial statements.

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 3.2% in 2005, 4.0% in 2006, 5.7% in 2007 and 5.1% in 2008. In 2009, however, Brazil's GDP did not show growth and, in fact, declined. The decrease is a consequence of the economic downturn that commenced in the last quarter of 2008, generating a carry-over effect of 1.4% from 2008 for 2009. Even if Brazil's GDP had sustained the same level of growth registered by the end of 2008 without further decreases, the GDP for 2009 would have decreased by 1.4% in comparison to 2008 due to the carry-over effect.

Consumer prices, as measured by the Consumer Price Index, or the IPCA, published by the IBGE, registered an increase of 4.3% in 2009. Accordingly, growth in consumer prices was below the inflation target of 4.5% established by the National Monetary Council. In 2007 and 2008, the increase had been of 4.5% and 5.9%, 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, decreased 1.43% in 2009, compared to increases of 9.1% in 2008 and 7.9% in 2007.

As a result of the deceleration of inflation and of the economic activity, the Central Bank decreased interest rates during 2009, and as a result, the Selic rate - the Central Bank's overnight lending rate - decreased from 13.75% to 8.75%, which is the lowest level experienced since the creation of the inflation target system in 1999.

Brazil ended the year of 2009 with a trade balance surplus of US\$25.3 billion, compared to US\$24.8 billion in 2008. Exports decreased by 22.7% to US\$153.0 billion, while imports decreased by 26.3% to US\$127.6 billion. Financial inflows into the country decreased significantly, with foreign direct investments of US\$25.9 billion, compared to US\$45.1 billion in 2008. Portfolio investments increased by US\$46.7 billion in 2009 in comparison to the increase of US\$6.3 billion in 2008. The good performance of external accounts allowed international reserves to increase by US\$32.2 billion to a record level of US\$239.1 billion.

The economic downturn and the decrease in taxes resulted in lower tax revenues which affected the public finances and the target of 3.8% established by the Federal Government for primary surplus as part of the GDP. The target was revised to 2.5% over the year 2009. In addition, the Federal Government decided that the expenditures incurred with the Growth Acceleration Program (*Programa de Aceleração do Crescimento*), or PAC, and the Investment Pilot Program (*Programa Piloto de Investimento*), or PPI, were not included in the calculation of the primary surplus, resulting in an increase of expenses of 1.6% as part of the GDP. Considering the actual primary surplus of 2.1% of the GDP plus the expenditures with the PAC and the PPI programs, the revised target of 2.5% has been met. Net public debt, as a proportion of GDP, increased in 2009 to approximately 43.0% from 37.3% in 2008. Brazil's capacity to absorb the world financial crisis and recover from it changed the financial markets' perception of the country's risk. In the past two years the Brazilian government has been upgraded by all three main rating agencies and, starting in the second half of 2009, Brazil once again started to receive huge amounts of foreign capital. The reduction in the level of economic activity and the appreciation of the *real* in 2009 reduced the inflationary pressures and allowed the BCB to reduce its real interest rate to an unprecedented low level in recent Brazilian history, allowing Brazil to lend money rather request capital resources.

The improvement in domestic economic data, such as inflation, external accounts, and interest rates, along with increased liquidity in the international capital markets led to a decrease in country risk in 2009. The J.P. Morgan Emerging Markets Bond Index Plus (EMBI + Brazil), which tracks total returns for traded external debt instruments in the emerging markets, decreased to 197 basis points by the end of 2009 from 428 basis points at the end of 2008.

As a result, the *real* appreciated against the U.S. dollar by 25.9% in 2009. The exchange rate on December 31, 2009 was R\$1.74 to US\$1.00. After the crisis in 2008, when the exchange rate reached R\$2.3 to US\$1.00, the appreciation trend that had been observed since 2004 was a consequence of the decrease in country risk. In the previous years, 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, 2005 through 2009:

	Inflation Rate (%) as Measured by IGP-DI (1)	Inflation Rate (%) as Measured by IPCA (2)
December 31, 2009	(1.4)	4.3
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

(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 financial statements. A description of the differences in accounting policies between Brazilian GAAP and U.S. GAAP is included in Notes 33 and 34 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 projections of our future operating cash flows. Under U.S. GAAP, 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, 2009, 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, 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 initially deferred and recognized 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 recognized over the terms of the related customer arrangements. The excess of the cost over the amount of deferred revenue is recognized on the date of sale. Under U.S. GAAP, the subsidiaries account separately for free minutes given in connection with the sale of handsets. Therefore, we 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. In addition, we have to make estimates of the fair value of the different components of our multiple-element revenue arrangements in order to properly allocate the proceeds of each element. Actual values may differ from estimates, resulting in different allocation in the future.

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, 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 assumptions of marketplace participants about the best use of the asset and other 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 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 projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies that may be available to us. 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 Procol 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 .

Corporate Restructuring and Deregistration of Telemig and Telemig Celular

The Corporate Restructuring resulted in the following:

non-controlling holders of Telemig ADSs received 2.74 Vivo ADSs for each Telemig ADS they held plus cash instead of any fractional ADSs;

non-controlling holders of common shares and non-controlling holders of preferred shares of Telemig (including holders of Telemig shares who received their shares as a result of the immediately preceding exchange of Telemig Celular shares for Telemig shares that is described below) received, without any further action by those holders, 1.37 common shares, no par value, of Vivo for each Telemig common share they held, and 1.37 preferred shares, no par value, of Vivo for each Telemig preferred share they held plus, in each case, cash instead of any fractional shares (the Vivo Merger of Shares);

on the same day as, and prior to, the Vivo Merger of Shares, holders of common shares and holders of preferred shares of Telemig Celular received, without any further action by those holders, 17.4 common shares, no par value, of Telemig for each Telemig Celular common share they held and 17.4 preferred shares, no par value, of Telemig for each Telemig Celular preferred share they held, regardless of the class of Telemig Celular preferred shares held, but, as described above, the Telemig shares that they received were exchanged for Vivo shares so that each holder of a Telemig Celular common share or a Telemig Celular preferred share ultimately received, without any further action by the holder, 23.838 Vivo common shares or 23.838 Vivo preferred shares, respectively, plus, in each case, cash instead of any fractional Vivo shares for which the Telemig Celular common shares and preferred shares ultimately were exchanged as a result of the Corporate Restructuring (the Telemig Merger of Shares);

Vivo became a significantly larger company and more diversified, owning 100% of the capital stock of Telemig, which in turn owned 100% of the capital stock of Telemig Celular. Telemig's interest in the net book value and net income (loss) of Telemig Celular therefore increased to 100%, and Vivo's interest in the net book value and net income (loss) of Telemig therefore increased to 100%;

the preferred shares and ADSs of Telemig ceased trading on the NYSE on September 28, 2009, and were deregistered under the Exchange Act on December 15, 2009, and Telemig no longer files Annual Reports on Form 20-F or reports on Form 6-K;

the common shares and preferred shares of Telemig and Telemig Celular were delisted from the BM&F BOVESPA and deregistered from the CVM on October 16 and 19, 2009, respectively; and

the Restructuring allowed holders of common shares and preferred shares of Telemig and Telemig Celular to receive Vivo securities having substantially the same rights as their prior securities but that instead are expected to enjoy greater liquidity than the securities previously held by them.

Currently, to further simplify our corporate structure, we are seeking to merge Telemig Celular into Vivo Participações, subsequent to which Telemig Celular will cease to exist. At a Special Shareholders Meeting held on November 30, 2009, the inclusion into the corporate purpose of the Bylaws of the Company of the activity of providing cellular mobile telephone service was approved in order to enable this future merger of Telemig Celular into Vivo, with a relevant notice of this future merger previously released to the market on October 8, 2009.

On December 7, 2009, the Company communicated to its shareholders and to the market in general that, on December 3, 2009, it had filed with ANATEL a request for approval of the merger of Telemig Celular into Vivo Participações. ANATEL is currently analyzing this merger.

Results of Operations for 2009, 2008 and 2007 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	
	2009	2008	2007	2009-2008	2008-2007
	(in millions of reais)				
Net operating revenue	16,363.2	15,469.7	12,492.5	5.8	23.8
Cost of services and goods	(8,951.5)	(8,179.0)	(6,623.3)	9.4	23.5
Gross profit	7,411.7	7,290.7	5,869.2	1.7	24.2
Operating expenses:					
Selling	(4,357.4)	(4,107.0)	(3,532.8)	6.1	16.3
General and administrative	(1,334.3)	(1,164.2)	(1,207.2)	14.6	(3.6)
Other operating expenses, net	240.8	(469.9)	(509.4)	n.a.	(7.8)
Total operating expenses	(5,450.9)	(5,741.1)	(5,249.4)	(5.1)	9.4
Operating income before financial expense, net	1,960.8	1,549.6	619.8	26.5	150.0
Net financial expenses	(487.2)	(637.7)	(462.8)	(23.6)	37.8
Operating income (loss)	1,473.6	911.9	157.0	61.6	480.6
Net non-operating expense					
Net income (loss) before income and social contribution taxes and non-controlling interests	1,473.6	911.9	157.0	61.6	480.6
Income and social contribution taxes	(590.5)	(469.5)	(256.8)	25.8	82.8
Non-controlling interests	(25.6)	(52.7)		(51.4)	
Net Income (loss)	857.5	389.7	(99.8)	120.0	(490.5)

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 14.0% increase in the number of contract customers to 9.8 million in 2009, from 8.6 million in 2008. The 2008 figure represented a 21.1% increase from 7.1 million in 2007. Similarly, net additions generated a 15.4% increase in the number of prepaid customers to 42.0 million in 2009, from 36.4 million in 2008. The 2008 figure represented a 20.1% increase from 30.3 million in 2007.

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 and 2.0% in 2007 determined on a weighted average basis. There were no tariff increases for 2009.

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.

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. 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%.

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	
	2009	2008	2007	2009-2008	2008-2007
	(in millions of reais)				
Usage, additional call and monthly subscription charges	10,477.8	10,014.0	8,000.8	4.6	25.2
Interconnection charges	6,301.6	6,140.3	5,109.3	2.6	20.2
Sales of wireless devices and accessories	2,932.2	3,258.1	3,105.7	(10.0)	4.9
Data and value-added services	2,971.3	2,049.8	1,330.5	45.0	54.1
Other services	188.7	244.1	98.0	(22.7)	149.1
Gross operating revenue	22,871.6	21,706.3	17,644.3	5.4	23.0
Value-added and other indirect taxes	(4,637.9)	(4,295.5)	(3,385.9)	8.0	26.9
Discounts granted and return of goods	(1,870.5)	(1,941.1)	(1,765.9)	(3.6)	9.9
Net operating revenues	16,363.2	15,469.7	12,492.5	5.8	23.8

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)

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Usage, additional call and monthly subscription charges	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)
Net operating revenues	1,222.3

Net operating revenues increased by 5.8% to R\$16,363.2 in 2009 from R\$15,469.7 million in 2008, which in turn represented a 23.8% increase from R\$12,492.5 million in 2007. The increase in 2009 reflects mainly an increase in revenues related to data and value-added services, to Internet 3G access, and to additional call charges and monthly fees. The growth in 2008 reflects mainly the consolidation of net operating revenues attributable to Telemig commencing on April 2008, as well as 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 4.6% to R\$10,477.8 million in 2009 from R\$10,014.0 million in 2008, which in turn represented a 25.2% increase from R\$8,000.8 million in 2007. The growth in usage, additional calls and monthly fees in 2009 was mainly due to an increase of 15.1% in our customer base to 51.7 million. 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. The growth in usage charges in 2008 was mainly due to an increase of 34.2% in our customer base to 44,945 million.

Interconnection charges. Revenues from interconnection charges increased by 2.6% to R\$6,301.6 million in 2009, from R\$6,140.3 million in 2008, which in turn represented a 20.2% increase from R\$5,109.3 million in 2007. The increase in 2009 was principally due to an increase in mobile-to-mobile calls. The increase in interconnection charges in 2008 was principally due to the consolidation of R\$579.4 million attributable to Telemig, commencing on April 2008, as well as 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.

Sales of wireless devices and accessories. Revenues from sales of wireless devices and accessories decreased by 10.0% to R\$2,932.2 million in 2009 from R\$3,258.1 million in 2008, which in turn represented a 4.9% increase from R\$3,105.7 million in 2007. The decrease in 2009 reflects an increased activity of sales of Sim Cards and wireless handsets with GSM technology which have a lower average retail price. The increase in 2008 was mainly due to 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 due to the disproportionately higher sales of wirelessly handsets with GSM technology which have a lower average retail price.

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\$653.5 million, R\$753.3 million (excluding Telemig) and R\$693.6 million in 2009, 2008 and 2007, respectively.

Date and value-added services and other services. Revenues from data and value-added services and other services increased by 37.8% to R\$3,160.0 million in 2009 from R\$2,293.9 million in 2008, which in turn represented a 60.6% increase from R\$1,428.5 million in 2007. 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.

Value-added and other indirect taxes. Value-added and other indirect taxes increased by 8.0% to R\$4,637.9 million in 2009 from R\$4,295.5 million in 2008, which in turn represented a 26.9% increase from R\$3,385.9 million in 2007. The increase in 2009 was principally due to an increase in gross operating revenue, particularly in revenue from usage charges and other services. The increase in 2008 (excluding Telemig) was mainly due to an increase in gross operating revenue. 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 20.3%, 19.8% (20.1% excluding Telemig) and 19.2% of our gross operating revenues in 2009, 2008 and 2007, respectively.

Discounts and return of goods sold. Discounts and returns decreased by 3.6% to R\$1,870.0 million in 2009 from R\$1,941.1 million in 2008, which in turn represented a 9.9% increase from R\$1,765.9 million in 2007. Discounts and returns corresponded to 8.2%, 8.9% (8.1% excluding Telemig) and 10.0% of our gross operating revenues in 2009,

2008 and 2007, respectively. The decrease in 2009 reflects an increase of sales of wireless handsets with GSM technology, as compared to other goods, which have a lower average cost and sales of Sim Cards. 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.

Cost of Services and Goods

The following table sets forth the components of our costs of services and goods sold for 2009, 2008 and 2007, as well as the percentage change from the previous year.

	Year ended December 31,			Percent change	
	2009	2008	2007	2009-2008	2008-2007
	(in millions of reais)				
Cost of goods sold	(2,011.0)	(2,441.9)	(2,096.8)	(17.6)	16.5
Depreciation and amortization	(2,286.1)	(1,707.0)	(1,378.9)	33.9	23.8
Supplies, outside services other	(664.2)	(551.3)	(491.6)	20.5	12.1
Interconnection charges	(2,313.2)	(2,146.7)	(1,618.2)	7.8	32.7
Rent, insurance, condominium fees, and leased lines	(672.7)	(555.8)	(436.1)	21.0	27.4
Personnel	(144.2)	(120.1)	(102.9)	20.1	16.7
Taxes	(860.1)	(656.2)	(498.8)	31.1	31.6
Cost of services and goods	(8,951.5)	(8,179.0)	(6,623.3)	9.4	23.5

Cost of services and goods increased by 9.4% to R\$8,951.5 million in 2009 from R\$8,179.0 million in 2008, which in turn represented a 23.5% increase from R\$6,623.3 million in 2007. The increase in 2009 was mainly due to an increase in depreciation and amortization costs, interconnection charges and taxes, partially offset by a reduction in cost of goods. 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 increased in interconnection costs and depreciation and amortization costs. Gross margin (gross profit as a percent of net revenues) corresponded to 45.3%, 47.4% (47.0% excluding Telemig) and 47.0% in 2009, 2008 and 2007, respectively.

Cost of goods sold. Cost of wireless devices and accessories decreased by 17.6% to R\$2,011.0 million in 2009, from R\$2,441.9 million in 2008, which in turn represented a 16.5% increase from R\$2,096.8 million in 2007. The decrease in 2009 corresponds to the decrease in sales of wireless devices and accessories (discussed above) and reflects an increase in sales of wireless handsets with GSM technology (as compared to other technologies), which have a lower average cost and sales of Sim Cards. 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.

Depreciation and amortization. Depreciation and amortization expenses increased by 33.9% to R\$2,286.1 million in 2009, from R\$1,707.0 million in 2008, which in turn represented an increase of 23.8% from R\$1,378.9 million in 2007. The increase in 2009 was mainly due to the accelerated depreciation of CDMA technologies and to the digital ERBs investments made in this period, in addition to the amortization of licences. 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 licences, including, among others, our 3G licenses.

Supplies, outside services and other. Cost of materials and third-party services increased by 20.5% to R\$664.2 million in 2009, from R\$551.3 million in 2008, which in turn represented an increase of 12.1% from R\$491.6 million in 2007. The increase in 2009 reflects an increase in third-party services, mainly in plant maintenance and public services resulting from the growth of our network. 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 increased in the third-party services, mainly in plant maintenance and public services.

Interconnection charges. Interconnection charges increased by 7.8% to R\$2,313.2 million in 2009, from R\$2,146.7 million in 2008, which in turn represented an increase of 32.7% from R\$1,618.2 million in 2007. The increase in 2009 reflects an increase in our customer base and in outgoing off-net call traffic. 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 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.

Rent, insurance, condominium fees, and leased lines. Rent, insurance, condominium fees, and leased lines increased by 21.0% to R\$672.7 million in 2009, from R\$555.8 million in 2008, which in turn represented an increase of 27.4% from R\$436.1 million in 2007. The increase in 2009 is mainly due to an increase in lease payments for shared retail space and increased utilization of the circuits. 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.

Personnel. Personnel expenses increased by 20.1% to R\$144.2 million in 2009, from R\$120.1 million in 2008, which in turn represented a 16.7% increase from R\$102.9 million in 2007. The increase in 2009 was mainly due to an increase in salaries under the terms of our collective bargaining agreement, which we renegotiate annually, and an increase in training program costs. 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.

Taxes. Taxes increased by 31.1% to R\$860.1 million in 2009, from R\$656.2 million in 2008, which in turn represented a 31.6% increase from R\$498.8 million in 2007. The increase in 2009 reflects an increase in FISTEL, due to the growth in the number of new subscribers. 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.

Operating Expenses

The following table sets forth the components of our operating expenses for each of the years ended December 31, 2009, 2008 and 2007, as well as the percentage change from the prior year.

	Year ended December 31,			Percent change	
	2009	2008	2007	2009-2008	2008-2007
	(in millions of reais)				
Selling expenses	(4,357.4)	(4,107.0)	(3,532.8)	6.1	16.3
General and administrative expenses	(1,334.3)	(1,164.2)	(1,207.2)	14.6	(3.6)
Other net operating expenses	240.8	(469.9)	(509.4)	(151.2)	(7.8)
Total	(5,450.9)	(5,741.1)	(5,249.4)	(5.1)	9.4

Vivo's operating expenses decreased by 5.1% to R\$5,450.9 million in 2009, from R\$5,741.6 million in 2008, which in turn represented a 9.4% increase from R\$5,249.4 million in 2007. The decrease in 2009 was mainly due to a

reduction in the other net operating expenses partially offset by an increase in selling expenses. 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.

Selling expenses. Selling expenses increased by 6.1% to R\$4,357.4 million in 2009, from R\$4,107.0 million in 2008, which in turn represented a 16.3% increase from R\$3,532.8 million in 2007. 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 2009 reflects an increase in third-party costs, mainly costs related to distribution and client care and depreciation and amortization. The increase was partially offset by a reduction in the provision for doubtful accounts by 29.8% to R\$ 213.2 million in 2009 from R\$ 303.8 million in 2008. 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. Allowance for doubtful accounts were 0.9%, 1.4% and 2.1% of gross revenues for 2009, 2008 and 2007, respectively.

General and administrative expenses. General and administrative expenses increased by 14.6% to R\$1,334.3 million in 2009, from R\$1,164.2 million in 2008, which in turn represented a 3.6% decrease from R\$1,207.2 million in 2007. The increase in 2009 reflects an increase in depreciation and amortization and in third-party costs, mainly in plant maintenance. 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.

Other net operating expenses. The net amount of other operating expenses decreased by 151.2% to R\$240.8 million of other revenues in 2009, from R\$469.9 million of expenses in 2008, which in turn represents a 7.8% decrease from R\$509.4 million in 2007. The decrease in 2009 reflects an increase in the revenues from recovered expenses, especially taxes and a decrease in goodwill amortization. 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.

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, 2009, 2008 and 2007.

	Year ended December 31,			Percent Change	
	2009	2008	2007	2009-2008	2008-2007
	(in millions of reais)				
Financial income	199.8	304.2	186.0	(34.3)	63.5
Exchange gains (losses)	520.3	(920.1)	297.5	(156.5)	(409.3)
Gains (losses) on foreign currency derivative contracts	(453.8)	519.5	(509.2)	(187.4)	(202.0)
Financial expenses	(753.5)	(541.3)	(437.1)	39.2	23.8
Total	(487.2)	(637.7)	(462.8)	(23.6)	37.8

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 27 to our financial statements.

Our net financial expenses decreased by 23.6% to R\$487.2 million in 2009, from R\$637.7 million in 2008, which in turn represents a 37.8% increase from R\$462.8 million in 2007. This decrease in 2009 is mainly due to the extraordinary facts that occurred in 2009, such as the use of some of our cash for the acquisition of 3G licenses, thus resulting in less cash balance invested and the generation of lower financial revenues as well as the effect of lower indebtedness throughout year 2009, in addition to a lower effective interest rate in 2009 (9.88% in 2009 and 12.38% in 2008). 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.

As of December 31, 2009, all of our foreign exchange indebtedness of approximately R\$761.4 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 an income of R\$343.9 million in 2009 in our foreign currency-denominated debt (a loss of R\$688.3 million in 2008 and a gain of R\$296.1 million in 2007), which was offset by losses in our currency and interest rate derivatives contracts of R\$366.7 million in 2009 (a gain of R\$519.5 million in 2008 and a loss of R\$509.4 million in 2007).

Income and Social Contribution Taxes Income (Expense)

We recorded expenses from income and social contribution taxes in the amount of R\$590.5 million in 2009, an increase of 25.8% from an expense of R\$469.5 million in 2008, which in turn represented an increase of 82.8% from an expense of R\$256.8 million that we recorded in 2007. The increases in 2009 and 2008 are related to higher income before income and social contribution taxes.

Non-controlling interest

The non-controlling interest recorded for the year ended December 31, 2009 was in the amount of R\$25.6 million and represented the non-controlling interest in Telemig for the months of January through July 2009. The non-controlling interest recorded for the year ended December 31, 2008 was in the amount of \$52.7 million and represented the non-controlling interest in Telemig for the months of April through December 2008. In 2007, there was no non-controlling interest recorded for Vivo due to the completion of the corporate restructuring process which commenced in October 2006. See Operating Results Merger of the Vivo Companies.

Vivo's Segments

As described in Item 4.A. Information of the Company Our History and Development Corporate Restructuring of Our Operating Subsidiaries, during 2006, we completed corporate restructurings to simplify our corporate legal structure and create a single legal operating company. This resulted in changes to our management structure and operating segments. Since 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\$4,044.4 million, R\$3,722.1 million and R\$3,196.7 million in 2009, 2008 and 2007, respectively, primarily as a result of our net income after adjusting for non-cash expenses such as depreciation and amortization.

Vivo used net cash for financing activities in the amount of R\$3,478.7 million in 2009. Vivo repaid loans of R\$5,066.2 million during 2009 and obtained new loans in the aggregate amount of R\$1,952.5 million in that period, as well as cash from the net settlements on derivatives contracts of R\$51.5 million.

Vivo had R\$ 4,169.8 million in long-term loans and financing as of December 31, 2009. Vivo's R\$954.7 million in short-term indebtedness as of December 31, 2009 consisted primarily of funding from financial institutions. As of December 31, 2009, Vivo had a working capital (current assets minus current liabilities) deficit of R\$110.1 million compared to a working capital deficit of R\$452.6 million as of December 31, 2008.

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 U.S.\$80 million of 8.75% unsecured senior notes due 2009. The notes were offered and sold in offshore transactions in accordance with Regulation S under the Securities Act 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 full in January 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.

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.

On July 24, 2009, 20 promissory notes were issued in the value of R\$25 million each, totaling R\$500 million, bearing an interest rate of 115.0% of the DI (Interfinancial Deposit) rate. The funds raised from this transaction were used for the full repayment of the principal amount of the debt incurred in a prior (fourth) issuance of promissory notes for the face value of R\$500 million. On October 22, 2009, the promissory notes related to this issue were settled.

On September 4, 2009, the Board of Directors approved the fourth public issuance by the Company of simple, unsecured debentures not convertible into stock, all of them registered and of book-entry type, issued in up to three series, with a tenor of 10 years. The total amount of the issue was R\$810 million, of which the basic offering corresponds to R\$600 million, in addition to R\$210 million from the full exercise of an option to issue additional debentures. A total of 810,000 debentures were issued in three series, with 98,000 debentures in the first series, 640,000 in the second series and 72,000 in the third series. The amount of debentures allocated to each of the series was decided in mutual agreement between the Company and the leader arranger of the offering after the conclusion of the bookbuilding procedure.

Banco Itaú BBA S.A., in its capacity as lead arranger of the offering, carried out a bookbuilding procedure in order to determine, with interested investors, the demand for the debentures at different remuneration rates.

Rescheduling of each series is provided for as follows: first series on October 15, 2012, second series on October 15, 2013, and third series on October 15, 2014. The proceeds raised from the issuance of this offering were used for full payment of the debt related to the sixth issuance of commercial promissory notes of the Company and supplementing the working capital of the Company. The transaction costs in connection with this issuance in the amount of R\$4.4 million were appropriated to a liabilities reduction account as costs to be incurred, and are recorded as financial expenses of the Company pursuant to the contractual terms of this issuance. The actual rate of this issuance, considering the transaction costs, is 112.13% of the CDI (see Note 25 of our financial statements). Tranches of the facility borrowed from Banco Nacional do Nordeste do Brasil (BNB) were released during fiscal year 2009 as follows: R\$124.6 million in May 2009 and R\$134.8 million in October 2009. With the tranche released in December 2008 in the amount of R\$129.7 million, the total came to R\$389.0 million.

Financing of 3G licenses

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 was 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 August 28, September 25, and October 22, 2009, Vivo settled the amounts owed to ANATEL corresponding to the full value of the 3G licenses.

Date	Value Paid	in Reais	R\$
08/28/09	R\$	902,205,813.06	
09/25/09	R\$	235,127,988.36	
10/22/09	R\$	163,770,561.54	
	R\$	1,301,104,362.96	

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\$2,367.5 million, R\$3,997.4 million, and R\$1,905.7 million in 2009, 2008 and 2007, respectively. Payment of debt and derivative instruments consumed cash flows of R\$5,014.7 million, R\$2,737.1 million and R\$2,473.6 million in 2009, 2008 and 2007, respectively. Dividends and interest on shareholders' equity payments consumed cash flows of R\$419.3 million, R\$54.2 million and R\$17.5 million in 2009, 2008 and 2007, respectively.

Capital Expenditures

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

Vivo	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Switching equipment	237.6	533.1	417.3
Transmission equipment	1,283.6	1,446.2	729.9

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Information technology	346.0	286.5	267.2
Others ⁽¹⁾	500.3	1,730.9	494.3
Total capital expenditures	2,367.5	3,997.4	1,905.7

Consisting primarily of wireless devices provided to customers for free in connection with signing new (1) 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 GSM and WCDMA (3G) network, expansion of transmission routes, system centralization and integration (billing, collection and CRM, including Minas Gerais systems and a new Data Center site acquisition), development of new services and opening and renovating points of sale and terminals for the corporate segment.

In the aggregate, R\$2,367.5 million were invested during the year ended December 31, 2009, which included investment in the GSM/EDGE and WCDMA (3G) network. This amount represented 14.5% of our net operating revenues.

Our planned capital expenditures for 2010 include investments in GSM network capacity, expansion of WCDMA overlay, introduction of new products and services to maximize the use of cellular phones, expansion of our stores, the continued improvement of the quality of services provided to our customers and finalizing a new Data Center construction combined with Minas Gerais's systems integration. The amount will be approved at the general shareholders meeting to be held April 2010. We intend to pay these expenditures with funds generated by our operations and our available borrowing capacity.

Payments of Dividends to Shareholders

The holders of preferred shares have been entitled to exercise voting rights since the 2004 General Shareholders Meeting as a result of our failure to pay the minimum dividends required by law. 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 was sufficient to meet the minimum dividend required by law. Pursuant to this Board authority and the authority granted at the General Meeting of Shareholders held on March 19, 2009, the dividends were paid on December 2, 2009 and upon this payment, the voting rights of holders of Vivo's preferred shares that previously existed due to Vivo's failure to pay all requested dividends were terminated.

In compliance with our by-laws, at a special board meeting held on February 9, 2010, our Board of Directors approved the payment of dividends in an aggregate amount of approximately R\$818.9 million. These dividends were declared on the basis of the 2009 closing balance sheet to the holders of common and preferred shares. The dividends payable to holders of preferred shares and common shares are comprised of approximately (a) R\$104.1 million in interest on shareholders equity, as approved at the Board of Directors meeting held on December 14, 2009 and as calculated in conformity with article 9 of Law 9249/95, which, net of withholding tax, is approximately R\$88.5 million, and (b) dividends in the amount of approximately R\$730.3 million, R\$250.9 million for the common shares and R\$479.4 million for the preferred shares. The above mentioned dividends will be paid in two equal parts, on April 19, 2010 and October 25, 2010. These dividends are sufficient to meet the minimum dividend required by law and voting rights on the preferred shares will not be regained for 2010. Even if Vivo's holders of preferred shares were to reacquire the voting rights at some time in the future, we would not expect these voting rights to affect voting control over Vivo because our controlling shareholders currently own more than 50% of our total voting capital.

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

Debt

As of December 31, 2009, Vivo's total debt position was as follows:

Debt	Amount Outstanding as of December 31, 2009
	(in millions of reais)
Financing from financial institutions	5,124.5
Financing of ANATEL (3G)	-

Total debt	5,124.5
Long-term debt ⁽¹⁾	4,169.8
Short-term debt	954.7

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

As of December 31, 2009, Vivo's total debt was R\$5,124.5 billion, of which R\$761.4 billion, or 14.9% was denominated in foreign currencies and therefore exposed to currency fluctuations.

Of that amount, R\$730.6 million was denominated in U.S. dollars (US\$419.6 million), R\$26.5 million was denominated in yen (¥1,408.9 million), and R\$4.3 million was denominated in UMBNDES, which comprises a mix of different currencies.

The Company and Vivo S.A. entered into swap contracts in foreign currency at several exchange rates in notional amounts as of December 31, 2009 of US\$415,637 and JP¥1,338,853, as compared to US\$515,606 and JP¥ 51,594,615 as of December 31, 2008. On December 31, 2009, the Company and Vivo S.A. had no interest rate swap contracts in local currency (CDI), compared to US\$225,000 worth of such contracts as of December 31, 2008, and, also as of December 31, 2009, the Company and Vivo S.A. recorded the notional amount of R\$110,000 of swaps indexed to the IGPM, as compared to R\$110,000 as of December 31, 2009.

On October 15, 2009, we entered into a swap contract which was indexed to the IPCA for assets and to the CDI for liabilities in the notional amount of R\$72,000, in order to cover the exposure of the third series of the fourth issuance of debentures to the variation of the IPCA rate. Upon being contracted, this swap was recognized as a fair value hedge.

Vivo S.A. has indebtedness and financing with the National Economic and Social Development Bank (BNDES), which totaled R\$1,474.4 million as of December 31, 2009. Vivo S.A. also has indebtedness and financing with the Europe Bank of Investments, which totaled R\$635.1 million as of December 31, 2009. In accordance with our contractual obligations, there are several economic and financial covenants and ratios that must be maintained annually. Some of the debt agreements of Vivo contain restrictive covenants. Financial ratios apply to some of our indebtedness and involve (1) current ratios, (2) capitalization ratios, (3) EBITDA margins, (4) interest coverage ratios and (5) debt-to-capital ratios. As of December 31, 2009, Vivo met all relevant economic and financial covenants and ratios.

U.S. GAAP Reconciliation

See Notes 33 and 34 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, 2009 and January 2008 which are reported herein and which are discussed in our financial statements.

In June 2009, the Financial Accounting Standard Board (FASB) issued a standard that established the FASB Accounting Standards Codification (ASC) and amended the hierarchy of generally accepted accounting principles (GAAP) such that the ASC became the single source of authoritative U.S. GAAP. Rules and interpretive releases issued by the SEC under authority of federal securities law are also sources of the authoritative GAAP for SEC registrants. All other literature is considered non-authoritative. New Accounting Standards Updates (ASUs). The ASC is effective for the Company from September 1, 2009. Throughout the consolidated financial statements references that were previously made to former authoritative U.S. GAAP pronouncements have been changed to coincide with the appropriate section of the ASC.

Effective January 1, 2009, the Company adopted new accounting guidance ASC 810, which changed the accounting for and the reporting of an entity's non-controlling ownership. Such non-controlling ownership, previously referred to as non-controlling interest, is now referred to as non-controlling interests. The adoption of this guidance resulted in the reclassification of amounts previously attributable to non-controlling interest and classified in the mezzanine outside of shareholders' equity, to a separate component of stockholders' equity titled Non-controlling Interests in the accompanying consolidated balance sheets and statement of changes in equity. Additionally, net income and comprehensive income attributable to non-controlling interests are shown separately from consolidated net income and comprehensive income in the accompanying consolidated statements of operations and statements of changes in equity. Prior period financial statements have been reclassified to conform to the current year presentation as required by the authoritative guidance.

ASC 820 Fair Value Measurement and Disclosures defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies under other accounting pronouncements that require or permit fair value measurement. ASC 820 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).

ASC 715 Compensation-retirement Benefits provides 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. The Company has complied with the disclosure requirements.

ASC 350 Intangibles-Goodwill and Other amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of 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 guidance is effective prospectively for intangible assets acquired or renewed after January 1, 2009. The Company applied the guidance to acquisitions of intangible assets as from January 1, 2009.

ASC 815 Derivatives and Hedging 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, the improvement 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. The Company has complied with disclosure requirements.

ASC 805 Business Combination 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 guidance is 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). Since the Company did not consummate any business combination in 2009, this guidance did not have any significant effect on its consolidated financial statement. However, we change the manner in which the tax benefits of prior acquisition are recognized in the current period, as a result of amendment to ASC 740. See note 33(e).

ASC 323 Investments-Equity Method and Joint Ventures 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. ASC 323 was effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. ASC 323 is applied prospectively with early application prohibited. The adoption of ASC 323 did not have any impact on our consolidated financial condition or results of operations.

Recently Issued Standards

The following accounting standards have been issued, but are not effective as of December 31, 2009 and have not been adopted by the Company.

In June 2009, the FASB issued a statement which removes the concept of a qualifying special-purpose entity (QSPE) from former SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of former FASB Statement No. 125. The QSPE concept had initially been established to facilitate off-balance sheet treatment for certain securitizations. The new statement also removes the exception from applying the requirements of consolidation accounting for variable interest entities to QSPEs. This new standard has not been incorporated into ASC and is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of this new standard will have a material impact on its financial statements.

In June 2009, the FASB issued a new standard which amends former FIN 46(R) to among other things, require an entity to qualitatively rather than quantitatively assess the determination of the primary beneficiary of a variable interest entity (VIE). This determination should be based on whether the entity has (1) the power to direct matters that most significantly impact the activities of the VIE and (2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Other key changes include: the requirement for an ongoing reconsideration of the primary beneficiary, the criteria for determining whether service provider or decision maker contracts are variable interests, the consideration of kick-out and removal rights in determining whether an entity is a VIE, the types of events that trigger the reassessment of whether an entity is a VIE and the expansion of the disclosures previously required about Transfers of Financial Assets and Interests in Variable Interest Entities. This new standard has not been incorporated into ASC and is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of this new standard will have a material impact on its financial statements.

In October 2009, the FASB issued an update to ASC 605-25, Revenue Recognition Multiple-Element Arrangements , that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements to:

- (i) Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separate and how the consideration should be allocated;
- (ii) Require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence of selling price or third-party evidence of selling price;
- (iii) Eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and
- (iv) Require expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance.

We are currently evaluating the potential impacts of this new guidance which will become mandatory on January 1, 2011.

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 2010, 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, 2009, 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, 2009:

	Payments due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in millions of reais)				
Contractual obligations:					
Long-term debt ⁽¹⁾	4,892.0	722.4	2,090.1	533.7	1,545.8
Operating leases	6,177.1	639.2	1,247.3	1,214.2	3,076.4
Total contractual cash obligations ⁽²⁾	11,069.1	1,361.6	3,337.4	1,747.9	4,622.2

(1) Includes short-term portion of long-term debt. Short-term debts with no long-term portion are not included

(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\$163.8 million, including all costs related to the rental of certain facilities used in providing telecommunications services, such as electrical and air conditioning equipment.

Although the pension fund obligations are not included in the table above, we expect to make contributions of approximately R\$60.1 million during each of the next 5 years.

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, 2009
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., 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, is a Member of the board of directors of Vivo Participações S.A. since March 2004 and Vice Chairman of the board since August 2008. 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. 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 Participações. 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 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, and Vivo Participações, S.A. He was a member of the Board of Directors of TSD, TLE and Celular CRT until February 2006. Mr. Aller has served as Chief Operating Officer of Telefónica Móviles S.A. since 2003 and has held several positions at Telefónica de España since 1967. He has a Master's degree in Management and Control of IT Projects from Instituto de Empresa de Madrid in Madrid, and a degree in Corporate Management Control from Escuela Superior de Administración de Empresas (ESASE) in Spain.

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, Vivo Participações, 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, 1967, is a member of the Board of Directors of Vivo Participações and 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. Mr. Cruz has a degree in Economics from the University of Porto - 1989, and a master degree in finance (MIFFT99) from London Business School (1999).

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

Antonio Gonçalves de Oliveira, born on May 4, 1944, is currently a member of the Board of Directors and Audit Committee of Vivo since July 2005. 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 seven positions, each elected by the Board of Directors for a term of three years. Our Board of Executive Officers currently has seven 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	October 02, 2009
Cristiane Barretto Sales.	Executive Vice President of Finance, Planning and Control and Investor Relations Officer	August 18, 2009
Paulo Cesar Pereira Teixeira	Executive Vice President of Operations	October 02, 2009
Hugo Mattos Janeba	Executive Vice President of Marketing and Innovation	October 02, 2009
Javier Rodríguez García	Vice President of Networks	October 02, 2009
Ercio Alberto Zilli	Vice President of Regulatory Matters	October 02, 2009
João José Gallego Moura	Vice President of Resources	January 04, 2010

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 July 1, 2005 of Vivo, Vivo 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 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 Supérieur des Affaires, Jouy en Josas, France. Mr. Oliveira is a Brazilian citizen.

Cristiane Barretto Sales, born on October 15, 1968, is Executive Vice President of Finance, Planning and Control of Vivo Participações S.A., and Vivo S.A.; Chief Financial Officer of Telemig Celular S.A. and also Investor Relations Officer of Vivo Participações S.A. She was Management and Finance Director of Tele Leste Celular Participações S.A., Telebahia S. A. and Telergipe S. A. from 2000 until 2003. Since the beginning of Vivo's Joint Venture, in 2003, she managed the Planning and Control, Accounting and Revenue Assurance Departments. Before this, she was Auditing and Consulting Manager with Arthur Andersen S/C for 10 years until 2000. Cristiane has a B.S. degree in Business Manager from Salvador College (FACS), and an Executive MBA degree from Navarra University, in Barcelona. Mrs. Sales is a Brazilian citizen.

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 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).

João José Gallego Moura born on December 5, 1950, serves as Vice President of Resources of Vivo Participações S.A., of Vivo S.A, and of Telemig Celular S.A. He was General Director of Resources from 2007 to 2009, Purchase Director from 2003 to 2007, Director of Interconnection and Roaming, Director of Area Cellular Appliances and Purchase Director, Equity and Logistics, positions occupied sequentially in Telesp Celular from 2000 to 2002. He was Director of the Candidature Project for Portugal Telecom Internacional and the license of Telefonía GSM in Tunisia in 2000. He was Superintendent Director of MOBITEL Telecomunicações S.A. from 1996 to 2000. He was President of the Association of the paging service sector. He was President of paging operator CONTACTEL of Grupo Portugal Telecom in Portugal, from 1992 to 1996. He was a Member of the Board of Directors to MENSTEL, a company involved with paging and the network of mobile communications of Telefónica in Spain, from 1994 to 1996. He was CEO of Partex main branch of Macau (China), from 1989 to 1992, an organizational consulting company involved with project management of large undertakings (Nova Ponte e Aeroporto de Macau); Director of Industrial Engineering Operations, from 1981 to 1989, of Partex Companhia Portuguesa de Serviços, in Portugal; Member of the Board of Ruling and Inspections of the Petrogal/Partex Partnership in 1988 and 1989 (in accumulation); Executive Board Member of UNIMEC United Maintenance and Erection Contractors, ACE (director appointed pursuant to the bylaws), between 1982 and 1986 (in accumulation); Advisor to the Calouste Gulbenkian Fund, petroleum sector, in 1979 to 1980 (in accumulation); Member of the Directors of Welding and Quality (Portugal) from 1977 to 1980 and Chief of Inspection from 1974 to 1976. Mr. Moura is a licensed engineer by IST (Instituto Superior Técnico) of Lisbon, with a Masters degree from Paris (ESSA Diplôme d'État) and a degree in Business Administration from OCU Oklahoma City University (Hong Kong).

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 members 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
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, 2009, we paid our directors and executive officers, and the directors and executive officers of our subsidiary, as compensation an aggregate amount of R\$19.0 million. 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 16G. Corporate Governance 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, 2009, we had 10,598 full-time employees. From April 2008, the number of employees includes the employees of Telemig Celular (2,788 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,

	2009	2008	2007
Total number of employees (including trainees)	10,598	8,386	5,600
Number by category of activity:			
Technical and operations area	2,333	2,350	1,755
Sales and marketing	5,214	2,773	2,061
Finance and administrative support	1,748	1,689	1,316
Customer service	1,303	1,574	468

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 4% and an increase of around 4% 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 will expire on October 31, 2010. The new agreements being negotiated will be similar to those that will expire.

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

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

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

On August 21, 2007, the board approved the new private pension plan VIVOPREV, a defined contribution plan already managed by VISÃO PREV. From March 2008, the participants of the plans PBS Telesp Celular, TCPPREV, PBS Tele Centro Oeste Celular, TCOPREV, PBS Telesudeste Celular, Visão Telerj Celular, Visão Telest Celular,

PBS 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, 2009, 41.9% 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, 2009, 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, 2009:

Name	Number of common shares owned	Percentage of outstanding common shares	Number of preferred shares owned	Percentage of outstanding preferred shares
Brasilcel	52,731,031	38.4	91,087,513	34.6
Portelcom Partic. S.A. ⁽¹⁾	52,116,302	38.0	24,669,191	9.4
TBS Celular Partic Ltda ⁽¹⁾	17,204,638	12.5	291,449	0.1
All directors and executive officers as a group	8	(2)	520	(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.

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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., and Telefônica International 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.

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\$145.8 million, an amount for which we have made provisions, and that possible losses with respect to these claims total approximately R\$492.8 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\$100.8 million, a decrease of R\$27.7 million in 2009. 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\$17.5 million, including Vivo S.A and Telemig Celular. 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 an unfavorable outcome with respect to this claim is possible. In which case, 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

More than 100,000 lawsuits were brought by fixed-subscribers against the holding companies created as a result of the breakup of the Telebrás system. Celular CRT is named in more than 4,000 of 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 regulated by the Ministry of Communication 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 into 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. Therefore, in each and every lawsuit, the plaintiffs claim that they have the right to subscribe to additional new Vivo shares as payment.

The State Court of Appeal of Rio Grande do Sul has taken a position favorable to the plaintiffs regarding the Companhia Rio-Grandense de Telecomunicações (Brasil Telecom S.A), thus explaining the abundance of lawsuits against this company. Recently, it was reported that Companhia Rio-Grandense de Telecomunicações was ordered by the court to pay more than R\$2.5 billion in connection with these lawsuits.

As regards Celular CRT, a previous subsidiary of ours, only in approximately 45 lawsuits was Celular CRT ordered to pay the subscribers. We have proved, among other arguments, that the lawsuit 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 of Telebras should remain with the predecessor company (e.g. Companhia Rio-Grandense de Telecomunicações – currently Brasil Telecom S.A.). Decisions favoring this argument have been issued, including 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, as a result of which the plaintiffs dropped their actions against Vivo and TCO.

Since 2007, Celular CRT won all the new lawsuits that were commenced against it. Presently, more than 2,800 of the lawsuits have already been finalized and there are about 1,400 lawsuits waiting for final judgment. 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 the states of Acre, Pará, Mato Grosso do Sul, Mato Grosso, Goiás, Roraima, Rondônia, Tocantins, Amazonas and Distrito Federal, Vivo S.A. received tax assessments totaling R\$ 160,233 million in December 31, 2009 (as compared to 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; vii) other taxes relating to the sale of goods, viii) delinquent fines for spontaneous infraction notices; ix) ICMS tax on the non-payment of taxes referring to tax substitution by later operations; x) ICMS tax on electric energy credits; xi) ICMS tax resulting from cancelling telecommunication services; xii) amounts resulting from the difference in the tax determined in DETRAF; and xiii) bundled sales with conditional discounts.

In the state of Paraná, Vivo S.A. received tax assessments totaling R\$6,852 million as of December 31, 2009, compared to R\$7.3 million as of December 31, 2008, in connection with late payment of the ICMS tax.

In the state of Bahia, Vivo S.A. received tax assessments totaling R\$51.6 million in December 31, 2009, compared to 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\$33.2 million in December 31, 2009, compared to 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\$3.7 million in December 31, 2009, compared to 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\$183.2 million in December 2009, compared to 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\$22.6 million in December 2009, compared to 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\$150.0 million in December 31, 2009, compared to 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\$685 thousand in December 31, 2009, compared to 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, 2009 the amount is R\$12.4 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\$24.8 million in December 31, 2009 (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 based on the opinion of our legal counsel, and in consideration of decisions of the Supreme Court of Brazil, that the likelihood of an unfavorable outcome with respect to the calculation methodology is remote. As of December 31, 2009, Vivo recorded provisions for the amounts of the revenues in excess of the total sales under discussion in court, in the amount of R\$2.5 million (compared to R\$10.4 million as of December 31, 2008). Based on IBRACON's Technical Communication no. 05/2009, on July 31, 2009, after a judicial evaluation supported by Vivo's legal advisors, the amount of R\$7.5 million was reversed from the original amount of R\$10.4 million. The remaining court deposit is of R\$2.5 million, as of both December 31, 2009 and 2008.

In the state of São Paulo, an action was brought against Vivo S.A. 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. As a consequence of the ordinary program for payment of tax debts in installments (Law no. 11.941, dated May 27, 2009), the Company requested to discontinue the proceedings and to have the amounts due converted into income, with consequent release of the surplus amount. As of December 31, 2008, the amounts of provisions and judicial deposits were R\$24.7 million.

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 amounting to R\$514 thousand as of December 31, 2009, compared to R\$8.6 million in 2008, 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.

In the state of Bahia, Vivo S.A. received a COFINS assessment of R\$9.9 million as of December 31, 2009, compared to 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\$159.7 million as of December 31, 2009, compared 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, 2009 is R\$22.5 million.

In May 2007, the Company faced tax foreclosures totaling R\$32.5 million as of December 31, 2009, compared to 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\$6.8 as of December 31, 2009 (R\$6.4 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, 2009, the amount is R\$30.8 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, 2009, the total amount came to R\$67.3 million (R\$42.1 million on December 31, 2008).

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 2009 the amount in question totals R\$17.6 million (R\$189 million on December 31, 2008).

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 with 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, 2009, the amount in question was R\$97.4 million (R\$90.8 million on December 31, 2008).

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, 2009 the amount in question was R\$432.4 million (R\$197.9 million on December 31, 2008).

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, 2009 the amount in question was R\$172.1 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\$311.1 million as of December 31, 2009, 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\$21.4 million on December 31, 2009.

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 2009, Vivo S.A. recorded a provision in the amount of R\$80.9 million, after it made escrow deposits amounting to R\$62.6 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, 2009, the amount involved for Vivo is R\$331.7 million and for Telemig Celular is R\$62.6 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, 2009, the amount of the contributions involved is R\$151.6 million for Vivo and R\$20.1 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 radio frequencies 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, 2009, the amount in question is R\$976.3 million (R\$827.0 million on December 31, 2008).

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, 2009, the total amount in question was R\$118.4 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, 2009 was in the amount of R\$423.4 million,

with corresponding deposits in court in the same amount.

EBC Contribution to Public Broadcasting Investment

On May 26, 2009, SINDITELEBRASIL, the Trade Union for Telephony and Mobile and Personal Service Companies, filed an injunction challenging the new contribution to the EBC (Empresa Brasil de Comunicação) created by Law 11652/08. No preliminary order was issued, and Vivo and Telemig, both of which are operating companies affiliated to this Trade Union, obtained legal authorization to deposit the amount in question, which as of December 31, 2009 totaled R\$63.4 million. At present, the proceeding is pending decision from the Lower Level Court.

INSS

On July 2, 2002, Telemig Celular was given an infraction notice from the National Social Security Institute (INSS) relating to the joint and several liability for the payment of the contribution to the INSS of service providers and the 11% withholding tax provided for in Law 9711/98. The total amount as of December 31, 2009 was R\$35.3 (as compared to R\$33.7 at December 31, 2008). As of December 31, 2009, Telemig had booked a provision in the amount of R\$3.5 in order to cover possible losses arising out of the above-mentioned infraction notice, substantiated by the opinion of its legal advisors.

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, 2009, the amount involved is R\$57.3 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, 2009, the amount involved is R\$37.9 million.

Other taxes, rates and contributions

On December 31, 2009, an amount of R\$2.9 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, 2009, a provision of R\$14.7 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\$40.2 million considered sufficient to meet probable losses in these cases. During the year ended December 31, 2009, 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\$205.5 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. The holders of preferred shares have been entitled to exercise voting rights since the 2004 General Shareholders Meeting as a result of our failure to pay the minimum dividends required by law. 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 was sufficient to meet the minimum dividend required by law. Pursuant to this Board authority and the authority granted at the General Meeting of Shareholders held on March 19, 2009, the dividends were paid on December 2, 2009 and upon this payment, the voting rights of holders of Vivo's preferred shares that previously existed due to Vivo's failure to pay all requested dividends were terminated.

In compliance with our by-laws, at a special board meeting held on February 9, 2010, our Board of Directors approved the payment of dividends in an aggregate amount of approximately R\$818.9 million. These dividends were declared on the basis of the 2009 closing balance sheet to the holders of common and preferred shares. The dividends payable to holders of preferred shares and common shares are comprised of approximately (a) R\$104.1 million in interest on shareholders equity, as approved at the Board of Directors meeting held on December 14, 2009 and as calculated in conformity with article 9 of Law 9249/95, which, net of income tax, is approximately R\$88.5 million, and (b) dividends in the amount of approximately R\$730.3 million. The above mentioned dividends will be paid in two equal parts, on April 19, 2010 and October 25, 2010. These dividends are sufficient to meet the minimum dividend required by law and voting rights on the preferred shares will not be regained for 2010. Even if Vivo's holders of preferred shares were to reacquire the voting rights at some time in the future, we would not expect these voting rights to affect voting control over Vivo because our controlling shareholders currently own more than 50% of our total capital.

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 financial statements prepared in accordance with U.S. GAAP.

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 2009 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 BM&FBOVESPA, 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, 2009 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.

Year ended	New York Stock Exchange US\$ per ADS		São Paulo Stock Exchange R\$ per 1 preferred shares	
	High	Low	High	Low
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
December 31, 2009	33.16	13.05	56.34	29.45

	New York Stock Exchange US\$ per ADS		São Paulo Stock Exchange R\$ per 1 preferred shares	
	High	Low	High	Low
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
Year ended December 31, 2009				
First quarter	16.87	13.05	38.70	29.45
Second quarter	21.30	13.50	41.03	30.50
Third quarter	25.25	17.85	44.70	35.85
Fourth quarter	33.16	24.25	56.34	42.88
Quarter ended				
March 2010 (through March 30, 2010)	32.69	25.91	55.10	47.20
Month ended				
October 31, 2009	28.94	24.25	49.87	42.88
November 30, 2009	30.50	24.40	52.53	45.10
December 31, 2009	33.16	29.31	56.34	51.31
January 31, 2010	32.69	27.99	55.10	50.00
February 28, 2010	29.78	26.84	54.50	48.90
March 2010 (through March 30, 2010)	28.87	25.91	50.90	47.20

B. Plan of Distribution

Not applicable.

C. Markets**Trading on the São Paulo Stock Exchange (BM&FBOVESPA)**

In 2000, the Bolsa de Valores de São Paulo was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges and assumed all shares traded in Brazil. In 2007, the Bolsa de Valores de São Paulo was subject to a corporate reorganization, by which, among other things, the quotas issued by it were transferred to BOVESPA Holding S.A. and Bolsa de Valores de São Paulo S.A. BVSP. The operations of BOVESPA Holding S.A. and Bolsa de Mercadorias e Futuros BM&F S.A. were subsequently integrated, resulting in the creation of BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros, or BM&FBOVESPA. In late 2008, Bolsa de Valores de São Paulo BVSP and Companhia Brasileira de Liquidação e Custódia were merged into

BM&FBOVESPA, which currently concentrates all trading activities of shares and commodities in Brazil.

When shareholders trade in common and preferred shares on the BM&FBOVESPA, 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 Central Depository BM&FBOVESPA (*Central Depositária BM&FBOVESPA*).

The BM&FBOVESPA is an entity owned by its member brokerage firms. Trading on the BM&FBOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA. Trading in securities listed on the BM&FBOVESPA 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 BM&FBOVESPA is Central Depository BM&FBOVESPA.

The BM&FBOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 31, 2009, the aggregate market capitalization of the 385 companies listed on the BM&FBOVESPA was equivalent to approximately R\$2,335 billion (US\$1,341 billion). By comparison, as of December 31, 2009, the aggregate market capitalization of more than 3,700 companies (including U.S. and non-U.S. companies) listed on the NYSE was approximately US\$11.8 trillion. Although all of the outstanding shares of an exchange-listed company may trade on the BM&FBOVESPA, 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 BM&FBOVESPA 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 2009, the combined daily trading volumes on BM&FBOVESPA averaged approximately US\$2,735 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 BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of BM&FBOVESPA 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 BM&FBOVESPA.

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 non-controlling 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.

The Law No. 11,941 dated May 27, 2009 (former 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 3, 2008, Provisional Executive Act No. 449 (*Medida Provisória n.º 449* dated December 3, 2008) 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. The Law No. 11,491/09 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.

On December 7, 2009, the CVM issued CVM Instruction n°480, a new instruction to replace the CVM Instruction No. 202/93. The main objectives 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 two categories of issuers of securities according to the kinds of securities admitted for trading; iii) 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; iv) 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 v) making it possible that certain issuers, provided they meet certain prerequisites, have their applications for registration of offers of distribution approved more quickly.

On December 17, 2009, the CVM issued CVM Instruction No. 481, whose main objectives are i) disposing of certain information that must be disclosed to shareholders in certain events, for example in the announcement of a shareholders general meeting; and ii) regulating the request for a public proxy.

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. 463.439./09-9 on December 7, 2009 under company number (NIRE) 3530015879-2. Article 5 of our by-laws was amended as a result of the inclusion of a new item in the description of our purpose, approved at the general meeting of our shareholders on November 30, 2009. Our by-laws were registered with the Public Registry of the state of São Paulo, or JUCESP, N° 463.439/09 -9, on December 7, 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;

explore services and activities necessary or useful for the performance of these services, in conformity with the concessions, authorizations and permits granted thereto, including:

- a) improving project performance, implementation, marketing, operation, maintenance and exploitation of cellular mobile telephone services, other telecommunication services and related services;
- b) rendering of telecommunication engineering services; and
- c) importing, exporting and marketing of goods, equipment, handsets and accessories related to cellular mobile telephony and to other telecommunication and related services

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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.

At a Special Shareholders Meeting held on November 30, 2009, the inclusion into the corporate purpose of the Bylaws of the Company of the activity of providing cellular mobile telephone service was approved in order to enable the planned future merger of Telemig Celular into Vivo.

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 received the same voting rights as the holders of common shares until we were to pay minimum dividends again. 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. 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 were paid on December 2, 2009 and, upon this payment, the voting rights of holders of Vivo's preferred shares that previously existed due to Vivo's failure to pay all requested dividends were terminated.

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 non-controlling 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

Since March 8, 2010, our shares are maintained in book-entry form with a transfer agent, Banco Bradesco 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 BM&FBOVESPA 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.

BM&FBOVESPA 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, Cajuru, Cássia dos Coqueiros, Colômbia, Franca, Guaiara, 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 Telebahia 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 is a discussion of the material Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by certain U.S. holders. This discussion 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 advisers 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 is a discussion of the material Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by a U.S. Holder, as defined under U.S. Federal Income Tax Considerations, not deemed to be domiciled in Brazil for Brazilian tax purposes. 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 (unless there is an agreement secured between Brazil and the country of residence of the beneficiary), 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%. If the non-Brazilian holder is domiciled in a tax haven jurisdiction, the applicable rate would be 25%.

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 such Brazilian state. 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.

Brazilian law imposes a tax on foreign exchange transactions, or IOF/Exchange Tax, on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. As of October 20, 2009, any inflow of funds related to investments carried out in the Brazilian financial and capital markets by a non-resident holder that has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 2,689, dated January, 26, 2000 (a 2,689 Holder) is subject to the IOF/Exchange Tax at a rate of 2.0% . However, foreign exchange transactions related to outflows of funds in connection with investments carried out in the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at a rate of zero, which also applies to payments of dividends and interest on shareholders' equity to 2,689 Holders with respect to investments in the Brazilian financial and capital markets. With the exception of these transactions, the rate applicable to most foreign exchange transactions is 0.38% . Other rates may apply to particular transactions and the Brazilian government may increase the rate at any time by up to 25.0% on the foreign exchange transaction amount. However, any increase in rates will only apply to future transactions.

Brazilian law imposes a tax on transactions involving bonds and securities, or IOF/Bonds Tax, due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of the IOF/Bonds Tax applicable to the transfer of shares with the sole purpose of enabling the issuance of ADSs is currently 1.5%. This rate is applied on the product of (a) the number of shares which are transferred, multiplied by (b) the closing price for those shares on the date prior to the transfer or, if such closing price is not available on that date, the last available closing price for those shares. The Brazilian government may increase the rate of the IOF/Bonds Tax at any time by up to 1.5% per day of the transaction amount, but only in respect of future transactions.

U.S. Federal Income Tax Considerations

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

certain financial institutions;

insurance companies;

dealers and traders in securities or foreign currencies;

persons holding preferred shares or ADSs as part of a hedge, straddle, integrated transaction or similar transaction;

persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes;

persons liable for the alternative minimum tax;

tax-exempt organizations;

persons holding preferred shares or ADSs that own or are deemed to own ten percent or more of our voting stock; or

persons who acquired our ADSs or shares pursuant to the exercise of any employee stock option or otherwise as compensation.

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

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

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

a citizen or individual resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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

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

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary (pre-release), or intermediaries in the chain of ownership between 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 by holders of American depositary shares. These 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 creditability of Brazilian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. 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, any Brazilian income taxes withheld from dividends on preferred shares or ADSs will be creditable against your U.S. federal income tax liability. See *Brazilian Tax Considerations Taxation of Dividends* and *Brazilian Tax Considerations Distributions of Interest on Shareholders Equity* for a discussion of when such taxes may be withheld. 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.

Other Brazilian Taxes

Brazilian IOF/Exchange Tax imposed on a purchase of shares and IOF/Bonds Tax imposed on a deposit of shares in exchange for ADSs (as discussed under *Brazilian Tax Considerations*) will not be creditable foreign taxes for U.S. federal income tax purposes. U.S. Holders should consult their tax advisers as to whether those taxes would be deductible for U.S. federal income tax purposes.

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 2009 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. Furthermore, if the Company were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC for the taxable year in which it paid a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. 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

We may pay our shareholders both dividends and interest on shareholders' equity which is a form of distribution that is tax deductible in Brazil. The holders of preferred shares have been entitled to exercise voting rights since the 2004 General Shareholders Meeting as a result of our failure to pay the minimum dividends required by law. 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 was sufficient to meet the minimum dividend required by law. Pursuant to this Board authority and the authority granted at the General Meeting of Shareholders held on March 19, 2009, the dividends were paid on December 2, 2009 and upon this payment, the voting rights of holders of Vivo's preferred shares that previously existed due to Vivo's failure to pay all requested dividends were terminated..

In compliance with our by-laws, at a special board meeting held on February 9, 2010, our Board of Directors approved the payment of dividends in an aggregate amount of approximately R\$818.9 million. These dividends were declared on the basis of the 2009 closing balance sheet to the holders of common and preferred shares. The dividends payable to holders of preferred shares and common shares are comprised of approximately (a) R\$104.1 million in interest on shareholders' equity, as approved at the Board of Directors meeting held on December 14, 2009 and as calculated in conformity with article 9 of Law 9249/95, which, net of income tax, is approximately R\$88.5 million, and (b) dividends in the amount of approximately R\$730.3 million. The above mentioned dividends will be paid in two equal parts, on April 19, 2010 and October 25, 2010. These dividends are sufficient to meet the minimum dividend required by law and voting rights on the preferred shares will not be regained for 2010. Even if Vivo's holders of preferred shares were to reacquire the voting rights at some time in the future, we would not expect these voting rights to affect voting control over Vivo because our controlling shareholders currently own more than 50% of our total capital.

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

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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

The depositary, The Bank of New York Mellon, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs or from intermediaries acting for them. The depositary also collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$.02 (or less) per ADS (or portion thereof)

A fee equivalent to the lesser of (1) the fee for the issuance of ADS or shares received in exercise of rights distributed, but whose securities or rights are instead sold by the depositary and the net proceeds distributed; and (2) the amount of such proceeds.

Registration or transfer fees

For:

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution.

Distribution of proceeds of sales of securities or rights.

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when

you deposit or withdraw shares

Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

Subject to certain terms and conditions, the Bank of New York Mellon has agreed to reimburse us for certain expenses it incurs that are related to establishment and maintenance expenses of the ADS program, including the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

As of December 31, 2009, we received from the depositary of our ADSs US\$3,647 thousand which was used for general corporate purposes such as the payment of costs and expenses associated with (1) the preparation and distribution of proxy materials, (2) the preparation and distribution of marketing materials and (3) consulting and other services related to investor relations.

On October 13, 2009, the Depositary Agreement of Telemig Participações was terminated as a result of the merger of shares approved at the Extraordinary General Meeting held on July 27, 2009. No fees were paid to the depositary in connection with the termination of the Telemig Participações depositary receipt facility.

See also Item 10.E. Additional Information Taxation.

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, 2009. 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, 2009. 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, 2009, our internal control over financial reporting was adequate and effective based on these 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, 2009. 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, 2009. 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 2009 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, 2009 and 2008. The chart below sets forth the total amount billed to us by Ernst & Young for services performed in the years 2009 and 2008, respectively, and breaks down these amounts by category of service:

	For year ended December 31,	
	2009	2008
	(in thousands of reais)	
Audit fees	7,659	6,535
Audit-related fees	1,767	729
Tax fees	235	-
Total	9,661	7,264

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 2009 and 2008, 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 16G. Corporate Governance 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 16D. 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 the CFO and is supervised by the internal auditors. This Committee is composed by one coordinator (from Investor Relations, Mergers and Acquisitions and Financial Planning) and seven other members (representing the General Secretary and the Legal Officer, Budget and Control of Management Officer, Accounting Officer, Institutional Relations and Communication Officer, Financial,

Communication and Publicity Officer, and Regulation and External Relations 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 By-laws (*Estatuto Social*) of Vivo Participações S.A. English translation.
- 2.1 Deposit Agreement dated as of July 21, 1998, as amended and restated as of November 2, 1998, as further amended and restated as of July 28, 2008. (10)
- 2.2 Note Purchase Agreement relating to the issuance by *Telesp Celular Participações S.A.* of 416,050,488.19 of floating rate notes due 2004, dated November 28, 2001, among Portugal Telecom International Finance B.V., *Telesp Celular Participações S.A.* and Citibank N.A. London. (2)
- 2.3 Agency Agreement relating to the issuance by *Telesp Celular Participações S.A.* of 416,050,488.19 of floating rate notes due 2004, dated November 28, 2001, among Citibank N.A. London and *Telesp Celular Participações S.A.* (2)
- 2.4 Shareholders Agreement dated as of February 6, 2001, among DDI Corporation, *Inepar Telecomunicações S.A.*, ITX Corporation and *Telesp Celular Participações S.A.* (2)
- 2.5 First Amendment to the Shareholders Agreement of Global Telecom S.A. dated August 14, 2001, among *Telesp Celular Participações S.A.*, KDDI Corporation (formerly known as DDI Corporation), *Inepar Telecomunicações S.A.* and ITX Corporation together with an English translation. (2)
- 4.1 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telesp Celular Participações S.A.* English translation. (3)
- 4.2 Authorization Term of the Personal Mobile Service entered by ANATEL and Global Telecom S.A. English translation. (3)
- 4.3 Authorization Term of the Personal Mobile Service entered by ANATEL and *Tele Centro Oeste Celular Participações S.A.* English translation. (4)
- 4.4 Authorization Term of the Personal Mobile Service entered by ANATEL and *Telebahia Celular 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 *Telest Celular S.A.* English translation. (6)
- 4.8 Agreement between *Telesp Celular Participações S.A.* and *Fixcel S.A.* dated as of April 25, 2003 for the acquisition of 64.03% of the voting capital stock of *Tele Centro Oeste Celular Participações S.A.* English Summary. (1)
- 4.9 Consulting Agreement (*Instrumento Particular de Prestação de Serviços de Consultoria*) dated as of January 7, 1999, between *Telesp Celular S.A.* and Portugal Telecom S.A., currently Portugal Telecom S.G.P.S. S.A. (2)
- 4.10 Supply Agreement (*Contrato de Fornecimento*) dated as of August 27, 2001, between Global Telecom S.A. and Motorola do Brasil Ltda. English summary. (2)
- 4.11 Financing Agreement (*Contrato de Financiamento*) dated July 19, 2001, among the Brazilian Social and Economic Development Bank (Lender), Global Telecom S.A. (Borrower) and *Telesp Celular S.A.* (Guarantor) English summary. (2)
- 4.12 Financing Agreement (*Contrato de Financiamento*) dated July 19, 2001, among *Banco Bradesco S.A.* and *Banco Alfa de Investimento S.A.* (Lenders) and Global Telecom S.A. (Borrower) and *Telesp Celular S.A.* (Guarantor) English summary. (2)
- 4.13 Protocol of Merger of Shares and Merger of Companies and Instrument of Justification among *Telesp Celular Participações S.A.* and *Tele Centro Oeste Celular Participações S.A.*, *Tele Sudeste Celular Participações S.A.*, *Tele Leste Celular Participações S.A.* and *Celular CRT Participações S.A.* dated December 4, 2005. (7)
- 4.14 Agreement dated as of August 4, 2006 among *Vivo Participações S.A.*, Ericsson and Huawei English summary. (1)
- 4.15 Stock Purchase Agreement dated as of August 2, 2007 among *Telpart Participações S.A.* and *Vivo Participações S.A.* (8)
- 4.16 Credit facility dated as of October 30, 2008 among *Vivo Participações S.A.* and *Banco do Nordeste do Brasil S.A.* (10)
- 6.1 Statement regarding computation of per share earnings. (9)
- 8.1 List of Subsidiaries.
- 12.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-
- Incorporated by reference to our Form 20-F for the fiscal year ended December 31, 2006, filed with the
- (1) Commission on May 3, 2007.
- Incorporated by reference to *Telesp Celular Participações S.A.* annual report on Form 20-F for the fiscal year
- (2) ended December 31, 2001, filed on June 21, 2002.
- Incorporated by reference to *Telesp Celular Participações S.A.* annual report on Form 20-F/A for the fiscal year
- (3) ended December 31, 2002, filed on June 24, 2003.
- Incorporated by reference to *Tele Centro Oeste Celular Participações S.A.* s annual report on Form 20-F for the
- (4) fiscal year ended December 31, 2002, filed on June 30, 2003.
- Incorporated by reference to *Tele Leste Celular Participações S.A.* annual report on Form 20-F for the fiscal year
- (5) ended December 31, 2002, filed on June 24, 2003.
- Incorporated by reference to *Tele Sudeste Celular Participações S.A.* annual report on Form 20-F for the fiscal
- (6) 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.

- Incorporated by reference to Note 39(j) to our audited consolidated financial statements included elsewhere in this annual report.
- (9) Incorporated by reference to our Form 20-F for the fiscal year ended December 31, 2008, filed with the Commission on April 22, 2008.
- (10)

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/ Cristiane Barretto Sales

Name: Cristiane Barretto Sales
Executive Vice President of Finance,
Planning and Control and Investor
Relations Officer

Date: March 31, 2010

Vivo Participações S.A.

*Consolidated Financial Statements
for the Years Ended December 31, 2009, 2008 and 2007
and
Report of Independent Registered Public Accounting
Firm*

ERNST & YOUNG Auditores Independentes S.S.

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Definitions:

Brazilian GAAP - 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

We have audited the accompanying consolidated balance sheets of Vivo Participações S.A. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, cash flows and value added for each of the three years in the period ended December 31, 2009. 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, 2009 and 2008, and the consolidated results of their operations, their cash flows and their value added for each of the three years in the period ended December 31, 2009, 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 33, 34 and 35 to the consolidated financial statements.

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, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2010, except for internal control over financial reporting related to Notes 33, 34 and 35 to the consolidated financial statements, as to which the date is March 30, 2010, expressed an unqualified opinion thereon.

São Paulo, February 9, 2010,
except as to Notes 33, 34 and 35, as to which the date is March 30, 2010

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

/s/ Luiz Carlos Passetti
Partner

/s/ Drayton Teixeira de Melo
Partner

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To 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, 2009, 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 Vivo Participações S.A.'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, 2009, 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. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, cash flows and value added for each of the three years in the period ended December 31, 2009 and our report dated February 9, 2010, except for Notes 33, 34 and 35, as to which the date is March 30, 2010, expressed an unqualified opinion thereon.

São Paulo, February 9, 2010, except for internal control over financial reporting related to Notes 33, 34 and 35 to the consolidated financial statements, as to which the date is March 30, 2010.

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

/s/ Luiz Carlos Passetti
Partner

/s/ Drayton Teixeira de Melo
Partner

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais)

		December 31,	
	Note	2009	2008
ASSETS			
Current assets:			
Cash and cash equivalents	4	1,258,574	2,182,913
Short-term portion of investments pledged as collateral	-	39,197	41,487
Trade accounts receivable, net	5	2,546,806	2,578,498
Inventories	6	423,634	778,704
Recoverable taxes	7	1,186,231	1,238,124
Deferred income taxes	28.c	796,460	1,120,523
Derivative contracts	10	14,700	347,448
Prepaid expenses	8	311,328	316,622
Other assets	9	246,028	322,934
Total current assets	-	6,822,958	8,927,253
Noncurrent assets:			
Long-term assets:			
Long-term portion of investments pledged as collateral	-	51,344	47,335
Recoverable taxes	7	968,398	905,896
Deferred income taxes	28.c	1,802,511	1,826,126
Derivative contracts	10	137,060	285,303
Prepaid expenses	8	74,383	80,206
Other assets	9	118,635	46,402
Goodwill	11	2,700,578	1,440,429
Property, plant and equipment, net	12	6,445,109	7,183,908
Intangible assets, net	13	2,866,289	2,998,553
Deferred assets, net	14	29,864	55,393
Total noncurrent assets	-	15,194,171	14,869,551
TOTAL ASSETS	-	22,017,129	23,796,804

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

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais)

	Note	2009	2008
December 31,			
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Payroll and related accruals	15	161,366	185,471
Trade accounts payable	16	3,053,587	3,726,324
Taxes payable	17	892,893	785,603
Loans and financing	18	688,397	2,006,972
Debentures and promissory note	18	266,256	1,112,876
Interest on shareholders' equity and dividends	-	934,358	545,864
Reserve for contingencies	19	70,396	91,136
Derivative contracts	10	30,970	105,352
Other liabilities	20	834,824	820,233
Total current liabilities	-	6,933,047	9,379,831
Noncurrent liabilities:			
Long-term liabilities:			
Taxes payable	17	317,063	275,272
Loans and financing	18	2,306,632	3,826,385
Debentures and promissory note	18	1,863,209	1,056,923
Reserve for contingencies	19	98,409	102,947
Derivative contracts	10	131,418	97,971
Other liabilities	20	176,527	202,144
Total noncurrent liabilities	-	4,893,258	5,561,642
Non-controlling Interest		-	587,804
Shareholders' equity:			
Capital stock	21	8,780,150	6,710,526
Treasury shares	21	(11,070)	(11,070)
Capital reserves	21	518,678	708,574
Income reserves	21	903,066	859,497
Total shareholders' equity	-	10,190,824	8,267,527

TOTAL LIABILITIES, NON-CONTROLLING INTEREST AND SHAREHOLDERS EQUITY	22,017,129	23,796,804
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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, 2009 , 2008 AND 2007
(In thousands of Brazilian reais, except earnings (loss) per share)

		Years Ended December 31,		
	Note	2009	2008	2007
NET OPERATING REVENUE	22	16,363,186	15,469,664	12,492,494
COST OF SERVICES AND GOODS SOLD	23	(8,951,570)	(8,179,024)	(6,623,290)
GROSS PROFIT		7,411,616	7,290,640	5,869,204
Selling expenses	24	(4,357,422)	(4,107,055)	(3,532,783)
General and administrative expenses	25	(1,334,190)	(1,164,178)	(1,207,195)
Other operating income (expenses), net	26	240,812	(469,861)	(509,442)
		(5,450,800)	(5,741,094)	(5,249,420)
OPERATING INCOME BEFORE NET FINANCIAL EXPENSES		1,960,816	1,549,546	619,784
NET FINANCIAL EXPENSES	27	(487,229)	(637,699)	(462,789)
NET INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES AND NON-CONTROLLING INTEREST		1,473,587	911,847	156,995
Income and social contribution taxes	28	(590,453)	(469,502)	(256,825)
Non-controlling interest		(25,648)	(52,662)	-
NET INCOME (LOSS) FOR THE YEAR	-	857,486	389,683	(99,830)
SHARES OUTSTANDING AT DECEMBER 31 (IN THOUSANDS)		399,590	367,396	1,437,623
EARNINGS (LOSS) PER SHARE OUTSTANDING AT THE BALANCE SHEET DATE (IN BRAZILIAN REAIS)	-	2,15	1.06	(0,07)

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

Capital increase											
Special Shareholders Meeting of May 26, 2008	362,742	-	(362,742)	-	-	-					
Effects of Law 11,638/07	-	-	-	-	-	-	-	-	-	(5,760)	(5,760)
Unclaimed dividends and interest on shareholders equity	-	-	-	-	-	-	-	-	-	14,063	14,063
Net income for the year	-	-	-	-	-	-	-	-	-	389,683	389,683
Proposed allocation of income:											
Legal reserve	-	-	-	-	19,995	-	-	-	-	(19,995)	(19,995)
Interest on shareholders equity	-	-	-	-	-	-	-	-	-	(161,113)	(161,113)
Dividends	-	-	-	-	-	-	-	-	-	(218,793)	(218,793)
Additional dividends	-	-	-	-	-	-	(50,045)			3,153	(46,892)
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)		-	8,267,343

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, 2009, 2008 AND 2007 (Continuation)
(In thousands of Brazilian reais)

	Capital reserves			Income reserves			Treasury shares	Retained earnings (accumulate losses)	Total
	Capital stock	Good will reserve	Special goodwill reserve	Tax incentive reserve	Legal reserve	Reserve for contingencies			
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)	- 8,20
Capital increase - with reserves									
-Special Shareholders Meeting of Feb 12, 2009	189,896	-	(189,896)	-	-	-	-	-	-
Capital increase - shares merger									
-Special Shareholders Meeting of July 27, 2009	1,879,728	-	-	-	-	-	-	-	- 1,87
Unclaimed dividends and interest on shareholders equity	-	-	-	-	-	-	-	-	11,447 1
Net income for the year	-	-	-	-	-	-	-	-	857,486 85
Consolidation adjustments:									
Tax incentive	-	-	-	-	-	-	-	-	9,137
Proposed allocation of income:									
Legal reserve	-	-	-	-	43,569	-	-	-	(43,569)

Interest on
shareholders
equity 1

	-	-	-	-	-	-	-	-	(104,136)	(104,136)
Dividends	-	-	-	-	-	-	-	-	(723,689)	(723,689)
Additional dividends	-	-	-	-	-	-	-	-	(6,676)	(6,676)

**BALANCES
AT
DECEMBER
31, 2009
LAW**

11,638/07	8,780,150	515,089	-	3,589	164,524	11,070	727,472	(11,070)	-	10,190,000
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The accompanying notes are an integral part of these consolidated financial statements.

VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands of Brazilian reais)

	Years ended December 31,		
	2009	2008	2007
OPERATING ACTIVITIES			
Net income (loss)	857,486	389,683	(99,830)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Non-controlling interest	25,648	52,662	-
Depreciation and amortization	3,257,516	2,974,185	2,492,169
Provision for loss on investments	-	60	-
Loss on fixed assets disposals	3,926	34,088	21,724
Write-off and reversals of provisions for losses on inventories	(3,592)	(9,672)	(5,285)
Loss (gain) on forward, swap and option contracts	453,791	(519,490)	509,174
Loss (gain) on loans, financing and debentures	235,074	688,304	(301,290)
Monetary and exchange variation	(12,913)	20,729	4,870
Allowance for doubtful accounts	213,235	303,846	365,740
Plans for post-retirement benefits	3,321	4,288	5,635
Provision (reversal) for contingencies	134,652	138,699	184,594
Provision (reversal) for suppliers	(12,582)	(73,950)	74,408
Provision for (reversal of) dismantling cost	(41,688)	(7,580)	8,158
Provision for taxes	51,047	21,619	(35,578)
Provision (reversal) loyalty program	(51,999)	27,798	11,333
Deferred income taxes	348,532	417,872	238,651
Changes in operating assets and liabilities, net of acquired assets and liabilities:			
Customer accounts receivable	(181,543)	(491,380)	(583,239)
Inventories	358,662	(338,250)	(89,319)
Recoverable taxes	(76,671)	(408,682)	4,554
Other assets	14,069	(217,572)	(166,869)
Payroll and related accruals	(24,105)	(7,573)	16,844
Accounts payable	(754,127)	442,152	367,887
Interest on loans, financing and debentures, net	(774,880)	197,658	(6,364)
Taxes payable	80,154	153,866	114,807
Reserve for contingencies (payments)	(160,327)	(162,573)	(133,281)
Other liabilities	101,754	91,283	197,165
Net cash provided by operating activities	4,044,440	3,722,070	3,196,658

INVESTING ACTIVITIES

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Additions to property, plant and equipment and intangible assets	(2,275,344)	(2,940,418)	(2,014,646)
Additions to deferred assets	-	(30,306)	(2,067)
Acquisition of subsidiary, net of cash acquired (a)	-	(1,736,802)	-
Additions to investments	(2,898)	-	-
Received for subscription to minority	8,842	-	-
Other investments	-	(890)	-
Cash received on sale of property, plant and equipment	4,468	13,510	5,264
Net cash used in investing activities	(2,264,932)	(4,694,906)	(2,011,449)

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VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007 (Continuation)
(In thousands of Brazilian reais)

	Years ended December 31,		
	2009	2008	2007
FINANCING ACTIVITIES			
Loans, financing and debentures:			
New loans and debentures proceeds from issuance of debt	1,952,511	3,289,415	2,094,966
Payment of debt, loans, financing and debentures	(4,291,367)	(1,756,625)	(1,911,418)
Net settlement on derivative contracts	51,473	(541,040)	(562,216)
Cash received for replacement shares reverse stock split	4,063	-	-
Interest on shareholders equity and dividends paid	(419,304)	(54,190)	(17,547)
(Payment) cash received relating to reverse stock split	(1,223)	27,199	-
Net cash provided by (used in) financing activities	(2,703,847)	964,759	(396,215)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(924,339)	(8,077)	788,994
CASH AND CASH EQUIVALENTS			
At the beginning of the year	2,182,913	2,190,990	1,401,996
At the end of the year	1,258,574	2,182,913	2,190,990
SUPPLEMENTAL CASH FLOW INFORMATION			
Income and social contribution taxes paid	161,128	28,834	107,841
Interest paid	774,880	439,466	311,771
(a) Details of acquisition of Telemig			
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	-
NONCASH TRANSACTION			
Grants	2,271	5,938	13,286

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Unclaimed dividends and interest on shareholders' equity	11,447	14,063	11,936
Proposed dividends and interest on shareholders equity	834,501	555,744	-
Acquisition of non-controlling interest through an exchange of shares	1,879,728	-	-

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

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VIVO PARTICIPAÇÕES S.A.
CONSOLIDATED STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands of Brazilian reais)

	Years ended December 31,		
	2009	2008	2007
INCOME	21,579,225	19,934,651	15,584,927
Service and goods sold	21,001,062	19,765,092	15,878,432
Other income	791,398	473,404	342,235
Allowance for doubtful accounts, net	(213,235)	(303,845)	(365,740)
INPUTS PURCHASED FROM THIRD PARTIES	(9,134,375)	(9,368,859)	(7,866,233)
Inputs consumed	(2,978,883)	(2,699,657)	(2,110,887)
Cost of goods sold	(2,500,132)	(3,046,332)	(2,580,574)
Materials, energy, third party services and other	(3,828,297)	(3,632,000)	(3,166,684)
(Loss) Recovery of asset values	(7,063)	9,130	(8,088)
GROSS VALUE ADDED	12,264,850	10,565,792	7,988,694
DEPRECIATION AND AMORTIZATION	(3,257,516)	(2,974,184)	(2,492,169)
NET VALUE PRODUCED	9,007,334	7,591,608	5,496,525
VALUE ADDED RECEIVED AS A TRANSFER	892,977	1,341,032	220,450
Financial income and monetary and exchange rate changes for assets	892,977	1,341,032	220,450
TOTAL VALUE ADDED TO BE DISTRIBUTED	9,900,311	8,932,640	5,716,975
DISTRIBUTION OF VALUE ADDED	9,900,311	8,932,640	5,716,975
Payroll and related accruals	830,838	671,122	598,419
Direct remuneration	539,508	336,482	295,424

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Benefits	255,233	304,314	276,771
FGTS	36,097	30,326	26,224
Taxes	6,005,432	5,205,246	4,002,527
Federal	2,427,555	2,007,952	1,465,374
State	3,557,217	3,180,408	2,515,703
Municipal	20,660	16,886	21,450
Interest and rentals	2,180,907	2,613,927	1,215,859
Financial expenses and monetary exchange rate changes	1,377,480	1,937,224	660,391
Rentals	803,427	676,703	555,468
Remuneration of proper capital	883,134	442,345	(99,830)
Interest on shareholders' equity	104,136	161,113	-
Dividends	723,689	218,793	-
Retained earnings (losses)	29,661	9,777	(99,830)
Participation of non-controlling interest in retained earnings	25,648	52,662	-

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

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1. OPERATIONS

a. Equity Control

Vivo Participações S.A. (Vivo Participações or Company) is a publicly-held company that, at December 31, 2009, has as its controlling shareholders Brasilcel N.V. and its subsidiaries Portelcom Participações S.A. and TBS Celular Participações Ltda., which jointly hold, treasury shares excluded, 59.6% 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. (49.99% of the total capital stock) and Portugal Telecom, SGPS, S.A. (0.01% of the total capital).

b. Subsidiaries

As of December 31, 2009, the Company is the 100% controlling shareholder of Vivo S.A. (Vivo or subsidiary) and of Telemig Celular S.A. (Telemig " or subsidiary), which provide personal mobile telephone services, including activities that are necessary or useful for the performance of said services, in conformity with the authorizations granted to them.

At December 31, 2008, the Company was the 100% controlling shareholder of Vivo and held 58.9% and 7.4% of the total capital stock of Telemig Celular Participações S.A. (Telemig Participações) and Telemig, respectively.

Telemig Participações was the controlling shareholder of Telemig, holding 83.25% of its total capital stock.

At November 13, 2009, Telemig Participações was merged into Vivo Participações (Note 1d).

c. Authorization and Frequencies

The subsidiaries' business and the services they may provide are regulated by the National Telecommunications Agency (ANATEL), the Regulatory Authority (Federal Independent Agency) for telecommunication services in accordance with Law No. 9472, dated July 16, 1997 - General Telecommunications Law (LGT). Its actions are carried out, as a rule, by enactment of regulations and supplementary plans.

The authorizations granted by ANATEL may be renewed just once, for a 15-year period. Biannually, after the first renewal, a payment of fees equivalent to 2% (two percent) of the company's revenue for the preceding year, net of taxes and mandatory social contributions related to the application of the Basic and Alternative Plans of Service is required to be made to ANATEL.

The subsidiaries engage in cellular mobile telephone services (Personal Mobile Service - SMP), including activities necessary or useful for the performance of said services, in conformity with the authorization granted to them, as follows:

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<u>Area of Service</u>	<u>Autorization Valid Until</u>
<u>Region 1</u>	
Rio de Janeiro	
Radio frequencies 800/1900/2100 MHz	11/29/20 (band A), 11/30/20 (band L) and 04/30/23 (band J)
Espírito Santo	
Radio frequencies 800/1900/2100 MHz	04/30/23 (band J) and 11/30/23 (band A and L)
Amazonas, Roraima, Amapá, Pará and Maranhão	
Radio frequencies 800/2100 MHz	11/29/13 (band B) and 04/30/23 (band J)
Minas Gerais (except Triângulo Mineiro)	
Radio frequencies 800/1900/2100 MHz	04/29/23 (band A) and 04/30/23 (band J)
Minas Gerais (Triângulo Mineiro)	
Radio frequencies 800/1900/2100 MHz	04/28/20 (band E) and 04/29/23 (band J)
Bahia	
Radio frequencies 800/1900/2100 MHz	04/30/23 (band J) and 06/29/23 (band A and L)
Sergipe	
Radio frequencies 800/1900/2100 MHz	12/15/23 (band A and L) and 04/30/23 (band J)
Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte	
Radio frequencies 1900/2100 MHz	12/17/22 (band L) and 04/30/23 (band J)
<u>Region 2</u>	
Paraná and Santa Catarina	
Radio frequencies 800/1900/2100 MHz	04/08/13 (band B and L) and 04/30/23 (band J)
Rio Grande do Sul	
Radio frequencies 800/1900/2100 MHz	12/17/22 (band A and L) and 04/30/23 (band J)
Distrito Federal	
Radio frequencies 800/1900/2100 MHz	07/24/21 (band A and L) and 04/30/23 (band J)
Goiás and Tocantins	
Radio frequencies 800/1900/2100 MHz	04/30/23 (band J) and 10/29/23 (band A and L)
Mato Grosso	
Radio frequencies 800/1900/2100 MHz	04/30/23 (band J) and 03/30/24 (band A and L)
Mato Grosso do Sul	
Radio frequencies 800/1900/2100 MHz	04/30/23 (band J) and 09/28/24 (band A and L)

Rondônia

04/30/23 (band J) and 07/21/24 (band A
and L)

Radio frequencias 800/1900/2100 MHz
Acre

04/30/23 (banda J) and 07/15/24 (banda A
e L)

Radiofrequências 800/1900/2100 MHz
Rio Grande do Sul (Pelotas, Morro Redondo, Capão do Leão and
Turuçu), Mato
Grosso do Sul (area of the CTBC) and Goiás (area of the CTBC)
Radio frequencias 1900/2100 MHz

12/07/22 (band L) and 04/30/23 (band J)

Region 3

São Paulo

04/30/23 (band J) and 08/05/23 (band A
and L)

Radio frequencias 800/1900/2100 MHz

São Paulo (Ribeirão Preto, Guatapará and Bonfim Paulista)

04/30/23 (band J) and 01/20/24 (band A
and L)

Radio frecuencia 800/1900/2100 MHz

São Paulo (area of the Franca and region)
Radio frequencie 1900/2100 MHz

12/07/22 (band L) and 04/30/23 (band J)

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d. Corporate Events in 2009

At a Special Shareholders Meeting held on July 27, 2009, the shareholders of Telemig Participações and of Telemig approved the Protocol of Non-Controlling Shares Acquisition and Instrument of Justification, executed on May 29, 2009, which permitted the merger, of all the existing non-controlling shares of Telemig into Telemig Participações, with the holders of the acquired non-controlling shares of Telemig directly receiving the new shares to which they were entitled in the controlling company, Telemig Participações (the shareholders received 17.4 new shares of Telemig Participações for each share of Telemig), in accordance with the exchange ratios agreed to at the Meetings of the Boards of Directors meetings of the companies held on May 29, 2009.

At the same date, at a Special Shareholders Meeting, the shareholders of the Company approved the Protocol of Non-Controlling Shares Acquisition and Instrument of Justification, executed on May 29, 2009, which provided for the merger, into Vivo Participações, of the non-controlling shares of Telemig Participações, with the holders of the acquired shares of Telemig Participações directly receiving the new shares to which they were entitled in the parent company (for each share of Telemig Participações, its shareholders received 1.37 new shares of Vivo Participações), in conformity with the exchange ratio agreed to at the Meetings of the Board of Directors of the companies, held on May 29, 2009.

The acquisition of the non-controlling shares of Telemig and of Telemig Participações did not entail any change in the number and composition by type of their shares, which are now ultimately owned by Vivo Participações. The holders of common and preferred shares of Telemig that were merged into Telemig Participações equity received new shares of Telemig Participações of the same type, that is, the acquired preferred shares were replaced by new preferred shares of Telemig Participações, issued on behalf of their respective holders, and the merged common shares were replaced by new common shares of Telemig Participações, issued on behalf of their respective holders. Following, and in the same manner, the holders of non-controlling common and preferred shares of Telemig Participações acquired by Vivo Participações received new shares of Vivo Participações of the same type. Accordingly, at the end of the transaction, the non-controlling shareholders of Telemig and of Telemig Participações became shareholders of Vivo Participações.

In conformity with the provisions in Law 6404/76, article 252, paragraph 1, combined with article 8, the Appraisal Report, prepared by an independent company, based on the economic value of the shares of Telemig Participações merged into the Company for purposes of determination of the capital stock of the Company, was approved at that same date.

As a result of the above mentioned approvals, the subscribed and fully paid-up capital stock of the Company increased in value from R\$6,900,422 to R\$8,780,150 fully, represented by 400,713,827 book-entry shares, of which 137,269,188 are common shares and 263,444,639 are preferred shares, all of them registered and with no face value.

The above mentioned capital increase, of R\$1,879,728, was generated from the fair value of the shares held by the minority shareholders of Telemig Participações, the book value of which was R\$894,296. The difference between the fair value and the equity value of the acquired shares was recorded as a premium in the amount of R\$985,432. Additionally, an amount of R\$269,804 was recorded by Telemig Participações as premium upon the merger of the shares held by the non-controlling shareholders of its subsidiary company, Telemig. A capital increase of R\$460,372 was recorded in such transaction, generated from the fair value of the acquired shares, the equity value of which totaled R\$190,568. The premium amounts were posted to the intangible assets (note 11).

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The holders of common and preferred shares of Telemig and Telemig Participações and Shareholders common shares of Vivo Participações who dissented from the merger of shares of Telemig and of Telemig Participações, were entitled, as from the date of the special shareholders' meetings of the companies to withdraw themselves from the respective companies and receive reimbursement of the shares they own at the date of communication of the Relevant Facts. Such reimbursement represented R\$23, relating to 405 shares.

The calculations were quantified in consideration of the exchange ratios of shares of Telemig for shares of Telemig Participações and of shares of Telemig Participações for shares of Vivo Participações, pursuant to the previously described processes, resulted in share fractions which were re-allotted on the market at auctions held on September 24 and 29, 2009 at BM&F Bovespa. These over-allotment shares represented 54,169 common shares and 42,595 preferred shares, with a net value of R\$40.95 per common share, and R\$43.19 per preferred share, to be paid *pro-rata* to the fractions held by the shareholders and investors prior to the auctions.

Because Telemig became a wholly-owned subsidiary of Telemig Participações, and that Telemig Participações became a wholly-owned subsidiary of Vivo Participações, the registrations of Telemig and of Telemig Participações on the Brazilian Securities and Exchange Commission (CVM) and on BM&F Bovespa were requested to be cancelled. The cancellation of the registration of Telemig was granted on September 16, 2009. The cancellation of the registrations of Telemig Participações on CVM and on BM&F Bovespa were granted on October 16 and 19, 2009, respectively. The request for cancellation of the registration of Telemig Participações on the NYSE was filed by the NYSE itself, through Form 25, on September 28, 2009. At December 15, 2009, the Securities and Exchange Commission (SEC) authorized the actual filing of *Form* 15, cancelling the registration Telemig Participações with the SEC as of that date.

At a Special Shareholders' Meeting held on November 13, 2009, the merger of Telemig Participações into Vivo Participações and consequent extinguishment of Telemig Participações was approved. The appraisal and approval were submitted to ANATEL, with the referred approval being obtained on November 04, 2009. As a result of such merger, Telemig became a wholly-owned subsidiary of Vivo Participações.

At a Special Shareholders' Meeting held on November 30, 2009, the provision of cellular mobile telephone service was included and approved this provision was included in the corporate purpose of the Bylaws of the Company , in order to enable the future merger mentioned in the next paragraph.

At December 07, 2009, the Company communicated to its shareholders and to the market in general that it filed, at December 03, 2009, with the ANATEL, a request for prior approval of the merger of Telemig into Vivo Participações, in conformity with the provisions in Law no. 9.472/97 - General Telecommunications Law, in the Regulation for Verification of Share Control and Transfer of Share Control in Telecommunication Service Providers, as approved by Resolution no. 101/99, and in the other applicable regulatory instruments.

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e. Agreement between Telefónica S.A. and Telecom Itália

In October 2007, TELCO S.p.A. (in which Telefónica S.A holds an interest of 42.3%), completed the acquisition of 23.6% ownership interest of Telecom Itália. 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 Itália, Telefónica S.A. does not have any direct involvement in the operations of TIM. Additionally, any transactions between the Company and its subsidiaries and TIM are transactions in the regular course of business, which are regulated by the ANATEL.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the controlling company and its subsidiaries are presented in thousands of Brazilian reais (except as otherwise noted) 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. 6404/76), which include the new provisions introduced, amended and revoked by Laws no. 11.638, dated December 28, 2007 and no. 11.941, dated May 27, 2009 (former Provisional Measure no. 449, dated December 03, 2008), with further regard, also, to the rules applicable to telecommunication service concessionaires.

The consolidated statement of operations, cash flow and statements of value added for the fiscal year ended December 31, 2008 include the consolidated income of Telemig Participações for the nine-month period (from April to December 2008). The consolidated statements for the years ended December 31, 2009 and 2008 are not comparable.

The fiscal years of the subsidiaries in the consolidated statement are consistent with those of the controlling company. The accounting policies were applied on an uniform basis in the consolidated companies and are consistent with those adopted in the previous fiscal year.

All intercompany balances arising out of transactions among the consolidated companies have been eliminated in the consolidated statements.

The changes in the accounting practices arising from application of Laws No. 11,638 and No. 11,941 have been measured and registered by the Company based on the following accounting pronouncements issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Committee (CVM) and by the Federal Accounting Council (CFC):

Conceptual Structure for the Preparation and Presentation of Financial Statements, approved by CVM Resolution No. 539, dated March 14, 2008;

CPC 01 Reduction to the Recoverable Assets Value, approved by CVM Resolution No. 527, dated November 1, 2007;

CPC 02 Effects on the Changes in the Exchange Rates and Conversion of Financial Statements, approved by CVM Resolution No. 534, dated January 29, 2008;

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- CPC 03 Cash Flow Statement, approved by CVM Resolution No. 547, dated August 13, 2008;
- CPC 04 Intangible Asset, 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;

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- CPC 06 Commercial Leasing Transactions, approved by CVM Resolution No. 554, dated November 12, 2008;
- CPC 07 Governmental Subsidy and Assistance, approved by CVM Resolution No. 555, dated November 12, 2008;
- CPC 08 Transaction Costs and Premiums in the Issuance of Securities, approved by CVM Resolution No. 556, dated November 11, 2008;
- CPC 09 Value Added Statement, 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 Provisional Measure No. 449/08, approved by CVM Resolution No. 565, dated December 17, 2008; and
- CPC 14 Financial Instruments: Acknowledgement, Measurement and Evidencing, approved by CVM Resolution No. 566, dated December 17, 2008.

The Company shall adopt the following pronouncements and interpretations in order to prepare its financial statements as from 2010, with retroactive application to the extent applicable:

Pronouncements

- CPC 15 Business Combination, approved by CVM Resolution No. 580, dated July 31, 2009;
- CPC 16 Inventory, approved by CVM Resolution No. 575, dated June 5, 2009;
- CPC 18 Investment in Affiliated Companies, approved by CVM Resolution No. 605, dated November 26, 2009;
- CPC 19 Investment in Joint Undertaking, approved by CVM Resolution No. 606, dated November 26, 2009;
- CPC 20 Loan Costs, approved by CVM Resolution No. 577, dated June 5, 2009;
- CPC 21 Interim Statement, approved by CVM Resolution No. 581, dated July 31, 2009;
- CPC 22 Segment Information, approved by CVM Resolution No. 582, dated July 31, 2009;
- CPC 23 Accounting Policies, Change of Estimate, and Rectification of Error, approved by CVM Resolution No. 592, dated September 15, 2009;
- CPC 24 Subsequent Events, approved by CVM Resolution No. 593, dated September 15, 2009;
- CPC 25 Provisions, Contingent Liabilities, and Contingent Assets, approved by CVM Resolution No. 594, dated September 15, 2009;

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CPC 26 Submission of Accounting Statements, approved by CVM Resolution No. 595, dated September 15, 2009;

CPC 27 Property, Plant and Equipment, approved by CVM Resolution No. 583, dated July 31, 2009;

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- CPC 30 Revenue, approved by CVM Resolution No. 597, dated September 15, 2009;
- CPC 32 Profit Taxes, approved by CVM Resolution No. 599, dated September 15, 2009;
- CPC 33 Benefits to Employees, approved by CVM Resolution No. 600, dated October 7, 2009;
- CPC 35 Separate Statements, approved by CVM Resolution No. 607, dated November 26, 2009;
- CPC 36 Consolidated Statements, approved by CVM Resolution No. 608, dated November 26, 2009;
- CPC 37 Initial Adoption of International Accounting Rules, approved by CVM Resolution No. 609, dated December 22, 2009;
- CPC 38 Financial Instruments: Acknowledgment and Measurement, approved by CVM Resolution No. 604, dated November 19, 2009;
- CPC 39 Financial Instruments: Submission, approved by CVM Resolution No. 604, dated November 19, 2009;
- CPC 40 Financial Instruments: Evidencing, approved by CVM Resolution No. 604, dated November 19, 2009; and
- CPC 43 Initial Adoption of Technical Procedures CPC 15 to 40, approved by CVM Resolution No. 610, dated December 22, 2009;

Interpretations

- ICPC 01 Concession Contracts, approved by CVM Resolution No. 611, dated December 22, 2009;
- ICPC 03 Supplementary Aspects of Commercial Leasing Transactions, approved by CVM Resolution No. 613, dated December 22, 2009;
- ICPC 06 Hedge on Net Investment in Transactions Abroad, approved by CVM Resolution No. 616, dated December 22, 2009;
- ICPC 07 Distribution of Profits *in Natura*, approved by CVM Resolution No. 617, dated December 22, 2009;
- ICPC 08 Posting of the Dividend Payment Proposal, approved by CVM Resolution No. 601/09, dated October 7, 2009;
- ICPC 09 Individual Accounting Statements, Separate Statements, Consolidated Statements, and Application of the Equity Accounting Method, approved by CVM Resolution No. 618, dated December 22, 2009;

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ICPC 10 Interpretation of the Initial Application to the Fixed Assets and the Property for Investment of Technical Pronouncements CPC 27, 28, 37 and 43, approved by CVM Resolution No. 619, dated December 22, 2009;

ICPC 11 Revenue from the Transfer of Customers Assets, approved by CVM Resolution No. 620, dated December 22, 2009; and

ICPC 12 Changes in Liabilities due to Discontinuance, Restructuring and Other Similar Liabilities, approved by CVM Resolution No. 621, dated December 22, 2009.

The authorization to complete the preparation of such financial statements was given at the Executive Committee's Meeting held on February 9, 2010.

Reclassifications in the 2008 consolidated statement of operations

Some items of the consolidated statement of operations for the fiscal year ended on December 31, 2008 were reclassified to allow for comparison, as follows:

Reclassification of the amortization of permits: overheads and administrative expenses for the costs related to services rendered; and

Reclassification of the amortization of goodwill (own stores): overheads and administrative expenses for sales expenses.

Accounts	Financial Statements for 2008 released	Reclassification	Financial Statements for 2008 reclassified for presentation in 2009
Cost of service	(5,699,605)	(37,525)	(5,737,130)
Selling expenses	(4,104,416)	(2,639)	(4,107,055)
General and administrative expenses	(1,204,342)	40,164	(1,164,178)

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 U.S. 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 U.S. GAAP, a reconciliation of the net income and shareholders equity from Brazilian GAAP to equivalent amounts prepared under U.S. GAAP is provided herein (Note 33).

3. SUMMARY OF THE ACCOUNTING PRACTICES

a) Cash and cash equivalents

This item includes cash, positive balances in current accounts, financial investments redeemable within ninety (90) days from the transaction dates and with insignificant risk of change in market value. The financial investments included in cash equivalents are mostly classified in the category financial assets measured at the fair value through results .

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b) Accounts receivable, net

The invoiced amounts are appraised at the value of the tariff on the date the service is provided. The services provided to the customers that have not yet been invoiced up to the balance sheet date are also included, and so are the accounts receivable related to the sales of handsets, simcards and accessories. An allowance for doubtful accounts was recorded in an amount deemed sufficient by Management taking into account the amounts overdue over 90 days, except for accounts receivable from interconnection fees, in addition to a portion that is being negotiated with the customers. Footnote 5 contains additional information relating to the receivables balance and bad debts reserves.

c) Inventories

Inventories comprise handsets, simcards, prepaid cards and accessories measured at the average acquisition cost, deducted by a provision for market adjustment, when applicable. A provision for the handsets considered obsolete or the quantities of which are higher than those usually marketed by the Company in a reasonable period of time has been booked.

d) Prepaid expenses

Prepaid expenses are stated at the amounts effectively disbursed and not yet incurred. The advanced expenses are appropriated to the statement of operations to the extent the related services and the economic benefits are obtained.

e) Fistel Fee

The value of the Telecommunications Inspection Fund (*Fundo de Fiscalização das Telecomunicações* - FISTEL) fee paid for the activation of new customers, monthly generated during the year, is deferred and amortized during the estimated period of customer retention, equivalent to 24 months.

f) Property, plant and equipment

Property, plant and equipment are stated at the cost of acquisition, formation or construction, plus interest 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. The capitalized financial charges are depreciated according to the same criteria and useful life determined for the item of the property, plant and equipment into which they were incorporated. The property, plant and equipment are net of credits of the ICMS - Tax on Circulation of Goods and Services (state VAT) PIS - Profit Participation Program and COFINS - Social Security Financing Contribution (federal VAT), and the counterparty is recorded as recoverable taxes.

The expenses incurred related to repairs and maintenance of property, plant and equipment that represent asset improvements or increases in the capacity or useful life are capitalized, while the others are expensed as incurred. The estimated costs to be incurred in the dismantling of towers and equipment in rented real property are capitalized with a corresponding provision for reversal of fixed assets (note 20) and are depreciated over the useful life of the equipment, which does not exceed the lease term.

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Property, plant and equipment are written off after they are sold or when no future economic benefit is expected from their use or sale. Possible gains or losses (calculated as the difference between the net sale value and the residual value of the asset) are recorded in the statement of operations for the year in which the asset is written-off.

The residual value and useful life of the assets and the depreciation methods used are reviewed at the end of each year, and adjusted prospectively, as required.

g) Lease

Capital commercial leasing agreements are recognized in the property, plant and equipment and in the liabilities encompassing loans and financing, for the present value of the minimum mandatory installments of the agreement or the fair value of the assets, whichever is lower, plus, as applicable, the initial direct costs incurred with the transaction. The amounts posted in property, plant and equipment are depreciated over the economic useful life estimated for the assets or the duration established in the leasing agreement, whichever is shorter. The interest implied in the recognized liabilities of loans and financing are expensed according to the duration of the agreement, by the actual interest rate method. The operating commercial leasing agreements are recognized as expenses on a systematic basis that represents the period in which the benefit over the leased asset is obtained, even if such payments are not made on such basis.

h) Intangible Assets

Intangible assets separately acquired are measured in the initial recognition at the acquisition cost, and are subsequently amortized and/or impaired, as applicable. The premiums generated from investment acquisitions occurring until December 31, 2008, which are economically based on future profitability, were being amortized by the straight-line method for a period of 5 to 10 years, as from the dates of the original transactions. Since January 1, 2009, such premiums are no longer amortized, and will be subject to yearly tests to analyze impairments to their recoverable value (note 13). They also include the rights to use software acquired from third parties, authorization licenses obtained from ANATEL, goodwill amounts referring to own stores fundo de comércio (which are being amortized over the term of effectiveness of the agreements) and other intangible assets.

The useful life of the intangible assets is established as finite or indefinite.

Intangible assets with finite useful life are amortized over their economic useful life and are appraised as to the loss of recoverable value whenever there is an indication of impairment. The period and method of amortization of a finite-lived intangible asset are reviewed at the end of each fiscal year; unless impairment indicators are present requiring an interim period review. Changes in the useful life or standard of consumption of expected future benefits are recorded by means of change in the period or method of amortization, as applicable, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful life are not amortized, but are tested on a yearly basis in relation to losses of recoverable value. The classification of indefinite life is reviewed at the end of each fiscal year to determine whether such classification is still justifiable. Otherwise, the change in useful life from indefinite to finite is made in a prospectively.

Gains and losses resulting from the sale and consequently writing-off of an intangible asset are measured as the difference between the net amount obtained from the sale and the book asset value. The gains and losses are recognized in the statement of operations for the year in which the asset is written off.

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i) Impairment

The Company evaluates the recovery of the book asset value applying the concept of value in use, through models of discounted cash flow of the cash-generating units representing all of the tangible and intangible assets of the Company.

The process of determination of the value in use involves the utilization of assumptions, judgments and estimates on cash flows, such as growth rates of revenues, costs and expenses, investment estimates, future working capital and discount rates. The assumptions on projected growth, cash flow and future cash flows are based on the Company's business plan approved by the Management, as well as in comparable market data. They represent the best estimate of Management regarding the economic conditions that will exist during the economic life of the different cash-generating units, a set of assets that allow for the generation of cash flows. Future cash flows are discounted based on the capital cost rate - *CAPM - The Capital Asset Pricing Model*.

Consistently with the economic appraisal techniques, the value in use is appraised during a period of five years, and thereafter, considering the perpetuity of the assumptions in view of the capacity of continuity of the business for an indeterminate term. The growth rates used after the 5-year period vary from 2.5 to 4.5%.

The estimated future cash flows were discounted using a rate of 14% per year, for each cash-generating unit under review.

The main premises used to estimate the value in use are:

Revenue: The revenues are projected from 2010 to 2014 considering the growth of the customer base pertaining to the different cash-generating units, the evolution of the market income *vis-à-vis* the GDP - Gross Domestic Product and the Company's share in this market;

Operating costs and expenses: The variable costs and expenses are projected according to the dynamics of the customer base, and the fixed costs and expenses are projected in line with the historical performance of the Company, as well as with the historical growth of the income; and

Capex: Capital expenditures are estimated based on the technological infrastructure required to make feasible the offering of services.

The key premises rely on the historical performance of the Company and on reasonable and substantiated macroeconomic premises based on financial market projections, documented and approved by the Company's Management.

The test of recovery of the Company's fixed and intangible assets did not result in an impairment, since the estimated market value exceeds their net book value on the appraisal date.

j) Deferred charges

The pre-operating expenditures prior to January 1, 2009 refer to the pre-operating expenses of Global Telecom (fully amortized in 2009) and to the costs of network formation in the Northeast region, and are amortized by the straight-line method over 10 years. As permitted by Law No. 11,941, as of May 27, 2009, Vivo has chosen to keep the balance of the deferred assets that could not be allocated to other accounts, until they have been fully amortized. The deferred assets are also reviewed on a yearly basis with the purpose of appraising their recoverability.

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k) Taxes, fees and contributions

The sales and services revenues are subject to ICMS or Tax on Services (ISS) at the rates prevailing in each region and to PIS and COFINS in the cumulative mode, for the revenues earned from the telecommunications services at the rates of 0.65% and 3.00%, respectively. The other revenues earned by the subsidiaries, including the revenues related to the resale of goods, in the non-cumulative mode, are levied at the rates of 1.65% and 7.60% for PIS and COFINS, respectively.

The pre-payments or other amounts likely to be offset are shown in the current or non-current assets, according to the expected date of payment.

Taxation on profits comprises income tax and social contribution, which are calculated based on the taxable results (adjusted profits), at the applicable rates, pursuant to prevailing law, where: 15%, plus 10% over the amount exceeding R\$240 per year, refer to income tax, and 9% to social contribution. Therefore, additions to the accounting profit of expenses, temporarily nondeductible, or exclusions of income, temporarily nontaxable, considered for ascertainment of current taxable profits generate deferred tax assets or liabilities.

The deferred tax assets resulting from tax losses or negative base of social contribution are only recognized to the extent it is likely that there will be a positive tax base in the future. The deferred income tax and social contribution were measured based on the tax losses, social contribution negative base, and temporary differences by applying the prevailing rates of the mentioned taxes, according to the provisions of CVM Resolution No. 273, of August 20, 1998 and CVM Ruling No. 371, of June 27, 2002, and consider the expected generation of future taxable profits substantiated by a technical feasibility study approved by the Board of Directors.

The item of taxes, fees and contributions also include the legal obligations, as disclosed in note 17. The taxes classified as legal obligations are those whose legality or constitutionality are being discussed in court by the Company and its subsidiaries. Provisions are created for all such amounts, irrespective of the appraisal prepared by the legal counsels of the Company and its subsidiaries as to the chances of loss.

The following is the legend related to the taxes and contributions shown on this footnote:

- IRPJ federal income tax;
- INSS federal contribution to **National Social Security Institute**;
- 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;

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- 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; and

- CIDE - Federal contribution of intervention on the economic dominium.

l) Provisions for contingencies

Provisions for contingencies are determined based on the opinions of the Company's legal counsel and that of the Management as to the probable result of pending matters and are updated until the date of the balance sheet by the probable amount of loss, with consideration to the nature of each contingency.

m) Provision for the loyalty program

The subsidiaries have loyalty programs in place, in which the calls are transformed into points for future exchange of handsets and services. The accrued points, net of redemption, are provisioned considering the historical redemption data, generated points and the average point cost (note 20).

n) Interest on shareholders' equity

Brazilian companies are allowed to pay interest on shareholders' equity, which is similar to the payment of dividends, but is deductible for purposes of calculating of income tax. The Company has decided to pay interest to its shareholders with respect to the year ended at December 31, 2009 (note 21) and, pursuant to tax laws, it booked a reserve for the amount owed in consideration of the account of financial expenses for the year's results. For purposes of submission of the yearly financial statements, the Company reversed such expense in consideration of a direct debit to the shareholders' equity, abiding by the Brazilian accounting rules and CVM guidelines. The distribution of interest on shareholders' equity to the shareholders is subject to withholding income tax at 15%.

o) Other assets and liabilities

An asset is recognized in the balance sheet when it is likely that its future economic benefit will be generated in favor of the Company or its subsidiaries, if its cost or value can be measured. The balance receivable includes commercial agreements arising from current transactions between the subsidiaries and their suppliers, the main references of which are the volume of purchases and the shared marketing campaigns.

A liability is recognized in the balance sheet when the Company or its subsidiaries have a legal obligation or an obligation created as a result of a past event, and it is probable that an economic resource will be required to settle it. The provisions are recorded based on the best estimate.

The subsidiaries sponsor pension funds of post-employment benefits and medical care, as well as other post-employment benefits to its employees (note 30). The subsidiaries' contributions are determined on an actuarial basis and are recorded by the accrual method. The benefit plans are evaluated on an actuarial basis at the end of each

fiscal year so as to verify whether the contribution fees are sufficient to form the reserves required for both current and future commitments.

The assets and liabilities are classified as current assets and current liabilities when their realization or settlement is likely to occur within the next twelve months. Otherwise, they are shown as non-current assets and non-current liabilities.

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p) Adjustment to the present value of assets and liabilities

The long-term and short-term monetary assets and liabilities, when the effect is deemed to be relevant in relation to the financial statements as a whole, are adjusted to their present value. The adjustment to present value is calculated taking into account the contractual cash flows and the explicit interest rate, and in certain cases, implicit interest rate, of the respective assets and liabilities. Therefore, the interest embedded in the revenues, expenses and costs associated with such assets and liabilities are deducted with the purpose of recognizing them in accordance with the accrual method. Subsequently, such interest is reallocated to the lines of expenses and financial income for the year by using the actual interest rate method in relation to the contractual cash flows. The implicit interest rates applied were determined based on facts and circumstances and are deemed to be accounting estimates.

q) Government subvention and aid

As a result of the enactment of Provisionary Measure No. 2199-14, of August 24, 2001, subsequently amended by Law No. 11,196, of November 21, 2005, legal entities with title to projects located in areas under the jurisdictions of the Amazon Development Authority (SUDAM) and of the Northeast Development Authority (SUDENE), whose businesses fall into an economic sector that is considered a priority under an act issued by the Executive Branch, may request an income tax abatement as provided for in these regulations.

Telemig has been granted a tax benefit consisting of a 75% corporate tax reduction, based on net income earned from exploiting areas in northern Minas Gerais and the Jequitinhonha valley. This benefit has been granted up to and including 2013.

Vivo has been granted a tax benefit consisting of a 75% corporate tax reduction, based on income earned from exploiting areas in the states of Acre, Amapá, Amazonas, Maranhão, Mato Grosso, Pará, Rondônia and Roraima. This benefit has been granted up to and including 2013.

According to article 195-A of Law No. 6404/76, a portion of net income for which a tax benefit has been granted was excluded from the calculation of mandatory dividends and may be used only for capital increase and loss amortization purposes.

r) Calculation of income

Sales revenue is presented at its net value, that is, excluding taxes, discounts and refunds (in the case of the sale of goods). The operating income is determined on an accrual basis:

r.1) Recognition of telecommunications service revenues

Service revenues are recognized as the services are rendered, and invoiced monthly. Revenues that have not been invoiced are calculated and then recognized when services are rendered. Prepaid cell phone recharge credit revenues, as well as respective taxes due there on, are deferred and recognized in the statement of operations when services are actually provided.

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r.2) Recognition of revenues and costs of goods sold

Revenues and costs of goods sold (handsets, *simcards* and accessories) in its own stores are recognized when sold to end consumers. Revenues and costs of goods sold via *dealers* are recorded in the income upon activation of the handset, but, in any case, no later than 90 days after the sale date.

r.3) Financial income and expenses

Financial income and expenses represent interest, adjustment for inflation and foreign exchange rate changes derived from financial investments, derivative, loan, financing and debenture transactions; net present value adjustments of transactions that generate cash assets and liabilities; and other financial transactions.

s) Financial Instruments

Financial instruments are only recognized as of the date the Company or its subsidiaries are provided for in the contractual provisions. When recognized, they are initially recorded at fair value plus transaction costs directly imputable to their acquisition or issue, except in the case of financial assets and liabilities classified under this category at fair market value through statement of operations, where said costs are reported directly to the fiscal year's statement of operations. Their subsequent measurement is made on each balance date according to the rules established for each type of financial assets and liabilities classification.

s.1) Financial assets: The main financial assets recognized by the Company and its subsidiaries are: cash and cash equivalents, securities, unrealized gains from derivative transactions and customer receivables. They are classified into the classes listed below, depending on the purpose for which they were purchased or issued:

(i) Financial assets measured at fair value through statement of operations include financial assets maintained for negotiation and designated assets upon initial recognition at fair value through statement of operations. They are classified as maintained for negotiation if they were intended to be sold or repurchased in the short term. Derivatives are also classified as maintained for negotiation with the exception of those designated as hedge instruments. They are measured at fair value on each balance sheet date. Interest, adjustment for inflation, foreign exchange rate fluctuations and other changes due to adjustment at fair value, where applicable, are recognized in statement of operations as they are incurred, in the financial incomes or expenses account.

(ii) Loans (granted) and receivables include non-derivative financial assets with fixed or determinable payments but with no quotes on the active market. After initial recognition they are carried at amortized cost, based on the effective interest rate method. Interest, adjustment for inflation, foreign exchange rate fluctuations, less losses related to recoverable values, where applicable, are recognized in statement of operations as they are incurred, in the financial incomes or expenses account.

(iii) Investments maintained to maturity include non-derivative financial assets with fixed or determinable payments with established maturities as regards which the Company has a positive intention or is able to maintain to maturity. After initial recognition, they are carried at amortized cost, based on the effective interest rate method. This method employs the discount rate which, when applied to estimated future receivables, during the expected effectiveness of the financial instrument, results in its net carrying value. Interest, adjustment for inflation, foreign exchange rate

fluctuations, less losses related to recoverable value, where applicable, are reported to statement of operations as they are incurred, in the financial incomes or expenses account.

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(iv) Available for sale Financial assets which are not classified in categories (i) to (iii) above. On the date of each balance sheet they are carried at fair value. Interest, adjustment for inflation and foreign exchange rate fluctuations, where applicable, are reported to statement of operations as they are incurred, in the financial incomes or expenses account. The changes due to the difference between the updated investment value according to the contractual terms and the fair value are reported to shareholders' equity in the equity evaluation adjustments account until such time as such assets are realized, they are then re-classified to statement of operations, net of tax effects.

s.2) Financial liabilities: The main financial liabilities recognized by the Company and its subsidiaries are: accounts payable to suppliers, unrealized losses from derivatives, loans, financing and debenture transactions. They are broken down into the categories listed below, according to the type of financial instrument contracted or issued:

(i) Financial liabilities carried at fair value through statement of operations include financial liabilities which are usually negotiated prior to maturity, liabilities designated on initial recognition at fair value through statement of operations and derivatives, excluding those designated as hedge instruments. These are measured at fair value on each balance sheet date. Interest, adjustment for inflation, foreign exchange rate fluctuations and other changes due to adjustment at fair value, where applicable, are reported to statement of operations as they are incurred, in the financial incomes or expenses account.

(ii) Financial liabilities not carried at fair value include non-derivative financial liabilities not usually negotiated prior to maturity. After initial recognition, they are carried at amortized cost, based on the effective interest rate method. Interests, adjustment for inflation, foreign exchange rate fluctuations, where applicable, are reported to statement of operations as they are incurred, in the financial incomes or expenses account.

s.3) Market value: the market value of actively traded financial instruments on the organized markets is determined based on their market price on the closing date of the balance sheet. If there is no active market, the market value is determined following evaluation techniques. These techniques include use of recent market transactions carried out between independent parties, referrals to the market value of similar financial instruments, discounted cash flow analysis and other evaluation methods.

s.4) Hedge transactions: derivative financial instruments used to protect against risk exposure or to modify the characteristics of the financial assets and liabilities, unrecognized firm commitments, highly likely transactions or net investments in overseas operations which:

(i) show a high correlation between alterations in its market value and the market value of the hedged item, both at the beginning or throughout the performance of the agreement (between 80% and 125% of effectiveness);

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(ii) have documents to identify the transaction, the risk against which hedging is sought, the risk management process and the method used to evaluate effectiveness; and

(iii) are considered effective in reducing the risk associated with the hedged exposure, are classified and posted as fair hedge value transactions, and these are derivative financial instrument designed to offset risks stemming from exposure to change in the fair value of the hedged items. The hedged items and respective related derivative financial instruments have counter entries to receipt or expense carrying accounts, in the reported statement of operations in the period;

For fiscal years ending at December 31, 2009 and 2008, the Company and its subsidiaries had no cash flow hedge or overseas investments hedge.

t) Accounting estimates

Are used to measure and recognize certain assets and liabilities in the financial statements of the Company and of its subsidiaries. The determining of these estimates factored in experiences from past and current events, assumptions regarding future events, and other objective and subjective factors. Significant items subject to estimates include: the selection of the useful lives of fixed and intangible assets; allowance for doubtful accounts; provision for inventory losses; provision for investment losses; fixed and intangible asset value recovery assessment; deferred corporate tax and social contribution assets; rates and time periods used to determine net present value of certain assets and liabilities; provision for contingencies; provision for asset divestiture; provision for the loyalty, program and actuarial liabilities; carrying fair value of financial instruments; the considerations for recognizing and measuring capitalized development costs such as intangible assets; estimates to disclose the sensitivity analysis of derivative financial instruments as established in CVM Instruction 475/08. The settlement of transactions involving these estimates may result in significantly different figures to those registered to the financial statements due to inaccuracy in determining them. The Company and its subsidiaries revise their estimates and premises at least every quarter.

u) Functional currency and presentation of the financial statements

The functional currency and that presented in the financial statements of the Company and of its subsidiaries is the Real.

v) Transactions denominated in foreign currency

Cash assets and liabilities denominated in foreign currency are converted to the functional currency (Real), using the exchange rates (Ptax) in force on the date the financial statements are prepared. On December 31, 2009, these were US\$1.00 = R\$1.7412; JPY1.00 = R\$0.0188; 1.00 = R\$2.5084, and on December 31, 2008, they were: US\$1.00 = R\$2.3370; JPY1.00 = R\$0.0258; 1.00 = R\$3.2524. Gains or losses derived from restatement of such assets and liabilities ascertained between the applicable exchange rate on the date of the transaction and that of the closing of the fiscal years are reported to statement of operations in the financial incomes and expenses account.

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w) Cash flow and value added statements

The statements of cash flows were prepared and are presented as provided for in CVM Resolution No. 547, dated August 13, 2008, which approved the pronouncement on accounting practices CPC 03 – Statement of Cash Flows, issued by CPC.

The statements of cash flows show changes in cash position that occurred during the fiscal periods, via an indirect method. The terms used in the statement of cash flow are the following:

Operating activities: are the main revenue producing activities of the Company and its subsidiaries, and any other activities excluding investment or financing activities;

Investment activities: are activities involving the acquisition and disposal of assets over the long term and other investments not included in operating and financing activities; and

Financing activities: are activities that result in changes in the dimension and composition of equity and loans taken out by the Company and its subsidiaries.

Value added statements were prepared and are presented as provided for in CVM Resolution No. 557, dated November 12, 2008, which approved CPC 09 – Value Added Statement, issued by CPC.

x) Employee profit sharing

Provisions are made to recognize expenses related to employee profit sharing. These provisions are determined based on management-established qualitative and quantitative goals and reported to specific accounts under the following groups: Costs of Services Rendered, Selling Expenses and General and Administrative Expenses.

y) Net earnings per thousand-share block

Net earnings per share are determined based on the number of outstanding shares on the date the balance sheet is prepared.

z) Advertising expense

Advertising costs are charged to expenses as incurred and amounted to R\$427,726, R\$443,616 and R\$323,660 for the years ended December 31, 2009, 2008 and 2007, respectively.

4. CASH AND CASH EQUIVALENTS

	As of December, 31,	
	2009	2008
Cash and banks	46,468	56,038
Short-term investments	1,212,106	2,126,875

Total	1,258,574	2,182,913
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The financial investments refer to fixed income transactions, indexed to the variation of the Interbank Deposit Certificates (CDI), with immediate liquidity, held with first-category financial institutions.

5. TRADE ACCOUNTS RECEIVABLE, NET

	As of December,31,	
	2009	2008
Receivables from billed services	1,105,069	1,125,162
Receivables from interconnection fees	784,524	796,147

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Receivables from unbilled services	590,617	539,812
Receivables from goods sold	391,578	504,685
(-) Allowance for doubtful accounts	(324,982)	(387,308)
Total	2,546,806	2,578,498

Following are the amounts for the gross accounts receivable, by age of maturity (aging list) at December 31, 2009 and 2008:

	As of December 31,	
	2009	2008
Unbilled	590,617	539,812
Falling due	1,604,723	1,446,431
Overdue accounts from 1 to 30 days	210,871	322,847
Overdue accounts from 31 to 60 days	69,762	85,393
Overdue accounts from 61 to 90 days	54,301	67,657
Overdue accounts from 91 to 180 days	131,101	157,329
Overdue accounts from 181 to 360 days	46,605	101,090
Overdue accounts more than 360 days	163,808	245,247
Total	2,871,788	2,965,806

There was not any customer representing more than 10% of the net accounts receivable at December 31, 2009 and 2008.

At December 31, 2009, the balance of accounts receivable includes R\$116,747 (R\$235,867 at December 31, 2008) related to transfer of co-billing of other operators, the amounts of which were determined on the basis of statements of commitment, because 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. The decision by the regulatory agency as well as settlement between the parties is pending. The Company does not expect material financial losses with respect to this matter.

The changes in the allowance for doubtful accounts for fiscal years ended on December 31, 2009 and 2008 are as follows:

Years ended December 31,

	2009	2008
Balance at beginning of year	387,308	344,701
Additional allowance (Note 24)	213,235	303,845
Write-offs	(275,561)	(292,984)
Addition from Telemig Participações on 03.31.08	-	31,746
Balance at year end	324,982	387,308

6. INVENTORIES

	As of December,31,	
	2009	2008
Handsets	422,337	747,186
Simcard (<i>chip</i>)	28,176	57,514
Accessories and other	9,033	16,584
(-) Provision for obsolescence	(35,912)	(42,580)
Total	423,634	778,704

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7. RECOVERABLE TAXES

	As of December,31,	
	2009	2008
Prepaid income and social contribution taxes	814,218	848,473
Recoverable state VAT (ICMS)	648,124	553,521
Recoverable federal VAT PIS and COFINS	315,981	370,813
Withholding income tax	64,378	155,204
Other recoverable taxes	23,913	23,951
 Total recoverable taxes	 1,866,614	 1,951,962
Recoverable state VAT(ICMS) on fixed assets noncurrent (a)	288,015	192,058
 Total	 2,154,629	 2,144,020
 Current	 1,186,231	 1,238,124
Noncurrent	968,398	905,896

(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 purchase of property items, which are available for offset over a period of 48 months.

8. PREPAID EXPENSES

	As of December 31,	
	2009	2008
FISTEL fee	204,148	199,851
Advertising to be distributed	123,911	136,244
Rent	19,268	19,696
Financial charges	6,747	8,747
Insurance premium and other	31,637	32,290
 Total	 385,711	 396,828

Current	311,328	316,622
Noncurrent	74,383	80,206

9. OTHER ASSETS

	As of December 31,	
	12.31.09	12.31.08
Escrow deposits, blockages and contract collateral	191,664	106,558
Subsidies on handset sales	10,411	115,593
Credits with suppliers	62,334	111,883
Credits to Amazon Celular SA and Tele Norte Celular Participações SA (a)	-	8,522
Advances to suppliers	4,384	1,550
Related parties receivables	79,276	11,064
Employee advances and other assets	16,594	14,166
Total	364,663	369,336
Current	246,028	322,934
Noncurrent	118,635	46,402

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(a) These refer to the human and administrative resources pooling contract and organization of a condominium with Telemig and Telemig Participações, which have existed up to the date of acquisition of the share control by Vivo Participações. Interest on the account balances was accrued at the CDI rate, up to the liquidation date.

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, 2009 and 2008, as follows:

	2009	2008
Exchange rate from R\$ to US\$	1.7412	2.3370
Exchange rate from R\$ to Yen	0.0188	0.0258
Exchange rate from R\$ to Euros	2.5084	3.2524

The forward and swap contracts described below were entered into in order to mitigate Company's exposure to foreign exchange variations.

		Notional amount buy		Forward swap/exchange rate	Current assets		Noncurrent assets	
		(sell) (thousands)	(thousands)		Book value on December 31	Book value on December 31		
<u>Issuance</u>	<u>Maturity date</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
19/12/2007 to 28/2/2008	19/12/2014 to 2/3/2015	USD 365,522	USD 415,637	R\$ 1,6715 to R\$ 1,8123	-	-	128,852	265,530
-	-	JPY 1,338,853	JPY 1,338,853	-	-	-	-	6,494
10/15/2009	10/15/2014	BRL 72,000	BRL 335,000	-	-	-	8,208	13,279
Short-term contracts -	-	USD 50,115	USD 99,969	R\$ 1.5811	2,497	10,172	-	-
Short-term contracts -	-	-	JPY 50,255,762	-	-	337,276	-	-
Short-term contracts -	-	-	-	-	12,203	-	-	-

BRL
110,000

TOTAL 14,700 347,447 137,060 285,303

<u>Issuance</u>	<u>Maturity date</u>	Notional amount buy (sell) (thousands)		Forward swap/exchange rate	Current assets Book value on December 31		Noncurrent assets Book value on December 31	
		<u>2009</u>	<u>2008</u>		<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
18/08/04 to 28/02/08	17/01/1 to 28/08/14	USD 365,522	USD 415,637	R\$ 1,6715 to R\$ 3,0030	-	-	119,828	97,972
1/2/2008	1/12/2011	JPY 1,338,853	JPY 1,338,853	R\$ 0.016600	-	-	1,038	-
9/13/2006	2/9/2010	BRL 72,000	BRL 335,000	-	2,302	-	10,552	-
Short-term contracts -		USD 50,115	USD 99,969	R\$ 1,6715 to 1,8123	28,668	105,352	-	-
Short-term contracts -			JPY - 50,255,762	-	-	-	-	-
Short-term contracts -		BRL 110,000	-	-	-	-	-	-
TOTAL					30,969	105,352	131,418	97,972

11. GOODWILL

a) Components and changes:

	As of December 31,	
	2009	2008
Goodwill on acquisition of investments, net	2,873,902	1,613,753
Reserve for impairment	(173,324)	(173,324)

Net Balance	2,700,578	1,440,429
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b) Changes in goodwill balances are as follows:

	As of December 31,	
	2009	2008
Balance, net of impairment reserve beginning of the year (*)	1,440,429	691,947
Goodwill on acquisition of investments (**)	1,260,149	1,166,195
Negative goodwill generated in the capital increase with reserves	-	1,802
Amortization of goodwill paid on investment acquisitions (***)	-	(419,515)
Balance, net of reserve for loss end of the year	2,700,578	1,440,429

(*) The net profit at December 31, 2007 includes the amount of R\$667,369, referring to goodwill generated from acquisitions of equity interests and their provisions for impairment booked at December 31, 2001 and 2002, in order to recognize permanent impairment on goodwill due to losses accumulated by subsidiary Global Telecom S.A., at those dates, Vivo Participações. It further includes R\$24,578 referring to the premium generated from the acquisition of Ceterp Celular S.A. by Vivo. Both of them were based on future profitability, and were amortized on a straight line basis until December 31, 2008, according to the guidelines provided for in Law no. 11.638/07. Such goodwill ceased to be amortized on January 01, 2009.

(**) At December 31, 2008, the amount of R\$1,166,195 refers to goodwill generated from the acquisitions of Telemig Participações and Telemig. At December 31, 2009, the amount of R\$1,260,149 refers to the goodwill generated from the merger of shares (exchange of shares) of Telemig Participações and Vivo Participações of R\$1,255,236, R\$2,898 related to expenses from the process of exchanging the capitalized shares, and R\$2,015 related to the goodwill generated from the capital increase of reserves.

(***) The sum of amortization costs and expenses are shown in Amortization, in note 26 (goodwill amortization).

12. PROPERTY, PLANT AND EQUIPMENT, NET

12.a) Breakdown

As of December 31,					
2009			2008		
Cost	Accumulated depreciation	Property, plant and equipment, net	Cost	Accumulated depreciation	Property, plant and equipment, net

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Transmission equipment	9,700,786	(7,191,579)	2,509,207	8,979,713	(6,647,993)	2,331,720
Infrastructure	3,418,058	(1,960,734)	1,457,324	3,018,294	(1,741,083)	1,277,211
Switching equipment	4,196,877	(3,225,490)	971,387	4,243,681	(2,680,686)	1,562,995
Terminals	2,721,531	(2,412,241)	309,290	2,310,275	(2,005,070)	305,205
Buildings	298,984	(97,347)	201,637	296,670	(87,318)	209,352
Land	101,264	-	101,264	70,352	-	70,352
Other assets	1,948,183	(1,372,115)	576,068	1,767,321	(1,198,036)	569,285
Construction in progress	318,932	-	318,932	857,788	-	857,788
Total	22,704,615	(16,259,506)	6,445,109	21,544,094	(14,360,186)	7,183,908

In compliance with the provisions in accounting pronouncement CPC 01 Reduction to the Recoverable Assets Value, the Company and its subsidiaries annually analyze the net book value

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of the items of property, plant and equipment with the purpose of assessing events or changes in the economic, operating or technological circumstances which might indicate deterioration or loss on their recoverable value. Based on the analysis prepared by the Company and its subsidiaries, no provisions were required to be booked for assets recovery at December 31, 2009 and 2008. The premises adopted by the Company and its subsidiaries are described in note 3(j).

12.b) Changes

Consolidated

	Transmission equipment	Infrastructure	Switching equipment	Terminals	Buildings	Land	Other assets	Construction in progress	Total
Cost									
Balances at December 31, 2007	7,515,674	2,507,440	3,473,847	1,893,738	282,869	59,785	1,441,451	498,957	17,673,760
Additions	64,103	34,070	1,711	379,599	26	8,802	94,580	1,593,508	2,176,398
Acquisition Telemig and Telemig Participações	995,931	285,827	436,111	29,412	12,164	3,055	190,363	154,904	2,107,763
Write-off	(311,094)	(29,852)	(30,646)	(11,486)	(651)	(1,290)	(40,258)	(1)	(425,278)
Transfer	715,099	220,809	362,658	19,012	2,262	-	81,185	(1,389,580)	11,444
Balances at December 31, 2008	8,979,713	3,018,294	4,243,681	2,310,275					