Levy Steven D
Form 4
June 10, 2011

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Levy Steven D

(Last) (First) (Middle)

471 BRIGHTON DRIVE

(Street)

BLOOMINGDALE, IL 60108

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PC TEL INC [PCTI]

3. Date of Earliest Transaction (Month/Day/Year)
06/08/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common	06/08/2011		A(1)		6,098	A	$ 6.56	20,307	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Levy Steven D 471 BRIGHTON DRIVE BLOOMINGDALE, IL 60108	X			

Signatures

Michelle Henry	06/10/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Board of Directors annual grant of restricted shares. 100% of the shares vest on grant date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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16. Loans and financing

	Currency	Annual interest rate	Maturity	2010	(*)	2009	(*)	01/01/2009 (*)
Loans and financing BNDES	URTJLP	TJLP+3.73%	Until 2015	1,715,580		1,917,521		1,708,804
Loans and financing BNDES	URTJLP	TJLP+1.73%	Until 2015	92,842		68,628		-
Mediocrédito	US$	1.75%	2014	17,304		23,006		35,425
Untied Loan – JBIC	JPY		2009	-		-		129,173

		Libor + 1.25%				
Resolution 2770	JPY	0.50% to 5.78%	2009	-	-	213,339
Resolution 2770	EUR	5.74%	2009	-	-	84,799
Resolution 2770	JPY	1.00%	2009	-	-	48,315
Total consolidated				1,825,726	2,009,155	2,219,855
Current				420,412	256,753	502,503
Noncurrent				1,405,314	1,752,402	1,717,352

(*) Amounts presented at fair value, when aplicable.

BNDES: In 2007 it was approved a credit facility to the Company to finance investments in services and products produced domestically. The totally of these resources have been drawn and their investments are proven and accepted by BNDES. The TJLP is a specific referential rate not comparable with other market-observable rates applicable to similar repayment terms. Accordingly, at December 31, 2010 this instrument was recognized in the balance sheet at its amortized cost, which is equivalent to its fair value as of that date.

MÉDIOCRÉDITO: loan agreed in 1993 between Telecomunicações Brasileiras SA – Telebrás and Instituto Centrale per il Credito a Médio Termine – Mediocredito Centrale in the amount of US$ 45,546, in order to build a rural telephony via satellite network in the State of Mato Grosso. This loan is paid semiannually and matures in 2014. There is a derivative contracted to hedge the exchange rate risks related to such debt and, given it is assessed as an effective hedge, the hedge accounting methodology has been adopted. Therefore, at December 31, 2010, the hedge risk of this instrument was recognized at its fair value as of such date.

Consolidated long term maturities schedule:

Year	Amounts
2012	412.808
2013	412.544
2014	410.051
2015	169.911
Total	1.405.314

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17. Debentures

	Currency	Annual interest rate	Maturity	2010	2009	01/01/2009
Debentures	R$	CDI + 0.35%	2010	-	1,510,806	1,516,339
Total				-	1,510,806	1,516,339
Current				-	1,510,806	16,339
Noncurrent				-	-	1,500,000

The maturity date of these debentures was September 1, 2010, but on June 7, 2010 the Company made an early redemption of all outstanding debentures.

18. Dividends and interest on shareholders' equitypayable

	2010	2009	01/01/2009
Interest on shareholders’ equity	248,515	249,706	437,720
Telefónica Internacional S.A.	113,839	115,530	234,441
SP Telecomunicações Participações Ltda.	37,407	37,962	77,036
Minority shareholders	97,269	96,214	126,243
Dividends	202,382	245,837	320,841
Minority shareholders'	202,382	245,837	320,841
Total	450,897	495,543	758,561

Brazilian corporations are permitted to attribute interest on shareholder’s equity similar to dividends declared, which is deductible for income tax purposes. The Company has elected to pay such interest to its shareholders with respect to the years ended December 31,2010 and 2009 and January 1, 2009, and has accrued the amount due with a direct charge to shareholder’s equity. The distribution to the shareholders is subject to withholding income tax at the rate of 15%.

Most of the interest on shareholders’ equity and total dividends payable to minority shareholders refer to available amounts declared, but not claimed yet.

19. Provisions

The Company, as an entity and also as the successor to the merged companies, and its subsidiaries are involved in labor, tax and civil lawsuits filed with different courts. The Company’s management, based on the opinion of its legal counsel, recognized provisions for those cases in which an unfavorable outcome is considered probable. The table below shows the breakdown of provisions by nature and activities during, 2010 and 2009:

Explanation of Responses:

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	2010			
		Nature		
	Labor	Tax	Civil	Total
Balances as of December 31, 2009	404,106	91,655	443,810	939,571
Additions	15,772	165	60,799	76,736
Payments / reversal	(69,684)	(276)	(129,351)	(199,311)
Monetary restatement	16,197	1,975	70,901	89,073
Balances as of December 31, 2010	366,391	93,519	446,159	906,069
Current	38,642	-	201,571	240,213
Noncurrent	327,749	93,519	244,588	665,856

	2009			
		Nature		
	Labor	Tax	Civil	Total
Balances as of January 1, 2009	497,132	275,692	255,433	1,028,257
Additions	49,725	2,678	175,592	227,995
Payments / reversal	(183,992)	(190,507)	(28,156)	(402,655)
Monetary restatement	41,241	3,792	40,941	85,974
Balances as of December 31, 2009	404,106	91,655	443,810	939,571
Current	27,543	-	155,765	183,308
Noncurrent	376,563	91,655	288,045	756,263

19.1. Labor contingencies and provisions

	Amount involved		
Risk	2010	2009	01/01/2009
Probable	366,391	404,106	497,132
Possible	155,107	32,399	66,608
Total	521,498	436,505	563,740

Provisions and labor contingencies refer to labor claims filed by former and employees of outsourced companies (the later alleging joint or subsidiary liability) claiming for, among other things, overtime, wage equivalence, post-retirement salary supplements; job hazard

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premium and additional payment for unhealthy work conditions; extended free health care to retired employees, and some outsourcing-related procedures.

In addition, the Company is party to a Public Civil Action instituted by the Labor Public Prosecution Office in respect of the decision to refrain Telesp from engaging an unrelated appointed company to carry out the Company's main activities. No amount has been assigned in the table above to the possible likelihood of an unfavorable outcome in connection with this action, since in the case of loss, estimating the corresponding amount payable by the Company is not practicable at this time. Likewise, establishing a provision for contingency equivalent to the amount sought is not possible.

19.2. Tax contingencies and provisions

	Amount involved		
Risk	2010	2009	01/01/2009
Probable	93,519	91,655	275,692
Possible	4,102,806	3,664,280	2,864,127
Total	4,196,325	3,755,935	3,139,819

At December 31, 2010, the Company has filed claims for purposes of obtaining recognition that payment of the following taxes is unconstitutional:

a) CIDE

Social Contribution Tax for Intervention in the Economic Order (CIDE) required by the Federal Government on funds remitted to other countries, arising from technology transfer agreements, trademark and software licensing etc. Adopting a conservative approach, the Company recorded the amount of R$25,891 as of December 31, 2010 for this purpose.

b) FGTS

Additional Contributions to the Brazilian Government Unemployment Compensation Fund (Fundo de Garantia por Tempo de Serviço - FGTS) required by the Brazilian Institute of Social Security (INSS) on the contributions made by employers (the discussion does not result in reducing part of FGTS contributions made by the Company on behalf of its employees). The amount involved totals R$61,185. The claim is now at the highest court for a final decision. Based on the Company's legal advisors opinion, a provision was established and a judicial deposit was made for the total amount.

c) Other provisions

There are also other contingencies provisioned related to Finsocial and PASEP credits offset declared unconstitutional and other municipal issues regarding municipal tax on services - ISS, municipal property tax - IPTU and various fees, in the amount involved of R$ 6,443 million, where an unfavorable outcome is considered probable by management.

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Possible contingencies

Federal level

At December 31, 2010, the Company and its subsidiaries maintained several tax claims at the federal level, both administrative proceeding and lawsuits, which await decisions at a range of levels. The claims amount to R$1,338,380 and are related to:

(a) protest letters arising from non-approval of offset requests made by the Company; (b) debts reported but allegedly not paid; (c) fine for dividend distribution with allegedly unpaid federal debts; (d) social security contribution on compensation payment for salary devaluation arising from inflationary losses derived from “Plano Verão” (Summer Plan) and “Plano Bresser” (Bresser Plan), SAT (Work Accident Insurance), Social Security and payables to third parties (INCRA and SEBRAE); (e) income and social contribution taxes on bonuses; (f) Withholding Income Tax (IRRF) on remittances to other countries for technical services, administrative assistance and alike, as well as royalties; (g) sundry offsets; (h) Inspection and Working Rate; (i) additions to PIS/COFINS tax bases (Law No. 9718/98).

According to management and its legal advisors the chances for an unfavorable outcome for these proceedings is considered possible.

State level

At December 31, 2010, the Company and its subsidiaries maintained several ICMS-related administrative proceedings (arising from tax delinquency notices) and lawsuits at the state level, amounting to R$1,989,332, which are pending judgment at several court levels. The referred proceedings and lawsuits are related to:

(a) Provision of supplemental services and value added (Convention No. 69/98) (b) Rental of Speedy modem; (c) international long-distance calls (DDI); (d) debts reported but allegedly not paid; (e) amounts unduly credited in connection with fixed assets; (f) Lack of proportional reversal of credit related to acquisition of fixed asset items; (g) amounts unduly credited allocated for previously unused ICMS credits; (h) service provision outside São Paulo State and ICMS paid to São Paulo State, and (i) Co-billing.

According to management and its legal advisors the chances for an unfavorable outcome for these proceedings is considered possible.

Municipal level

At December 31, 2010, the Company and its subsidiaries maintained several tax administrative proceedings (arising from tax delinquency notices) and lawsuits at municipal level, which are pending judgment at several court levels, and amount to R$280,446.

The referred proceedings and lawsuits relate to: (a) ISS; (b) IPTU; (c) Charge for Soil Use; (d) services rendered by third parties, and (e) several municipal charges.

According to management and its legal advisors the chances for an unfavorable outcome for these proceedings is considered possible.

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Based on the opinion of its tax advisors, management believes that the resolution of the aforementioned issues will not have a negative material effect on its financial position.

ANATEL

FUST (Contribution for the Fund for Universal Access to Telecommunication Services): security mandate petitioned to fixed telecommunications operators for the recognition of the right to exclude interconnection and EILD expenses from FUST taxable base, as provided for in Abridgement No. 7, of December 15, 2005, for disagreement with provisions contained in sole paragraph of article 6, Law No. 9998, of August 17, 2000. A partially favorable decision was obtained at first court level, and currently, a second-court-level decision is awaited. Total amount involved is R$594,436. A portion of the amount, R$75,768, refers to ITX and EILD differences arises from the adoption of the non-cumulative system for the retroactive period (2001 to 2005); the other part of R$241,110 refers to ITX and EILD differences computed for the period between 2006 and the current date, whose amount was recorded under the taxes payable caption and has been monthly deposited in court. Other values involved are related to several notices for debt received from Anatel in the amount of R$277,558 over the amounts under discussion in the Security Mandate, where chances of loss were assessed as possible.

FUNTTEL (Telecommunication Contribution for the Fund of Technological Development): In opposition to the legal provision, Anatel has issued several notices for debt against the Company and its subsidiaries to collect the FUNTTEL contribution on other revenues (other than telecommunications), as well as on expenses transferred to other operators (Interconnection and EILD) for the 2001-2005 period. The proceedings are awaiting first-level administrative decision and the total amount involved is R$109,967.

FISTEL (Fund for Telecommunications Regulation): Upon extension of the effective term of licenses for using telephony switches related to the exploitation of STFC, Anatel charges the Installation Inspection Charge (TFI) related to the extension of licenses granted.

Such collection is a result of ANATEL’s understanding that article 9, item III of Rule No. 255 would be applicable to this case, so that the period extension would be the triggering event of TFI. The Company is challenging this issue in court because understands that TFI payment for the license extension is undue. A favorable decision was obtained at first court level and currently, the second court level decision is awaited. The total amount involved is R$31,355.

According to management and its legal advisors the chances for an unfavorable outcome for these proceedings is considered possible.

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19.3 Civil contingencies and provisions

Risk Consolidated	Amount involved 2010	2009	01/01/2009
Probable	446,159	443,810	255,433
Possible	808,006	539,968	623,605
Total	1,254,165	983,778	879,038

Civil provisions

Main claims

a) On June 9, 2000, WCR do Brasil Serviços Ltda. proposed enforcement proceedings following ordinary procedural steps against the Company, claiming the collection of the alleged difference between the amounts calculated by Telesp regarding the use of the "0900 Service" and the amounts transferred to that company. In 2010, an unfavorable decision was awarded for the appeal filed with the highest court level and, therefore, the Company reached an agreement in November 2010 to close this issue. Proceeding archiving is awaited.

b) Suits for additional shares. These refer to suits involving the Company and addressing the right to receive additional shares calculated with regard to network expansion plans after 1996. These suits are at various stages: first stage, Supreme Court and Federal Superior Court of Appeals. Considering the risk of a probable loss, provision was recorded in the amount of R$ 21,889.

c) The Company and its subsidiaries are defendants in several civil claims, at several levels, related to service rendering. Such claims have been filed by individual consumers, civil associations representing consumer rights or by the Bureau of Consumer Protection (PROCON), as well as by the Federal and State Public Ministry. They are also defendants in other claims of several types, related to the normal course of business. Total provision recorded for such issues amounts to R$153,330.

Massive Claims

Consumption relationship

d) The Company is also involved in several lawsuits filed by individual consumers, with similar characteristics, which individually are not considered to be material. A provision in the amount of R$100,541 was recorded, based on statistical analysis of the average historical losses for such claims.

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Anatel

e) At December 31, 2010, the Company was involved in several administrative proceedings against Anatel, which were filed based on alleged non-compliance with the obligations established in industry regulations, whose likelihood of an unfavorable outcome was assessed as probable and a provision was recorded in the amount of R$170,399.

Possible contingencies

Main civil contingencies

a) Community Telephone Plan PCT. Refers to a Public Civil Action to which the Company is party related to the PCT, a plan that claims the possible indemnity rights to purchasers of telephone line expansion plans who did not receive shares for their financial investment in the municipality of Mogi das Cruzes. The total amount involved is approximately R$160,790. Legal counsel assessed chances of loss as possible. São Paulo Court of Justice (TSP) has amended the decision, judging the action as inadmissible.

The telephony association of Mogi das Cruzes (plaintiff) filed an special appeal to alter this judgment, which is currently awaiting a decision.

b) Civil Class Action filed by ASTEL – SISTEL Members' Association in the State of São Paulo against the Company, SISTEL foundation, and others, seeking annulment of the PBS private pension plan spinoff in year 2000, which gave rise to a specific PBS-Telesp plan, and of the related allocations of technical surplus funds and tax contingency existing by the time of the spin off. The Company's legal counsel considers this proceeding as possible risk. Estimating the amount involved is impracticable and contingent upon expert analysis, since it concerns Sistel's spin-off portion related to telecom operators from the former Telebrás System.

c) The Public Ministry has filed lawsuits claiming that the amounts charged on PIS and COFINS are unduly included in the fixed telephony service tariffs and requests that such unduly charged amounts should be returned double. There are seven collective lawsuits and several individual ones grounded on the same argument and request. Brazilian Supreme Court of Justice has decided for the lawfulness of PIS and COFINS transfer when judging the proceeding (considering the repetitive appeals law) against another telephony concessionaire, which was considered a leading case. No provisions have been set up for these lawsuits, whose likelihood of an unfavorable outcome has changed from possible to remote.

d) The Public Prosecutor Office of the State of São Paulo commenced a class action claiming moral and property damages suffered by all consumers of telecommunications services from 2004 to 2009 due to the bad quality of services and failures of the communications system. The public Prosecutor Office suggested that the indemnification to be paid should be R$1 billion. The decision handed down on April 20, 2010 imposes the payment of indemnification for damages caused to all consumers who have filed a suit for such. Conversely, in

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the event that the number of consumers claiming to the award is not in line with the gravity of their damages, after the lapsing of one year, the judge determined that the amount of R$ 60 million be deposited in the Special Expenses Fund to Recover Natural Rights Damages (Fundo Especial de Despesa de Reparação de Interesses Difusos Lesados). It is not possible to estimate the number of consumers who will individually file suits nor the amounts claimed thereby. The Company filed an appeal on the merit of the case. The judgment effects are in abeyance. No amount has been assigned to the possible likelihood of an unfavorable outcome in connection with this action, since in the case of loss, estimating the corresponding amount payable by the Company is not practicable at this time. Likewise, establishing a provision for contingency equivalent to the amount sought is not possible.

e) The Company and its subsidiaries are involved other civil claims, at several levels, related to service rendering. Such claims have been filed by individual consumers, civil associations representing consumer rights or by the Bureau of Consumer Protection (PROCON), as well as by the Federal and State Public Ministry. They are also involved in other claims of several types, related to the normal course of business. Total contingency amounts to R$309,803, whose likelihood of an unfavorable outcome has been assessed by their legal advisors as possible.

Anatel

f) At December 31, 2010, the Company was involved in administrative proceedings filed based on alleged non-compliance with the obligations established in industry regulations in the amount of R$337,413, whose likelihood of an unfavorable outcome was assessed by their legal advisors as possible.

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20. Other liabilities

	2010	2009	01/01/2009
Consignments on behalf of third parties	139,724	147,995	198,052
Amounts to be refunded to subscribers	54,666	60,020	48,525
Concession renewal fee (note 1.c)	102,568	-	102,863
Deferred revenue (b)	103,339	113,925	126,112
Accounts payable – sale of share fractions (a)	-	-	113,377
Finance Lease (c)	11,507	10,729	-
Liabilities to related parties (note 28)	120,981	118,228	49,857
Other	5,997	28,749	42,203
Current	538,782	479,646	680,989
Accounts payable – sale of share fractions (a)	112,594	112,873	-
Deferred revenue (b)	38,400	20,769	23,442
Finance Lease (c)	23,346	31,190	-
Liabilities to related parties (note 28)	10,738	15,542	31,216
Other	46,837	43,564	61,778
Noncurrent	231,915	223,938	116,436

(a) Amounts resulting from the auction of share fractions after the reverse spin-off process in 2005, and TDBH acquisition process in 2006.

(b) Refer mainly to deferral of revenue from activation fee (Note 3.1.2b) and calling cards.

(c) The Company has finance lease contracts for use of IT equipment.

	2010	2009
Future payments of the gross finance lease	42,194	53,580
Unrealized financial expense	(7,341)	(11,661)
Present value of minimum payments due	34,853	41,919
Current	11,507	10,729
Noncurrent	23,346	31,190

Maturity Schedule:

Year	Gross investment	Present value
Maturing within one year	11,507	11,507
Maturing more than one year within five years	30,687	23,346
Total	42,194	34,853

There are neither unsecured residual values that produce benefits to the lessor nor contingent payments recognized as revenues during the year.

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COMMITMENTS AND GUARANTEES

Rentals

The Company rents equipment and facilities through several operating agreements maturing on different dates. The monthly rental payments are of an equal amount for the period of the contract. Total annual rent expenses amounted to R$613,057 in 2010 (R$522,858 in 2009).

Rental commitments mainly refer to facilities where future minimum payments under leases with remaining noncancellable terms in excess of one year, are as follows:

Year	Value
2011	22,300
2012	22,300
2013	18,418
2014	14,842
Total	77,860

Guarantees

At December 31, 2010, the Company had properties given as guarantee in lawsuits amounting to R$23,411 (R$43,719 in 2009).

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21. Shareholders' equity

a) Capital

Paid-in capital is R$6,575,480 at December 31, 2010 and 2009. Subscribed and paid-in capital is represented by shares without par value, as follows:

	2010	2009	01/01/2009
Total Capital in shares			
Common shares	168,819,870	168,819,870	168,819,870
Preferred shares	337,417,402	337,417,402	337,417,402
Total	506,237,272	506,237,272	506,237,272
Treasury shares			
Common shares	(210,579)	(210,579)	(210,579)
Preferred shares	(185,213)	(185,213)	(185,213)
Total	(395,792)	(395,792)	(395,792)
Outstanding shares			
Common shares	168,609,291	168,609,291	168,609,291
Preferred shares	337,232,189	337,232,189	337,232,189
Total	505,841,480	505,841,480	505,841,480
Book value per outstanding share in R$	23.06	22.34	19.86

The Company is authorized to increase its capital up to the limit of 700,000,000 (seven hundred million) shares, common or preferred. The capital increase and consequent issue of new shares are to be approved by the Board of Directors, with observance of the authorized capital limit.

Capital increases do not necessarily have to observe the proportion between the numbers of shares of each type. However, the number of preferred shares, nonvoting or with restricted voting, must not exceed 2/3 of the total shares issued.

Preferred shares are nonvoting, but have priority in the reimbursement of capital and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's bylaws and clause II, paragraph 1, article 17, of Law No. 6,404/76.

b) Capital reserves

Share premium

This reserve represents the amount exceeding book value of the shares arising from the issuance or capitalization on the date of issue.

c) Treasury shares

These correspond to the Company's treasury shares which resulted from merger with TDBH that occurred in 2006, part of which refer to exercise of withdrawing rights and the remaining to the share auctions carried out by the

Company. The average cost of acquisition was R$44.77. At December 31, 2010, the market value of treasury shares was R$16,060.

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d) Income reserves

Legal reserve

According to article 193 of Law No. 6,404/76, the Company chose not to set up the legal reserve, as such balance added to the capital reserve balance exceeded capital by 30%.

e) Special goodwill reserve

This represents the tax benefit generated by the merger of DABR which will be capitalized on an annual basis on behalf of the controlling shareholder as the tax credit becomes realized, according to CVM Instruction No. 319/99.

f) Dividends

The Company's bylaws provide for mandatory distribution of minimum dividends to all shareholders corresponding to 25% of adjusted net income, as established by article 202, subparagraphs II and III of Law No. 6404/76 provided there are funds available for distribution.

Dividends are calculated in accordance with the Company's by-laws and with the Brazilian Corporation Law. The Company presents the calculation of dividends and interest on shareholders' equity for 2010 and 2009 as follows:

Minimum mandatory dividends calculated based on adjusted net income	2010	2009
Net income for the year	2,398,836	2,204,089
Minimum mandatory dividends – 25% of adjusted net income	599,709	551,022
Dividends and interest on shareholders' equity distributed:		
Interest on shareholders' equity (gross)	592,000	605,000
Interim dividends	196,355	470,000
Profit available for distribution	1,610,481	1,129,089
(+) Interest on shareholders' equity / Prescribed dividends	134,440	153,673
(-) Actuarial (gains)/losses recognized and effect of the limitation of the surplus plan assets, net of tax	42,063	(18,696)
(-) IFRS effects on 2009 equity	8,759	(8,759)
(-) First-time adoption of IFRS – opening balance 01/01/2009	-	58,571
Proposed dividends	1,694,099	1,251,646

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Amounts in R$ per share (a)	2010 Gross	2010 Net	2009 Gross	2009 Net
Interest on shareholders’ equity - common	1.097180	0.932603	1.121274	0.953083
Interest on shareholders’ equity – preferred	1.206898	1.025863	1.233401	1.048391

Amounts in R$ per share (a)	2010 Common	2010 Preferred
Interim dividends declared in April 2010	2.319731	2.551704
Interim dividends declared in September 2010	0.363913	0.400305
Interest on shareholders’ equity – net of withholding income tax	0.614384	0.675822
Interest on shareholders’ equity – net of withholding income tax	0.318219	0.350041
	3.616247	3.977872

Amounts in R$ per share (a)	2009 Common	2009 Preferred
Interim dividends declared in March 2009	0.732276	0.805503
Interim dividends declared in May 2009	0.871072	0.958179
Interest on shareholders’ equity – net of withholding income tax	0.630137	0.693151
Interest on shareholders’ equity – net of withholding income tax	0.322945	0.355240
	2.556430	2.812073

(a) Do not include the amount of proposed dividends.

The balance of unallocated net income for the year at December 31, 2010, in the amount of R$1,610,481, the dividends and interest on shareholders’ equity prescribed in 2010 in the amount of R$134,440 and other comprehensive income in the amount of R$ (50,822), totaling R$1,694,099, were classified as additional proposed dividends in shareholders’ equity according to management’s proposal distribution of net income for the year, to be submitted for approval of the Ordinary General Shareholders’ Meeting.

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Management’s proposed dividend payment to be approved:

Total proposed for approval	R$1,694,099

Amount per share	Common registered shares (ON)	Preferred registered shares (PN)
Total proposed for approval – amount per share	3.139752	3.453727

g)Interest on shareholders’ equity

As proposed by Management, in 2010 and 2009 interest on shareholders’ equity was credited to shareholders in accordance with article 9 of Law No. 9,249/95, net of withholding tax, as follows:

	2010	2009
Gross interest on shareholders’ equity	592,000	605,000
Common shares	184,995	189,057
Preferred shares	407,005	415,943
Withholding income tax	(88,800)	(90,750)
Interest on shareholders’ equity, net of withholding tax	503,200	514,250

Tax-exempt shareholders receive interest on shareholders’ equity in full, not subject to withholding tax.

h)Payment of dividends and interest on shareholders’ equity

On April 7, 2010, the Ordinary General Shareholders’ Meeting approved the allocation of additional proposed dividends referring to the remaining profit balance of 2009 and expired dividends and interest on shareholders’ equity of 2009, in the amount of R$1,251,646, provided for in the profit allocation proposal to common and preferred shareholders included in the Company’s records by the end of April 7, 2010. As from April 26, 2010, the first installment of R$ 800,000 began being paid, and the remaining portion of R$451,646 began being paid by December 13, 2010.

On September 29, 2010, the Board of Directors approved the payment of interim dividends in the amount of R$196,355, based on profit recorded in the balance sheet as of June 30, 2010, to holders of common and preferred shares included in the Company’s records by the end of September 30, 2010. Payment of such interim dividends began on December 13, 2010.

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On September 29, 2010, the Board of Directors approved the credit of interest on shareholders' equity for the financial year 2010, in the amount of R$390,000, subject to 15% withholding income tax, resulting in the net amount of R$331,500 to holders of common and preferred shares included in the Company's records by the end of September 30, 2010. Payment of interest on shareholders' equity began on December 13, 2010.

On December 14, 2010, the Board of Directors approved the credit of interest on shareholders'equity for the financial year 2010 in the amount to R$202,000, subject to 15% withholding income tax, resulting in the net amount of R$171,700 to holders of common and preferred shares included in with the Company's records by the end of December 30, 2010. Payment of such interest will start until December 21, 2011, and the date will be established and communicated by the Company's Executive Board.

i. Unclaimed dividends

Dividends and interest on shareholders' equity are barred by statute of limitation after three years, as from the date of beginning of payment thereof, if not claimed by shareholders, according to article 287, clause II, item a. of Law No. 6,404, dated December 15, 1976.

22. Net operating revenue

	2010	2009
Gross operating revenue	21,358,957	21,584,363
Taxes on gross revenue	(5,602,813)	(5,778,408)
Net operating revenue	15,756,144	15,805,955

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23. Breakdown of operating expenses

	2010	2009
Depreciation and amortization (a)	(1,913,494)	(2,505,475)
Personnel (b)	(1,030,510)	(722,626)
Network Interconnection and network usage	(4,520,992)	(4,386,266)
Outsourced services	(4,101,459)	(3,629,996)
Allowance for doubtful accounts	(386,340)	(564,580)
Taxes	(251,099)	(281,960)
Concession agreement fee (note 1.c)	(102,568)	(100,470)
Other	(124,220)	(192,263)
Total	(12,430,682)	(12,383,636)
Cost of goods and services	(8,792,898)	(9,091,750)
Selling expenses	(2,550,741)	(2,536,902)
General and administrative expenses	(1,087,043)	(754,984)
Total	(12,430,682)	(12,383,636)

(a) As mentioned in Note 12, the depreciation account was impacted by the review of property, plant and equipment useful lives.
(b) In 2009 personnel expenses were affected in the amount of R$ 158,478 by the change in estimate for calculation of the claims relating to massive actions, which are calculated based on the historical average of payments made in massive actions.

24. Other operating income (expenses), net

	2010	2009
Fines on telecommunication services	92,794	115,920
Rental of infrastructure	46,398	46,578
Donation and sponsorships	(37,726)	(30,598)
Provision for civil contingencies, net	(121,973)	(115,447)
Net profit on disposal of assets (a)	230,335	(14,375)
Net Income from sales of investments (note 11)	87,151	-
Other income/expenses	(78,603)	(45,207)
Total	218,376	(43,129)
Other operating income	881,184	706,289
Other operating expenses	(662,808)	(749,418)
Total	218,376	(43,129)

(a) In the fourth quarter of 2010, Telesp assigned the right to commercially explore spaces existing in approximately 1,085 transmission towers it owns, and transferred the activity of managing and maintaining the telecommunication tower to a third-party company that specializes in providing such services for the amount of R$233,421 (net amount of the monthly rent of land deferred). Considering that significant risks and benefits were transferred, for purposes of the conditions of the concession, such operation was assessed under IAS 17 – Leases perspective, and classified as a financial lease. Net effect on 2010 P&L is recorded as "Other Operating Income (Expenses)".

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In addition, Telesp has entered into an infrastructure sharing agreement for the use of part of the assigned towers for a 13-years' period. Based on IFRIC 4 – Determining whether an Arrangement Contains a Lease, the Company has assessed that this sharing agreement qualifies as a service agreement since parties other than Telesp and its related companies commonly share and are more likely than not to continue to share the cost of such towers. Therefore the cost of this service agreement will be recognized as expenses over the effective term of the agreement.

The transaction aimed to offer higher quality and efficiency of the infrastructure sharing activity of these towers, in addition to generating greater operating efficiency of the telecommunication services, thus allowing Telesp to focus its efforts and investments in developing its main business activity.

25. Financial income (expenses)

	2010	2009
Financial income	344,354	455,888
Income from short-term investments	181,717	172,164
Gains on derivative transactions	18,567	65,878
Interest receivable	33,834	45,545
Monetary/exchange variations receivable	86,950	147,471
Other financial income	23,286	24,830
Financial expenses	(465,092)	(644,680)
Interest payable	(355,971)	(421,599)
Losses on derivative transactions	(20,746)	(118,061)
Expenses on financial transactions	(73,876)	(69,380)
Monetary/exchange variations payable	(14,499)	(35,640)
Total	(120,738)	(188,792)

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26. Income and social contribution taxes

The Company recognizes income tax and social contribution monthly on the accrual basis and pays the taxes on an estimated basis, in accordance with the trial balance for suspension or reduction. The taxes calculated on income until the month of the financial statements are recorded in liabilities or assets, as applicable.

Reconciliation of reported income tax expense and combined statutory tax rates

Reconciliation of the reported tax charges and the amounts calculated by applying 34% (income tax of 25% and social contribution tax of 9%) in December of 2010 and 2009 is shown in the table below:

	2010	2009
Income before taxes	3,425,989	3,209,186
Income and social contribution taxes		
Income and social contribution taxes expenses	(1,164,836)	(1,091,123)
Permanent differences		
Equity pickup	982	6,387
Unclaimed interest on shareholders’ equity	(7,483)	(14,407)
Unrecognized deferred tax asset of subsidiaries	(60,726)	(109,670)
Nondeductible expenses, gifts, incentives and dividends received	(24,532)	(23,237)
Tax benefit of interest on shareholders’ equity	201,280	205,700
Other items		
Incentives (cultural, food and transportation)	28,162	21,253
Total general	(1,027,153)	(1,005,097)
Effective rate	30 %	31 %
Current income and social contribution taxes	908,259	729,342
Deferred income and social contribution taxes	118,894	275,755
Total	1,027,153	1,005,097

The components of deferred income and social contribution tax assets and liabilities on temporary differences are shown in note 8.2.

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27. Earnings per Share

Basic and diluted earnings per share were calculated by dividing income attributed to the Company's shareholders by the weighted average of the number of outstanding common and preferred shares for the year. No transactions were carried out that could have potential shares issued through the date of issuance of the consolidated financial statements; therefore, there are no adjustments of diluting effects inherent to the potential issue of shares.

The table below shows for the periods ended the calculation of earnings per share:

	2010	2009
Net income attributable to the shareholders:	2,398,836	2,204,089
Common shares	749,615	688,759
Preferred shares	1,649,221	1,515,330
Number of shares:	505,841	505,841
Weighted average common shares outstanding during the year	168,609	168,609
Weighted average preferred shares outstanding during the year	337,232	337,232
Basic and diluted earnings per share:		
Common shares	4.45	4.08
Preferred shares	4.89	4.49

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28. Transactions with related parties

The principal balances with related parties are as follows:

	Atento Brasil S.A.	TIWS Brasil Ltda.	Vivo	Telefônica Serviços Empresariais do Brasil Ltda.	Telefónica S.A.	Other	Total 2010	2009
Assets								
Current assets	8,250	1,752	312,910	13,167	51	103,537	439,667	643,407
Trade accounts receivable	4,865	1,674	312,199	710	-	24,767	344,215	523,150
Other assets	3,385	78	711	12,457	51	78,770	95,452	120,257
Noncurrent assets	-	134	427	1,943	92	14,347	16,943	23,541
Other assets	-	134	427	1,943	92	14,347	16,943	23,541
Total assets	8,250	1,886	313,337	15,110	143	117,884	456,610	666,948
Liabilities								
Current liabilities	104,330	24,072	343,365	20,200	35,543	182,020	709,530	863,707
Trade accounts payable	101,628	23,207	274,410	20,166	846	17,046	437,303	591,987
Interest on shareholders' equity	-	-	-	-	-	151,246	151,246	153,492
Other liabilities	2,702	865	68,955	34	34,697	13,728	120,981	118,228
Noncurrent liabilities	338	259	-	2,324	-	7,817	10,738	15,542
Other liabilities	338	259	-	2,324	-	7,817	10,738	15,542
Total liabilities	104,668	24,331	343,365	22,524	35,543	189,837	720,268	879,249
STATEMENT OF INCOME								
Revenue	30,356	3,837	419,445	2,261	1,553	49,332	506,784	381,307
Telecommunications services	30,356	3,837	419,445	2,147	-	43,608	499,393	376,333
Financial income	-	-	-	114	1,553	5,724	7,391	899
Other operating revenues	-	-	-	-	-	-	-	4,075
Costs and expenses	(704,683)	(80,560)	(1,816,903)	(89,118)	(89,365)	(51,922)	(2,832,551)	(2,876,914)
Cost of services provided	(309,483)	(80,560)	(1,701,361)	(39,292)	(16)	(28,839)	(2,159,551)	(2,302,228)

Selling	(364,261)	-	(115,481)	(4,809)	(106)	(10,533)	(495,190)	(486,675)
General and administrative	(30,939)	-	(54)	(45,017)	(89,187)	(790)	(165,987)	(83,643)
Financial expenses	-	-	(7)	-	(56)	(2,818)	(2,881)	-
Other operating expenses	-	-	-	-	-	(8,942)	(8,942)	(4,368)

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Trade accounts receivable include receivables for telecommunication services, principally from Vivo S.A., Terra Networks Brasil S.A. particularly for long-distance calls, and Tiws Brasil Ltda. due to the contract of rendering services of rights of use of undersea fiber optic.

Other intercompany receivables in Current Assets and Noncurrent Assets include credits with Telefónica Internacional S.A., Telefónica del Peru, Terra Networks Brasil S.A., Telefônica Serviços Empresariais do Brasil Ltda., Telefónica Telecom Colombia, Atento Brasil S.A. and other Group companies, corresponding to services rendered, advisory fees, expenses with salaries and other expenses paid by the Company to be refunded by the corresponding companies.

Trade accounts payable include services rendered, particularly by Atento Brasil S.A. for call center management services, Vivo S.A. for interconnection and traffic services (mobile terminal), Tiws Brasil Ltda. for provision of transmission infrastructure to various international data circuits, Terra Networks Brasil S.A., other satellite services rendered by Tiws España and signal processing and transmission for satellite TV service with Media Networks Latin. We also highlight the rendering of administrative management services in the accounting, finance, HR, equity, logistics and IT functions payable to Telefônica Serviços Empresariais do Brasil Ltda.

Other intercompany payables in Current and Noncurrent Liabilities mainly include payables for technical support and management services to Telefónica Internacional S.A., SP Telecomunicações Holding Ltda. and Telefónica S.A. and reimbursements payable to Telefónica del Peru and Vivo S.A.

Revenues from telecommunication services are mainly related to billing speedy services and interregional long-distance services with Vivo S.A., Terra Networks Brasil S.A. and Atento Brasil S.A.

Other operating revenues mainly include network infrastructure leased to Vivo S.A and Atento Brasil S.A.

The balance of costs of services provided mainly refers to interconnection and traffic services (mobile terminal), rendered by Vivo S.A., call center management services rendered by Atento Brasil S.A., international transmission infrastructure provided by Tiws Brasil Ltda.

The balance of Selling Expenses mainly refers to marketing services rendered by Atento Brasil S.A. and commission paid to mobile telephony operators with Vivo S.A.

General and administrative expenses mainly relate to Atento Brasil S.A., and management and technical services payable to Telefónica S.A.

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MEMBERS OF BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

Antonio Carlos Valente da Silva	Chief Executive Officer
José María Álvarez-Pallete López	Vice-Chairman
Mariano Sebastian de Beer	General Director of Fixed Telephony
Gilmar Roberto Pereira Camurra	Chief Financial Officer and Investor Relations Officer
Gustavo Fleichman	General Secretary
Antonio Pedro de Carvalho Viana-Baptista	Member of the Board of Directors
Fernando Abril-Martorell Hernandez	Member of the Board of Directors
Fernando Xavier Ferreira	Member of the Board of Directors
Francisco Javier de Paz Mancho	Member of the Board of Directors
Guillermo José Fernandez Vidal	Member of the Board of Directors
Iñaki Urdangarin	Member of the Board of Directors
José Fernando de Almansa Moreno-Barreda	Member of the Board of Directors
Luciano Carvalho Ventura	Member of the Board of Directors
Luis Javier Bastida Ibarguen	Member of the Board of Directors
Luiz Fernando Furlan	Member of the Board of Directors
Luis Miguel Gilperez Lopez	Member of the Board of Directors
Miguel Ángel Gutiérrez Méndez	Member of the Board of Directors
Narcís Serra Serra	Member of the Board of Directors
José Manuel Fernandez Norniella	Member of the Board of Directors

MANAGEMENT FEES

Fees paid by the Company to its Board of Directors and Executive Committee in 2010 amounted to approximately R$13,000 (R$13,500 in 2009).From such amounts, R$9,500 (R$8,700 in 2009) corresponds to salaries and benefits and R$3,400 (R$4,800 in 2009) to bonuses. Telesp also paid approximately R$7,300 (R$2,600 in 2009) in connection with the Telefónica S.A.’s Performance Share Plan (PSP), a long-term incentive plan.

For the years ended December 31, 2010 and 2009, our Board of Directors and Executive Committee received no benefits related to pension, retirement or other similar plans.

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29. Insurance (unaudited)

The Company and its subsidiaries' polices as well as those of the Telefónica Group includes the maintenance of insurance coverage for all assets and liabilities involving significant amounts and high risks based on management's judgment and following Telefónica S.A.'s corporate program guidelines. The assumptions adopted, given their nature, are not in the scope of an audit of financial statements, and therefore, were not audited by our independent auditors.

The main assets, liabilities or interests covered by insurance and their respective amounts are as follows:

Type	Insurance coverage
Operational risks (with loss of profits)	R$24,517,535
Optional civil responsibility vehicles	R$1,000
ANATEL guarantee insurance	R$19,996

30. Post-retirement benefit plans

The plans sponsored by the Company and the related benefit types are as follows:

Plan	Type (1)	Entity	Sponsor
PBS-A	DB	Sistel	Telecomunicações de São Paulo S.A. – Telesp in conjunction with the other companies resulting from the breakup of Telebras.
PAMA/PCE	DB	Sistel	Telecomunicações de São Paulo S.A. – Telesp in conjunction with the other companies resulting from the breakup of Telebras.
CTB	DB	TELESP	Telecomunicações de São Paulo S.A. - Telesp
PBS TELESP	DB	VisãoPrev	Telecomunicações de São Paulo S.A. - Telesp
VISÃO A. TELECOM	DB	VisãoPrev	A .Telecom S.A.
VISÃO ASSIST	Hybrid	VisãoPrev	A .Telecom S.A.
VISÃO TELEFÔNICA EMPRESAS	Hybrid	VisãoPrev	Telefônica Data S.A.
VISÃO TELESP	Hybrid	VisãoPrev	Telecomunicações de São Paulo S.A. - Telesp and VisãoPrev Sociedade de Previdência Complementar.

(1) DB = Defined Benefit Plan;
DC = Defined Contribution Plan;
Hybrid = Plan that offers both DB and DC-type benefits.

Telesp individually sponsors a defined benefit retirement plan (PBS Telesp Plan), administered by Visão Prev, which covers approximately 0.54% of the Company's employees. In addition to the supplemental pension benefit, a multiemployer plan (PBS-A) and health care plan (PAMA) are provided to retired employees and their dependents (administered by Fundação Sistel), at shared costs. Contributions to the PBS Telesp Plan are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The funding procedure is the capitalization method and the sponsor's contribution is 13.92% of

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payroll of employees covered by the plan, of which 12.42% is allocated to fund the PBS Telesp Plan and 1.5% to the PAMA Plan.

For other Telesp employees, there is an individual defined contribution plan - Visão Telesp Benefit Plan. The Visão Telesp Plan is funded by contributions made by the participants (employees) and by the sponsor which are credited to participants' individual accounts. Telesp is responsible for bearing all plans administrative and maintenance expenses, including participant's death and disability risks. The Company's contributions to the Visão Telesp Plan are equal to those of the employees, varying from 2% to 9% of the contribution salary, based on the percentage chosen by the participant.

Additionally, the Company supplements the retirement benefits of certain employees of the former CTB - Companhia Telefônica Brasileira.

During 2010, the Company made contributions to the PBS Telesp Plan in the amount of R$17 (R$22 in 2009) and to Plano Visão Telesp in the amount of R$24,788 (R$22,861 in 2009).

A. Telecom sponsors two private pension plans for defined contribution; namely, one similar to that of Telesp, denominated Visão Assist Benefits Plan, which is granted to approximately 28% of its employees and another, denominated Visão A. Telecom Benefits Plan, whose basic and additional contributions by sponsor correspond to 30% of basic and additional contribution by participants. The contributions of A. Telecom to these plans totaled R$211 (R$330 in 2009).

Telefonica Data S.A. individually sponsors a defined contribution plan similar to that of the Company, the Visão Telefônica Empresas Benefit Plan. Total contributions to this plan amounted to R$575 (R$652 in 2009).

The actuarial valuation of the plans was made in December 2010 and 2009 based on the record of plan members projected on December 31, 2010 and 2009, respectively, for the plans administered by Sistel and by Visão Prev and the financial information as of December 31, 2010 and 2009, respectively, adopting the projected unit credit method. Actuarial gains or losses for each year were immediately recognized in each of the periods. The plan assets relate to December 31, 2010 and 2009, respectively, and that for multiemployer plans (PAMA and PSB-A), apportionment of the plan assets was made based on the sponsoring entity's actuarial liabilities in relation to the plans' total actuarial liabilities.

Actuarial liabilities recorded by the Company as of December 31, 2010 and 2009 are as follows:

Plan	2010	2009	01/01/2009
CTB	20,818	23,508	26,482
PAMA	198,182	168,419	122,288
Total Consolidated	219,000	191,927	148,770

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a. Reconciliation of assets and liabilities

2010	CTB	PAMA(i)	PBS-A(i)	PBS	Visão Telesp/ Assist/TData	Total
Total actuarial liabilities	20,818	272,141	1,138,330	94,177	31,914	1,557,380
Fair value of assets	-	73,959	1,717,747	111,613	121,377	2,024,696
Liabilities (assets), net	20,818	198,182	(579,417)	(17,436)	(89,463)	(467,316)
Assets limitation	-	-	579,417	17,436	62,292	659,145
Net liability recognized in the balance sheet	20,818	198,182	-	-	-	219,000
Net asset recognized in the balance sheet	-	-	-	-	27,171	27,171

2009	CTB	PAMA(i)	PBS-A(i)	PBS	Visão Telesp/ Assist/TData	Total
Total actuarial liabilities	23,508	238,767	1,082,458	93,098	31,348	1,469,179
Fair value of assets	-	70,348	1,479,620	108,062	110,828	1,768,858
Liability (assets), net	23,508	168,419	(397,162)	(14,964)	(79,480)	(299,679)
Assets limitation	-	-	397,162	14,964	14,294	426,420
Net liability recognized in the balance sheet	23,508	168,419	-	-	-	191,927
Net asset recognized in the balance sheet	-	-	-	-	65,186	65,186

(i) Refers to the proportional share of Telesp in the assets and liabilities of the PAMA and PBS-A multiemployer plans.

b. Total expenses recognized in the statement of income

2010	CTB	PAMA	PBS	Visão Telesp/ Assist/TData	Total
Current service cost	-	159	78	3,663	3,900
Interest cost	2,148	23,038	8,803	2,865	36,854

Expected return on plan assets	-	(6,489)	(11,334)	(11,970)	(29,793)
	2,148	16,708	(2,453)	(5,442)	10,961

	2009				
	CTB	PAMA	PBS	Visão Telesp/ Assist/TData	Total
Current service cost	-	157	135	3,368	3,660
Interest cost	2,503	18,973	8,935	2,736	33,147
Expected return on plan assets	-	(7,064)	(9,976)	(10,381)	(27,421)
	2,503	12,066	(906)	(4,277)	9,386

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c. Amounts recognized in other comprehensive income

	2010				
	CTB	PAMA	PBS	Visão Telesp/ Assist/TData	Total
Actuarial (gains) losses recognized immediately	(1,809)	13,069	(7)	(1,138)	10,115
Limitation effect	-	-	2,472	47,998	50,470
Total cost recognized in other comprehensive income	(1,809)	13,069	2,465	46,860	60,585

	2009				
	CTB	PAMA	PBS	Visão Telesp/ Assist/TData	Total
Actuarial (gains) losses recognized immediately	(2,344)	34,080	(13,453)	(8,066)	10,217
Limitation effect	-	-	14,379	(47,168)	(32,789)
Total cost recognized in other comprehensive income	(2,344)	34,080	926	(55,234)	(22,572)

d. Changes in net actuarial (assets) liabilities

	CTB	PAMA	PBS-A	PBS	Visão Telesp/ Assist/TData	Total
Plan (assets) liabilities as of January 1, 2009	26,482	122,288	-	-	(2,936)	145,834
Expenses in 2009	2,503	12,066	(65,281)	(906)	(4,277)	(55,895)
Contributions of the companies to plans in 2009	(3,133)	(15)	-	(20)	(2,738)	(5,906)
Amounts recognized in other comprehensive income	(2,344)	34,080	65,281	926	(55,234)	42,709
Plan (assets) liabilities as of December 31, 2009	23,508	168,419	-	-	(65,185)	126,742
Expenses in 2010	2,148	16,708	(39,472)	(2,453)	(5,442)	(28,511)
Contributions of the companies to plans in 2010	(3,029)	(14)	-	(12)	(3,404)	(6,459)
Amounts recognized in other comprehensive income	(1,809)	13,069	39,472	2,465	46,860	100,057
Plan (assets) liabilities as of December 31, 2010	20,818	198,182	-	-	(27,171)	191,829

Actuarial asset recognized in the balance sheet	-	-	-	-	27,171	27,171
Actuarial liability recognized in the balance sheet	20,818	198,182	-	-	-	219,000

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e. Changes in actuarial liabilities

	CTB	PAMA	PBS-A	PBS	Visão Telesp/ Assist/TData	Total
Actuarial liabilities as of January 1, 2009	26,482	190,541	1,068,380	91,583	28,875	1,405,861
Cost of current service	-	157	-	135	3,368	3,660
Interest on actuarial liabilities	2,503	18,973	104,319	8,935	2,736	137,466
Benefits paid in the year	(3,133)	(7,817)	(84,183)	(6,341)	(552)	(102,026)
Contributions of participants in the year	-	-	-	10	224	234
Actuarial (gains) losses in the year	(2,344)	36,913	(6,057)	(1,224)	(3,303)	23,985
Actuarial liabilities as of December 31, 2009	23,508	238,767	1,082,459	93,098	31,348	1,469,180
Cost of current service	-	159	-	78	3,663	3,900
Interest on actuarial liabilities	2,148	23,038	102,290	8,803	2,865	139,144
Benefits paid in the year	(3,029)	(9,916)	(93,289)	(6,665)	(585)	(113,484)
Contributions of participants originated in the year	-	-	-	1	302	303
Actuarial (gains) losses in the year	(1,809)	20,092	46,870	(1,138)	(5,678)	58,337
Actuarial liabilities as of December 31, 2010	20,818	272,140	1,138,330	94,177	31,915	1,557,380

f. Changes in plan assets

	CTB	PAMA	PBS-A	PBS	Visão Telesp/ Assist/TData	Total
Fair value of plan assets as of January 1, 2009	-	68,253	1,463,441	92,168	93,273	1,717,135
Benefits paid in the year	(3,133)	(7,817)	(84,183)	(6,341)	(552)	(102,026)
Total contributions in the year	3,133	15	-	30	2,962	6,140
Expected return of plan assets in the year	-	7,064	169,599	9,976	10,381	197,020
Gains / (losses) on assets	-	2,833	(69,237)	12,229	4,764	(49,411)
Fair value of plan assets as of December 31, 2009	-	70,348	1,479,620	108,062	110,828	1,768,858
Benefits paid in the year	(3,029)	(9,916)	(93,289)	(6,665)	(585)	(113,484)
Total contributions in the year	3,029	14	-	12	3,404	6,459
Expected return on plan assets in the year	-	6,490	141,762	11,334	11,970	171,556

Gains / (losses) on assets	-	7,023	189,654	(1,131)	(4,539)	191,007
Fair value of plan assets as of December 31, 2010	-	73,959	1,717,747	111,612	121,378	2,024,396

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g. Expenses estimated for 2011

	CTB	PAMA	PBS	Visão Telesp/ Assist/TData	Total
Cost of current service	-	145	17	3,960	4,122
Interest cost	1,978	27,400	9,283	3,051	41,712
Expected return on plan assets	-	(7,654)	(12,529)	(6,871)	(27,054)
Total expenses (reversions) for 2011	1,978	19,891	(3,229)	140	18,780

h. Actuarial assumptions

2010	Expected return rate on plan assets	Future salary growth rate	Medical care cost growth rate	Annual nominal index of private pension benefit restatement	Increase in medical services use according to age	Expected age to qualify for the use of medical services	Expected retirement age
PBS/Visão Telesp/Visão Assist/Visão T.Data	11.60%	PBS: 6.54% Visão: 7.20%	N/A	5.00%	N/A	N/A	First age entitled to one of the benefits
CTB	N/A	N/A	N/A	5.00%	N/A	N/A	First date on which it becomes eligible for Social Security benefit
PAMA	11.07%	N/A	8.15%	N/A	4.00%	5% upon reaching 52 years old and 10 years participating; 3% for each subsequent year; 100% in eligibility for regular retirement	N/A
PBS-A	12.08%	N/A	N/A	5.00%	N/A	N/A	N/A

Note: These are all nominal rates, except for medical services claim frequencies.

In addition to the above-mentioned assumptions, other assumptions common to all plans were adopted, as follows:

- Actuarial liability discount-to-present-value rate: 10.25%;
- Inflation rate: 5.0%;
- Capacity factor for salaries and benefits: 98%;
- Turnover: 0.15 (years of service +1), zero from age 50;
- Disability entry table: Mercer Disability;
- Actuarial Table: AT2000 segregated by sex; and
- Disability mortality table: IAPB-57.

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2009	Expected return rate on plan assets	Future salary growth rate	Medical care cost growth rate	Annual nominal index of private pension benefit restatement	Increase in medical services use according to age	Expected age to qualify for the use of medical services	Expected retirement age
PBS/Visão Telesp/Visão Assist/Visão T.Data	10.84%	PBS: 6.14% Visão: 6.79%	N/A	4.60%	N/A	N/A	First age entitled to one of the benefits
CTB	N/A	N/A	N/A	4.60%	N/A	N/A	First date on which it becomes eligible for Social Security benefit
PAMA	9.84%	N/A	7.73%	N/A	4.00%	5% upon reaching 52 years old and 10 years participating; 3% for each subsequent year; 100% in eligibility for regular retirement	N/A
PBS-A	9.86%	N/A	N/A	4.60%	N/A	N/A	N/A

Note: These are all nominal rates, except for medical services claim frequencies.

In addition to the above-mentioned assumptions, other assumptions common to all plans were adopted, as follows:

- Actuarial liability discount-to-present-value rate: 9.83%;
- Inflation rate: 4,60%;
- Capacity factor for salaries and benefits: 98%;
- Turnover: 0.15(years of service +1), zero from age 50;
- Disability entry table: Mercer Disability;
- Actuarial Table: AT83 segregated by sex; and
- Disability mortality table: IAPB-57.

i. Expected long-term investment return

	2010	2009

Percentage of allocation of plan assets		
Capital instruments	14.28%	12.49%
Debt instruments	85.09%	87.20%
Other	0.63%	0.31%
	100%	100%
Expected return from plan assets		
Capital instruments	15.61%	14.94%
Debt instruments	10.82%	9.98%
Other	10.25%	9.83%
Total	11.50%	10.60%

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Expected long-term investment return rates related to the plans assessed were selected by the Company, being determined based on expected long-term profitability, considering long-term projections provided by Tendências Consultoria and ANBIMA data, among others, as follows:

- § Variable income assets: risk premium estimated by Mercer (actuarial advisor) history;
- § Fixed income securities: weighted average rate based on National Treasury Bills (LTN) available and National Treasury Notes – F Series (NTN-F) market portfolio;
- § Assets linked to inflation: weighted average rate based on NTN-B and NTN-C portfolio available in the market;
- § Foreign exchange securities: average SELIC rate weighted by the foreign exchange variation rate projected for the following ten years;
- § Fixed income assets: average internal nominal interest rate variation, projected for the following 10 years;
- § Loans to participants: the higher rate between CDI and the plan actuarial goal is considered;
- § Properties: the plan actuarial goal used was that of its administrator.

j. History of assets and obligations observed

	2010		2009		2008		2007		2006	
Liabilities present value	419,050		386,722		337,480		257,787		230,717	
Fair value of assets	306,949		289,239		253,695		232,378		199,318	
Deficit	112,101		97,483		83,785		25,409		31,398	
Adjustment for liabilities experience (%)	1.29	%	7.77	%	11.83	%	6.87	%	14.11	%
Adjustment for liabilities experience (amounts)	5,397		30,043		39,929		17,709		32,557	
Adjustment for assets experience (%)	(0.44	%)	(6.85	%)	(3.39	%)	(9.65	%)	(7.42	%)
Adjustment for assets experience (amounts)	(1,352	)	(19,826	)	(8,598	)	(22,428	)	(14,794	)

k. Estimates of benefits payable within the following years

	2011	2012	2013	2014	2015	2016 -thereof
Defined pension plan	24,986	25,758	26,547	27,372	28,237	1,069,246

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l. Significant considerations on PAMA Plan

The effect of a one percent increase and the effect of one percent decrease in medical cost trend rates are as follows:

a) +1% in nominal growth rate of medical costs

Effect on current service cost and on interest on actuarial liabilities	3,815
Effect on liabilities present value	44,541

b) -1% in nominal growth rate of medical costs

Effect on current service cost and on interest on actuarial liabilities	(3,437)
Effect on liabilities present value	(36,077)

31. Financial instruments

The Company and its subsidiaries made a valuation of their financial assets and liabilities in relation to market values based on available information and appropriate valuation methodologies. However, the interpretation of market information, as well as the selection of methodologies, requires considerable judgment and reasonable estimates in order to produce adequate realizable values. As a result, the estimates presented do not necessarily indicate the amounts which might be realized in the current market. The use of different market approaches and/or methodologies may have a significant effect on the estimated realizable values.

The table below shows a breakdown of financial assets and liabilities as of December 31, 2010.

	Fair value		Amortized cost		Fair value hierarchy			
Financial assets	Measured at fair value through profit or loss	Available for sale	Loans and receivables	Investments held to maturity	Level 1 Market price	Level 2 Estimated based on other market data	Total Book Value	Total Fair Value
Current assets								
Cash and cash equivalents (note 5)	-	-	1,556,715	-	-	-	1,556,715	1,556,715
Derivatives	166	-	-	-	-	166	166	166
Noncurrent assets								
Interests in other companies	-	42,708	-	-	42,708	-	42,708	42,708
	-	-	-	12,884	-	-	12,884	12,884

Amounts linked to the National Treasury Securities (note 9)								
Total financial assets	166	42,708	1,556,715	12,884	42,708	166	1,612,473	1,612,473

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Financial liabilities	Measured at fair value through profit or loss	Amortized cost	Hedge	Level 1 Market price	Level 2 Estimated based on other market data	Total Book Value	Total Fair Value
Current liabilities							
Loans and financing (Note 16)	-	420,412	-	-	-	420,412	420,412
Derivatives	696	-	8,806	-	9,502	9,502	9,502
Noncurrent liabilities							
Loans and financing (Note 16)	-	1,405,314	-	-	-	1,405,314	1,405,314
Derivatives	-	-	18,542	-	18,542	18,542	18,542
Total financial liabilities	696	1,825,726	27,348	-	28,044	1,853,770	1,853,770

Interests in other companies

The Company has direct and indirect interests in other companies resulting from the privatization process. These investments, measured at market value, consider the latest quotation available in December 31, 2010 and 2009.

The table below shows the composition of investments in other companies at market value as of December 31, 2010 and 2009:

	% of Interest	2010	2009	01/01/2009
Portugal Telecom	0.91	-	227,702	210,431
Zon Multimédia	0.52	12,226	17,654	19,531
Other investments		30,483	39,703	35,416
Total		42,709	285,059	265,378

Risk management policy

The Company is exposed to several market risks as a result of its commercial operations, debts obtained to finance its activities and debt-related financial instruments.

The principal market risk factors that affect the Company's business are detailed below:

a) Exchange rate risk

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations, which would increase the financial expenses of loans denominated in foreign currency.

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At December 31, 2010, 0,95% (0,65% at December 31, 2009) of the financial debt was denominated in foreign currency (US dollar). The Company has enter into derivative transactions (exchange rate hedge) with financial institutions to protect itself against exchange rate variation on its gross debt in foreign currency (R$17,304 at December 31, 2010 and R$ 23,006 at December 31, 2009).

In view of this at December 31, 2010 and 2009, the entirety of the debt was covered by asset positions on currency hedge transactions swap for CDI.

There is also the exchange rate risk related to nonfinancial assets and liabilities in foreign currency, which can lead to a lower amount receivable or higher amount payable, depending on exchange rate variation in the period.

As from May 2010, hedge operations were contracted to minimize the exchange rate risk related to these non-financial assets and liabilities in foreign currency. This balance is subject to daily changes due to business dynamics, however, the Company aims to cover the net balance of these rights and obligations (US$3,380 receivable and €37,784 receivable at December 31, 2010) to minimize the related foreign exchange risk.

b) Interest rate risk

This risk arises from the possibility of the Company incurring losses due to changes in internal interest rates, which may affect negatively derivatives in liability positions (exchange rate hedges) contracted at floating interest rates (CDI).

The debt taken out from BNDES bank is indexed by the TJLP (Long Term Interest Rate quarterly set by the National Monetary Council), which was kept at 6,0% per annum since July 2009.

The Company invests cash surplus of R$1,547,785 (R$2,266,896 at December 31, 2009), mainly in short-term financial investments (Bank Deposit Certificates) based on CDI variation, thus generating exposure to variable internal interest rate (CDI). The book value of these instruments approximates market, since they are redeemable within a short term.

c) Debt acceleration risk

As of December 31, 2010, the Company had one financing agreement in force, containing restrictive clauses (covenants), typically applicable to such agreements, relating to cash generation, debt ratios and other restrictions. These covenants – which could otherwise demand payment of liabilities at an earlier time – have been fully performed by the Company, and all economic and financial indexes contractually provided have been achieved.

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d) Credit risk

This risk arises from the possibility that the Company may incur losses due to the difficulty in receiving amounts billed to its customers. The credit risk on accounts receivable is dispersed. The Company constantly monitors the level of accounts receivable and limits the risk of past-due accounts, interrupting access to telephone lines in case the customer does not pay the related bills in 30 days. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

As of December 31, 2010, the Company's customer portfolio had no subscribers whose receivables were individually higher than 1% of the total accounts receivable from services.

The Company is also subject to credit risk arising from short-term investments, letters of guarantee received as collateral in connection with certain operations and receivables from swap transactions. The Company controls the credit limit granted to all counterparties and diversifies such exposure among top-rated financial institutions.

As far as to credit risks are concerned, the Company represents low risk to the market, with good financial indicators and stable operations, being classified as "investment grade" by one of the most well regarded international rating agencies.

Derivatives

All the Company's derivative instruments have the objective of providing a hedge against the risk of variation in exchange rates arising from assets and liabilities in foreign currency, according to the Company's risk management policy. As such, any changes in risk factors generate an opposite effect on the hedged end. There are no derivative instruments for speculative purposes and liabilities in foreign exchange are hedged.

The Company has internal controls over its derivative instruments, which, according to management, are adequate to control the risks associated with each market strategy. The Company's results derived from its derivative financial instruments indicate that the risks have been adequately managed.

The Company and its subsidiaries determine the effectiveness of the derivative instruments entered into to hedge its financial liabilities upon origination and on an ongoing basis (quarterly). As of December 31, 2010, the derivative instruments taken were effective for the debts they are intended to provide coverage. Provided these derivatives contracts qualify as hedge accounting, the debt hedge may also be adjusted at fair value as per the rules applicable to fair value hedge.

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Fair value of derivative financial instruments

The discounted cash flow method was used to determine the market value of finance liabilities (where applicable) and derivative instruments (foreign currency swap), considering expected settlement of liabilities or realization of assets and liabilities at the market rates prevailing at balance sheet date.

Fair values are calculated by projecting future operating flows, using BM&F Bovespa curves, and discounting to present value through market DI rates for swaps, as informed by BM&F Bovespa.

The market values of exchange rate derivatives was obtained through market currency rates in force at the balance sheet date and projected market rates were obtained from currency coupon curves. The coupon for positions indexed to foreign currencies was determined using the 360-calendar-day straight-line convention; the coupon for positions indexed to CDI was determined using the 252-workday exponential convention.

The consolidated derivative financial instruments shown below are registered with CETIP. All of them are classified as swaps and do not require margin deposits.

		Notional Value		Fair value		Accumulated effect in 2010	
Description	Index	2010	2009	2010	2009	Amount receivable	Amount payable
Swap Contracts							
Assets							
Foreign currency (a)		19,608	26,351	17,306	23,010	-	-
BES	USD	3,155	3,155	2,654	2,718	-	-
Votorantim	USD	16,453	23,196	14,652	20,292	-	-
Variable rates (b)		-	1,500,000	-	1,514,243	-	-
Banco do Brasil	CDI + Pre	-	500,000	-	504,748	-	
Citibank	CDI + Pre	-	400,000	-	403,798	-	
HSBC	CDI + Pre	-	400,000	-	403,798	-	-
Votorantim	CDI + Pre	-	200,000	-	201,899	-	-
Variable rates		86,954	-	86,537	-	166	-
Banco do Brasil	CDI	51,025	-	50,647	-	-	-
Citibank	CDI	22,047	-	22,048	-	-	-
Citibank	CDI	10,012	-	9,980	-	166	-
HSBC	CDI	3,870	-	3,862	-	-	-
Liabilities							
Variable rates (a)		(19,608)	(26,351)	(44,654)	(54,681)	-	(27.348)

BES	CDI	(3,155)	(3,155)	(7,185)	(6,547)	-	(4.531)
Votorantim	CDI	(16,453)	(23,196)	(37,469)	(48,134)	-	(22.817)
Variable rates (b)		-	(1,500,000)	-	(1,513,670)	-	-
Banco do Brasil	CDI	-	(500,000)	-	(504,543)	-	-
Citibank	CDI	-	(400,000)	-	(403,657)	-	-
HSBC	CDI	-	(400,000)	-	(403,649)	-	-
Votorantim	CDI	-	(200,000)	-	(201,821)	-	-
Foreign currency		(86,954)	-	(87,068)	-	-	(696)
Bradesco	EUR	(51,025)	-	(51,125)	-	-	(478)
Citibank	EUR	(22,047)	-	(22,253)	-	-	(205)
Citibank	EUR	(10,012)	-	(9,814)	-	-	-
HSBC	USD	(3,870)	-	(3,876)	-	-	(13)
Total recognized						166	(28,044)

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a) Swaps of foreign currency (USD) x CDI (R$17,306) – swap operations in american dollars with several maturities until 2014, with the objective of hedging foreign exchange variation for loans and non-financial commitments, net (debt fair value of R$17,644 and nonfinancial commitments of R$ 17,304).

b) CDI percentage Swap x foreign currency (Euro and Dollar) (R$ 83,192 in Euro and R$ 3,876 in U.S. Dollars) swap contracts with maturities until March 31, 2011, with objective of hedging exchange variation for amounts receivable in Euro (book value of R$84,122) and Dollar (book value of R$ 5,632).

The expected maturities of swap contracts as of December 31, 2010 is as follows

Swap contracts	Maturity				
	2011	2012	2013	2014 Thereafter	Amount payable/ receivable at 12/31/2010
Foreign Currency x CDI	(8,805)	(7,933)	(7,265)	(3,344)	(27,347)
BES	(4,530)	-	-	-	(4,530)
VOTORANTIM	(4,275)	(7,933)	(7,265)	(3,344)	(22,817)
CDI X Foreign Currency	(530)	-	-	-	(530)
CITIBANK	(39)	-	-	-	(39)
BRADESCO	(478)	-	-	-	(478)
HSBC	(13)	-	-	-	(13)

For purpose of preparing the consolidated financial statements, the Company adopted hedge accounting only for its foreign currency X CDI swap operations providing financial debt hedge. Under this methodology, both the derivative and the risk covered are stated at fair value.

For the year ended December 31, 2010, derivative operations generated a net consolidated loss of R$2,179 (note 25). At December 31, 2010, currency hedge transactions generated a net consolidated loss of R$2,260. On June 30, 2010 the Company settled its operations involving swap – CDI + spread vs %CDI, in the principal amount of R$1,500,000, to cover fixed debentures spread, which generated gains of R$80.

At December 31, 2010, the balance of R$166 is recorded as assets and R$28,044 as liabilities, recognizing the position of derivatives as of that date.

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Sensitivity analysis of the Company's risk variables

CVM Deliberation 604/09 requires listed companies to disclose, in addition to the provisions of Technical Pronouncement CPC No. 40 Financial Instruments: Disclosure (equivalent to IFRS 7), a table showing the sensitivity analysis of each type of market risk inherent in financial instruments considered relevant by management and to which the Company is exposed at the closing date of each reporting period, including all operations involving derivative financial instruments.

In compliance with the foregoing, all the operations involving derivative financial instruments were evaluated considering a probable scenario and two scenarios that may adversely impact the Company.

The assumption taken into consideration under the probable scenario was to keep the maturity date of each transaction, what has been signaled by the market through BM&FBovespa market curves (currencies and interest rates). Accordingly, the probable scenario does not provide for any impact on the fair value of the derivative financial instruments mentioned above. For scenarios II and III, risk variables contemplated 25% and 50% deterioration, respectively, pursuant to the applicable CVM instruction.

Considering that the Company has derivative instruments only to cover its assets and liabilities in foreign currency, the changes in scenarios are offset by changes in the related hedged items, thus indicating that the effects are practically null. For these operations, the Company reported the value of the hedged item and of the derivative financial instrument on separate rows in the sensitivity analysis table in order to provide information on the Company's net exposure for each of the three mentioned scenarios, as shown below:

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Sensitivity analysis – Net exposure

Operation	Risk	Probable	25% Decrease	50% Decrease
Hedge (Assets)	Derivatives (Risk of USD decrease)	17,306	21,887	26.578
USD-denominated debt	Debts (Risk of USD increase)	(17,304)	(21,885)	(26.577)
	Net Exposure	2	2	1
Hedge (Liabilities)	Derivatives (Risk of EUR increase)	(83,192)	(104,130)	(125.125)
Non-financial assets in EUR	Asset (Risk of EUR decrease)	84,122	105,153	126.183
	Net Exposure	930	1,023	1.058
Hedge (Liabilities)	Derivatives (risk of USD increase)	(3,876)	(4,847)	(5.818)
Non-financial assets in USD	Asset (Risk of USD decrease)	5,632	7,041	8.449
	Net Exposure	1,756	2,194	2.631
Hedge (Assets - CDI)	Derivatives (Risk of CDI decrease) Net Exposure	41,886	40,317	38.653
Total net exposure in each scenario		44.574	43,535	42,344
Effect on changes in fair value, net		-	(1,039)	(2,230)

Assumptions for analysis of sensitivity

Risk variable	Probable	25% Decrease	50% Decrease
USD	1.6662	2.0828	2.4993
EUR	2.2264	2.7830	3.3396
CDI	10.64%	13.30%	15.96%

To determine the net exposure of the sensibility analysis, all derivatives were considered at market value and only (hedged elements) classified under accounting method were also considered at fair value.

The fair values shown in the table above are based on the status of the portfolio as of December 31, 2010, not reflecting an estimated realization in view of the market dynamics, always monitored by the Company. The use of different assumptions may significantly impact estimates.

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Milton Shigueo Takarada

Accountant
CRC - 1SP138816/O-8
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