TELESP HOLDING CO
Form 6-K
March 29, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the month of March, 2010

Commission File Number: 001-14475

TELESP HOLDING COMPANY

(Translation of registrant s name into English)

Rua Martiniano de Carvalho, 851 21 andar
São Paulo, S.P.
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

TELESP HOLDING COMPANY

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1. *Press Release entitled Telecomunicações de São Paulo S.A. Telesp Financial Statements* dated on December 31, 2009.

Financial Statements

Telecomunicações de São Paulo S.A. - Telesp

December 31, 2009 and 2008
With Report of Independent Auditors
(A free translation of the original issued in Portuguese)

Telecomunicações de São Paulo S.A. - Telesp

Financial statements

As of and for the year ended December 31, 2009 and 2008

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Report of independent auditors

(A free translation of the original report issued in Portuguese)

Shareholders, Management and Board Members
Telecomunicações de São Paulo S.A. TELESP
São Paulo - SP

We have audited the accompanying balance sheets (Company and consolidated) of Telecomunicações de São Paulo S.A. - TELESP as of December 31, 2009 and 2008, and the related statements of income, changes in shareholders equity, cash flows and value added for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of Telecomunicações de São Paulo S.A. - TELESP; (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements, and (c) an assessment of the accounting practices used and significant estimates made by the management of Telecomunicações de São Paulo S.A. - TELESP, as well as an evaluation of the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telecomunicações de São Paulo S.A. - TELESP at December 31, 2009 and 2008, and the results of its operations, changes in its shareholders equity, its cash flows and value added for the years then ended, in accordance with accounting practices adopted in Brazil.

São Paulo, February 10, 2010.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Luiz Carlos Marques
Accountant CRC - 1SP147693/O-5

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The accompanying notes are an integral part of these Financial Statements.

3

The accompanying notes are an integral part of these Financial Statements.

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The accompanying notes are an integral part of these Financial Statements.

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The accompanying notes are an integral part of these Financial Statements.

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The accompanying notes are an integral part of these Financial Statements.

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements

For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

1. Operations and background

a) Controlling shareholders

Telecomunicações de São Paulo S.A.-Telesp (hereinafter Telesp or Company), is headquarted at Rua Martiniano de Carvalho, 851, in the capital of the State of São Paulo. Telesp belongs to the Telefónica Group, telecommunications industry leader in Spain and present in several European and Latin American countries. The Company is controlled by Telefónica S.A., which as of December 31, 2009, held total indirect interest of 87.95% of which 85.57% are common shares and 89.13% are preferred shares.

b) Operations

The Company´s basic business purpose is the rendering of fixed wire telephone services in the state of São Paulo under Fixed Switch Telephone Service Concession Agreement - STFC granted by the National Communications Agency (ANATEL), which is in charge of regulating the telecommunications sector in Brazil (Note 1.c). The Company has also authorizations from ANATEL, directly or through its subsidiaries, to provide other telecommunications services, such as data communication to the business market and broadband internet services under the *Speedy and Ajato* brand and since the second half 2007, pay TV services (i) by satellite all over the country (Telefonica TV Digital) and (ii) using MMDS technology in the cities of São Paulo, Rio de Janeiro, Curitiba and Porto Alegre. On February 16, 2009, the authorizations for use of 2.5GHz frequency associated with pay TV service by MMDS technology was extended through year 2024 and await a position from ANATEL regarding the renewal and payment conditions.

According to ANATEL decision published in the Official Gazette on June 22, 2009, the sale of Speedy Services for broadband internet access was suspended since that date. In compliance with such decision, on June 26, 2009 the Company presented a Speedy network stabilization plan to ANATEL. On July 17, 2009, theCompany informed ANATEL about conclusion of the stability plan implementation.
On August 27,2009 ANATEL released the sale of Speedy.

The Company is registered with the Brazilian Securities Commission (CVM) as a public held company - category A and its shares are traded on the São Paulo Stock Exchange (BOVESPA). The Company is also registered with the US Securities and Exchange Commission (SEC) and its American Depository Shares (ADS s) - level II are traded on the New York Stock Exchange (NYSE).

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

1. Operations and background (Continued)

c) The STFC concession agreement

The Company is a concessionaire of the fixed switch telephone service (STFC) to render local and domestic long-distance calls originated in Region 3, which comprises the State of São Paulo, in Sectors 31, 32 and 34, established in the General Concession Plan (PGO).

The current Concession Agreement, dated December 22, 2005, in force since January 1, 2006, awarded as an onerous title, will be valid until December 31, 2025. However, the agreement can be reviewed on December 31, 2010, 2015 and 2020. Such condition allows ANATEL to set up new requirements and goals for universalization and quality of telecommunication services, according to the conditions in force at that moment.

The Concession Agreement establishes that all assets owned by the Company and which are indispensable to the provision of the services described on such agreement are considered reversible assets and are deemed to be part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the concession agreement, according to the regulation in force at that moment. On December 31, 2009, the net book value of reversible assets is estimated at R$6,954,479 (R$6,929,532 in 2008), comprised of switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

Every two years, during the agreement s new 20-year period, public regime companies will have to pay a renewal fee which will correspond to 2% of its prior-year SFTC revenue, net of taxes and social contributions. The second payment of this biannual fee happened on April 30, 2009 by value of R$203,333, based on the 2008 STFC net revenues.

d) The telecommunications services subsidiaries and associated companies

A. Telecom S.A.

A. Telecom S.A. is a closely held, wholly-owned subsidiary of the Company. It is engaged primarily in providing the telecommunication and data services and customer internal telephony network maintenance. The principal services are as follows:

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

1. Operations and background (Continued)

d) The telecommunications services subsidiaries and associated companies (Continued)

A. Telecom S.A. (Continued)

(i) Digital Condominium: integrated solution equipment and services for voice transmission, data and images on commercial buildings until December 31, 2009. From that date on these services started being provided by Telesp, as per the restructuring mentioned in Note 2a.;

(ii) Installation, maintenance, exchange and extension of new points of internal telephony wire in companies and houses;

(iii) iTelefônica, provider of free internet access;

(iv) Speedy Wi-Fi, broadband service for wireless internet access;

(v) Speedy Corp, broadband provider developed specially to the corporate market;

(vi) Integrated IT solution named Posto Informático allowing access to Internet, connection of private networks and rent of IT equipment;

(vii)Satellite TV services (Direct to Home DTH) throughout the country. The DTH is a special type of subscription TV service, which uses satellites for direct distribution of TV and audio signals to subscribers.

Telefônica Sistema de Televisão S.A. (formerly Lightree Sistema de Televisão S.A.):

The corporate purpose of Telefônica Sistema de Televisão S.A. (TST) is to provide pay-TV services in the form of Multichannel Multipoint Distribution Service (MMDS), as well as telecommunication and internet-based services.

Telefônica Data S.A. (formerly Telefonica Empresas S.A.):

The corporate purpose of Telefônica Data S.A. is to provide and operate telecommunications services, as well as to prepare, implement and deploy projects involving integrated corporate solutions, telecommunication advisory services,

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

1. Operations and Background (Continued)

d) The telecommunications services subsidiaries and associated companies (Continued)

technical assistance services, sale, lease and maintenance of telecommunication equipment and networks.

Aliança Atlântica Holding B.V.:

A company formed under the laws of the Netherlands in Amsterdam, whose main asset is the participation of 0.61% in Portugal Telecom. As of December 31, 2009, the Company holds a 50% interest in Aliança Atlântica and Telefónica S.A. holds the remaining 50%.

Companhia AIX de Participações

This company is engaged in both direct and indirect development of activities related to the construction, conclusion and operation of underground fiber optic networks. Currently, Telesp holds a 50% interest in this company.

Companhia ACT de Participações

Companhia ACT is engaged in providing technical assistance for the preparation of Rede Refibra project, by providing studies to make it more profitable, as well as to inspect the activities in progress related to the project. Currently, Telesp holds a 50% interest in this company.

2. Corporate events 2009 and 2008

a) Corporate restructuring involving A.Telecom S.A.:

By resolution of the General Shareholders Meeting held on December 30, 2009, A.Telecom was split off, and its split-off portion was later merged into the Company. This transaction comprised the transfer of fixed asset and rights related to part of A.Telecom customer portfolio. The net assets merged into Telesp amounted to R$99,293.

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

2. Corporate events 2009 and 2008 (Continued)

b) Merger of TS Tecnologia da Informação Ltda.:

On May 22, 2009 the subsidiary TS Tecnologia da Informação Ltda. merged into its controlling company Telefônica Data S.A., for its book value and according to valuation report. Such company ceased to exist after the mentioned operation.

c) Merger of Telefônica Data Brasil Participações Ltda. and Telefônica Televisão Participações S.A.

On October 21, 2008, the Company s Board of Directors approved the proposed corporate reorganization involving the Company, Telefônica Data do Brasil Participações Ltda. (DABR) and Telefônica Televisão Participações S.A. (TTP), as approved at the General Shareholders Meeting held by Telesp on November 11, 2008.

The transaction included the following steps:

1st Step: DABR was merged into Telesp and, as a result, the company and its shares ceased to exist. Telesp shares then owned by DABR were directly assigned to controlling shareholder SP Telecomunicações Participações Ltda. upon merger, with the rights applicable to outstanding shares issued by TELESP remaining unchanged. DABR s net equity included goodwill from Telesp shares, in the amount of R$185,511, which was recorded at the acquisition date based on future profits. In accordance with Law No. 9532/1997, amortization of goodwill will provide Telesp with a tax benefit of R$63,074 and will be reversed in benefit of the Company s controlling shareholder - SP Telecomunicações Participações Ltda. through capital increase upon issue of the Company s shares pursuant to CVM Instruction No. 319/1999. It was guaranteed to other shareholders the preemptive rights in the subscription of capital increases that may occur.

2nd Step: TTP was merged into Telesp, and, as a result, the company and its shares ceased to exist. Goodwill generated by the acquisition of this company in 2007 was recorded based on expected future profits, in the amount of R$848,307, and will provide Telesp with a tax benefit of R$288,424.

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

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2. Corporate events 2009 and 2008 (Continued)

c) Merger of Telefônica Data Brasil Participações Ltda. and Telefônica Televisão Participações S.A. (Continued)

For merger purposes, the net equities of TTP and DABR were measured at book value on September 30, 2008 and October 17, 2008, respectively, by an independent appraiser whose appointment was ratified at the GeneralShareholders Meeting held by Telesp on November 11, 2008. The merged companies had no unrecorded contingent liabilities that would have been assumed by Telesp as a result of this transaction. The transaction is not subject to approval by Brazilian or foreign regulatory entities or anti-trust agencies. No withdrawal rights were exercised since the subsidiaries had no non-controlling interests.

d) Capital increase in Telefônica Televisão Participações S.A. (TTP)

On February 29, 2008, the Company increased capital at Telefônica Televisão with the shares held in A.Telecom with this operation. A.Telecom became a wholly-owned subsidiary of TTP.

On July 25, 2008 the Company increased capital at Telefônica Televisão with shares held in Telefônica Data S.A. (T.Data). T.Data became a wholly-owned subsidiary of TTP.

3. Basis of presentation of the financial statements

The accompanying individual and consolidated financial statements as of December 31, 2009 and 2008 were prepared in accordance with accounting practices adopted in Brazil, with comprise the provisions of corporate legislation set forth in Law No. 6404/76, as amended by Law No. 11.638/07 and by Law No. 11.941/09, and the standards established by the Brazilian Securities Commission (CVM).

As permitted by resolution No. 565 of December 17, 2008, which approved Technical Pronouncement CPC No. 13, as from the year ended December 31, 2008 the Company and its subsidiaries started to adopt by Law No. 11.638/07 and Provisional Executive Order No. 449/08 (turned into Law No. 11.941/09 of May 27, 2009). The Company and its subsidiaries adopted January 1, 2008 as their transition date.

In the course of year 2009 the Brazilian Accounting Pronouncements Committee (CPC) issued and the CVM approved several accounting pronouncements in line with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), effective for fiscal years beginning on or after

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

3. Basis of presentation of the financial statements (Continued)

January 1, 2010 and retroactively applied to fiscal year 2009 for comparability purposes.

The approval of the financial statements conclusion occurred in an Executive Committee Meeting on February 08, 2010.

Assets and liabilities are classified as current when their realization or liquidation will probably occur in the next twelve months. Otherwise, they will be classified as non-current assets and liabilities.

Accounting estimates are considered for the financial statements preparation process. Such estimates are based on objective and subjective factors according to management s judgment for the appropriate amounts to be recorded in the financial statements.

Transactions, which involve estimates mentioned above, may result in different amounts when realized in subsequent periods due to inaccurate results regarding the estimate process. The Company revises its estimation and assumptions periodically.

The consolidated financial statements include the balances and transactions of the following directly and indirectly wholly-owned subsidiaries and jointly controlled affiliates which are proportionally consolidated, according to the corporate participation described below:

In consolidation, all assets, liabilities, revenues and expenses resulting from intercompany transactions and equity holdings between the company and its subsidiaries have been eliminated.

For the financial statements as of December 31, 2008, certain items were reclassified to allow comparability of the current period. These reclassifications were considered to be immaterial in relation to the financial statements as a whole.

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

4. Summary of principal accounting practices

a) Cash and cash equivalents: include cash, positive current account balances, and investments redeemable 90 days from the deposit dates basically comprising CDB (Bank Deposit Certificate), indexed to CDI (Interbank Deposit Certificate) rate variation, with quick liquidity and unlikely change in market value.

b) Trade accounts receivable, net: are stated at the rendered service value according to the contracted conditions adjusted by the estimated amount of eventual losses. This caption also includes accounts receivable from services rendered but not billed at the balance sheet date. Allowance for doubtful account is recorded in order to cover eventual losses and mainly considers the average default rate.

c) Inventories: are stated at average acquisition cost, net of allowance for reduction to realizable value. This corresponds to items for use, maintenance or resale, and the latter includes basically equipment for finance lease operations.

d) Investments: equity interests in wholly owned, jointly controlled and associated companies are accounted for under the equity method. On the consolidated financial statements, all the investments in wholly-owned and jointly controlled companies are consolidated. The subsidiaries are consolidated as of December 31, of each period.

The exchange gains/losses on the shareholder s equity of jointly-owned subsidiary Aliança Atlântica Holding B.V. are recognized in the parent company s shareholders equity under the caption Cumulative Translation Adjustment.

e) Property, plant and equipment: this item is measured at acquisition and/or construction cost, less accumulated depreciation and any impairment losses, if applicable. Asset costs are capitalized until the asset becomes operational.

Costs incurred after the asset becomes operational are immediately expensed, under the accrual method of accounting. Expenses that represent asset improvement (expanded installed capacity or useful life) are capitalized.

Depreciation is calculated under the straight-line method based on the estimated useful lives of the assets and as determined by the Public Telecommunications Service regulations. The main rates are shown in Note 12.

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

4. Summary of principal accounting practices (Continued)

f) Intangible assets: these are stated at acquisition and/or construction cost, less accumulated depreciation and any impairment losses, if applicable.

Intangible assets with finite lives are amortized on the straight-line basis over their estimated useful life. Intangible assets with indefinite useful lives are not amortized but tested for impairment annually or when there is an indication that their carrying amount may not be recovered.

Goodwill arising from the acquisition of investments and recorded based on future profits are treated as intangible assets with indefinite useful lives.

g) Leases: agreements providing for use of specific assets are subject to analysis so as to identify the accounting treatment applicable to lease arrangements under Technical Pronouncement CPC No 06. Agreements in which the lessor substantially transfers the underlying risks and benefits to the lessee are classified as finance lease.

The Company has agreements classified as lease from both lessor s and lessee s standpoint. As a lessor, subsidiary A.Telecom has equipment lease agreements (Posto Informático), for which it recognizes revenue on the installation date at the present value of the agreement installments, matched against Accounts Receivable. As a lessee in agreements classified as finance lease, the Company records a fixed asset item, classified according to its nature, at the beginning of the lease term, at the present value of the agreement minimum mandatory installments matched against Other Liabilities. The difference between the nominal value of the installments and the accounts receivable/payable recorded is recognized as financial income/expense under the effective interest rate method based on the contract term.

Agreements in which lessor retains a substantial part of risks and benefits are deemed as operating lease, and their effects are recognized in P&L for the year throughout the contractual term.

h) Asset recoverability test: Management conducts at least annually reviews of the net book value of its assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate asset impairment or loss in its carrying amount. In cases where the net book value exceeds the realizable value an impairment provision is recognized to adjust the asset s net book value to its realizable value.

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

4. Summary of principal accounting practices (Continued)

i) Financial Instruments: to classify and valuate its financial assets and liabilities, the Company uses the following categories based on Technical Pronouncement No CPC 14, Technical Guidance OCPC 03 Financial Instruments, and CVM Instruction No. 475:

Financial assets and liabilities existing at the balance sheet as of December 31, 2009 are stated by categories in Note 33.

Financial assets and liabilities should be initially measured at fair value. The fair value of financial assets and liabilities is determined based on (i) the price quoted in an active market or, if an active market does not exist, (ii) valuation techniques that allow estimating fair value on the transaction date, considering arm s length transactions between knowledgeable and willing parties.

Financial assets and liabilities are subsequently measured at fair value or amortized cost. Amortized cost corresponds to (i) the initial carrying amount of financial assets or liabilities, (ii) less amortizations of principal and (iii) more or less interest accrued under the effective interest method.

The effects of subsequent measurement of financial assets and liabilities are directly posted to P&L for the year, except for financial assets available for sale, which are measured at market value by reference to the last stock exchange quote in the year. The related change in the fair value at financial assets available for sale is allocated to shareholders equity under the caption Adjustments for Equity Valuation (Note 11).

Derivatives are classified as financial assets or liabilities at fair value through profit and loss, except where they meet the criteria for hedge instruments.

Derivatives aimed at protecting specific market risks (foreign currency and interest rate risks) and considered to be effective are classified as fair value hedges. In this category both the derivative and the hedged item are adjusted to fair value at each balance sheet date. Changes in the fair value of derivatives and covered items are recognized in P&L for the year as financial income or financial expense.

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

4. Summary of principal accounting practices (Continued)

j) Reserves for contingencies, net: it is made based on management s judgment and it is composed by several administrative and legal proceedings. It is recognized for those cases in which an unfavorable outcome is considered probable at the balance sheet date. This reserve is presented net of the corresponding escrow deposits and classified as labor, civil or tax contingency (Note 19).

k) Post-employment benefit plans: the Company sponsors individual plans and multi-sponsored retirement and health care plans for its employees. Actuarial liabilities, relating to defined-benefit deliberation plans were calculated using the projected unit credit method as provided for by CVM Rule No. 371/2000, and the Company opted for immediately recognizing the actuarial gains and losses determined in the year.
Other considerations related to such plans are described in Note 31.

l) Other assets and liabilities: an asset is recognized in the balance sheet when it is likely that their future economic benefits will be generated on behalf of the Company and its subsidiaries and their cost or value can be reliably measured.

A Liability is recognized in the balance sheet when the Company and its subsidiaries have a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provisions are recorded reflecting the best estimates of the risk involved.

m) Revenue recognition: revenues related to Telecommunications services rendered are recorded on the accrual basis. Revenue unbilled from the date of the last billing until the date of the balance sheet is recognized in the month the service is rendered.

Revenue from the sales of cards for public phones is deferred and recognized in income as the cards are utilized based on consumption estimates.

Income from equipment under lease agreements classified as finance leases is recognized upon equipment installation, when the risk is actually transferred. Income is recognized for the present value of lease payments.

Revenues from sales and services are subject to the following taxes and contribution taxes: State VAT - ICMS, Service Tax ISS, at the rates effective in each location of business, the Social Contribution Taxes on Gross Revenue for Social Integration Program PIS and Social Security Financing COFINS.

Telecomunicações de São Paulo S.A. - Telesp

Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

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4. Summary of principal accounting practices (Continued)

n) Foreign-currency-denominated balances and transactions: the Company s functional currency is the Brazilian real (R$). Foreign currency transactions are recorded at the prevailing exchange rate at date of the transaction. Foreign currency denominated assets and liabilities are remeasured using the exchange rate at the balance sheet date. Exchange differences resulting from foreign currency transactions were recognized in financial income and financial expenses.

o) Adjustment to present value: certain noncurrent assets and liabilities must be initially recorded at their present value, pursuant to Technical Pronouncement CPC No 12 -Adjustment to Present Value. The Company elected this method for the ICMS credit generated from the purchase of fixed assets, to be realized within a 48-month term.

p) Income tax and social contribution: corporate income tax and social contribution are accounted for on the accrual basis and are presented net of prepaid taxes, paid during the year. Deferred taxes assets and liabilities attributable to temporary differences and tax loss carry-forwards are recognized as deferred tax assets and liabilities, if applicable, on the assumption of future realization within the parameters established by CVM Deliberation No 273/1998 and CVM Instruction No. 371/2002.

q) Financial income (expense), net: represent interest, monetary and exchange variations arising from financial investments, debentures, loans and financing, as well as the results of derivative operations (hedge).

r) Concession agreement s renewal fee: it is a fee which will be paid each odd years during the term of the concession agreement is in force, equivalent to 2% of its prior-year SFTC net revenue, according to the contract. The corresponding expense is recognized proportionately over each biennium concerned (Note 20).

s) Accounting estimates: used to measure and recognize certain assets and liabilities in the Company s and its subsidiaries financial statements. These estimates were determined based on past and current events experience, assumptions in respect of future events, and other objective and subjective factors. Significant items subject to such estimates include, among others, selection of fixed and intangible assets useful lives; allowance for doubtful accounts; provision for losses on inventory; revision of fixed and intangible assets for impairment; deferred income and social contribution taxes; rates and terms used in determining the present value of certain assets and liabilities; provision for contingencies and actuarial liabilities; fair value measurement of financial instruments; and estimations

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

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4. Summary of principal accounting practices (Continued)

s) Accounting estimates (Continued)

for disclosure of the financial instruments sensitivity analysis table pursuant to CVM Instruction No. 475/08. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties related to the estimate on process. The Company and its subsidiaries review their estimates and assumptions at least quarterly.

t) Statements of cash flows and of added value: the statements of cash flows are prepared and presented in accordance with CVM Deliberation No. 547, of August 13, 2008, which approved Technical Pronouncement CPC No 03 Statements of Cash Flows, issued by the CPC.

The statements of cash flows were prepared using the indirect method and reflect changes in cash over the stated years. The terms used in the statements of cash flows are as follows:

Operating activities: refer to the main transactions performed by the Company and its subsidiaries and activities other than investment and financing; Investing activities: refer to additions and write-offs of noncurrent assets and other investments not included in cash and cash equivalents;
Financing activities: refer to activities resulting in changes in equity and loans.

The statements of added value are prepared and presented in accordance with CVM Deliberation No. 557, of November 12, 2008, which approved pronouncement CPC No 09 Statement of Added Value, issued by the CPC.

u) Earnings per share: it is calculated based on the total number of shares outstanding at the balance sheet date.

5. Cash and cash equivalents

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

(A free translation of the original report issued in Portuguese)

5. Cash and cash equivalents (Continued)

Short-term investments are basically CDB (Bank Deposits Certificate), indexed under CDI (Inter-bank Deposits Certificate) rate variation, which are readily liquid and maintained with reputable financial institutions.

Subsidiary A.Telecom offers Posto Informático , a product that consists in the lease of IT equipment to small- and medium-sized companies for fixed installments received over the agreed term. Considering the related contractual conditions, the Company classified this product as Finance Lease in its December 31, 2009 financial statements (Note 4.g).

The consolidated accounts receivable as of December 31, 2009 and 2008 reflects the following effects:

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

(*) Refers to credits on the acquisition of property, plant and equipment items, available for offset against VAT obligations in 48 months.

7.1. Deferred income and social contribution taxes

The Company recognized deferred income and social contribution tax assets considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable profit discounted to present value based on a technical feasibility study, approved by the Board of Directors on December 9, 2009.

Company estimates the realization of the deferred taxes as of December 31, 2009 as follows:

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Notes to the financial statements (Continued) For the years ended December 31, 2009 and 2008 (In thousands of reais)

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7. Deferred and recoverable taxes (Continued)

7.1. Deferred income and social contribution taxes (Continued)

The recoverable amounts above are based on projections subject to changes in the future.

Tax losses and temporary differences in the respective amounts of R$106,166 and R$109,670 (R$62,512 and R$35,379 as of December 31, 2008), respectively, were not recognized by the subsidiaries as of December 31, 2009 in view of the unlikely generation of future taxable profits.

7.2. Merged tax credits

Refer to tax benefits arising from corporate reorganizations represented by goodwill amounts based on future expected profitability, to be used in compliance with the limits established by tax legislation.

(a) The balance of R$265,435 as of December 31, 2008 refers to the tax credit resulting from TTP corporate restructuring, as mentioned in Note 2.c., which was reclassified to this caption from Intangibles (Note 13). This reclassification was made to improve presentation of the financial statements, since goodwill amortization was discontinued as from fiscal year 2009.

The allowance for reduction to recoverable value and obsolescence takes into account timely analyses carried out by the Company.

(a) Refers to receivables from Barramar S.A., registered in Companhia AIX de Participações, net of allowance for losses.

(b) Comprises commercial agreements with global service providers. These agreements represented as improvement in P&L of R$77,066 for fiscal year 2009.

The amounts presented above refer to escrow deposits for those cases in which an unfavorable outcome is considered possible or remote. Those deposits related to provisions are presented in Note 19.

(*) Other investments are measured at fair value, as mentioned in Note 4.i.

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11. Investments (Continued)

The main accounting information of wholly-owned and jointly-controlled companies at December 31, 2009 and 2008 are as follows:

Investments in affiliates accounted for under the equity method derive from TTP, which was merged by the Company, as mentioned in Note 2.c. Significant information on these affiliate companies, are as follows:

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11. Investments (Continued)

In December 2009 the Company made an advance for future capital increase in the amount of R$25,000 in its wholly-owned subsidiary Telefônica Data S.A., recorded under caption Heading for capitalization .

The Company and Consolidated equity method in subsidiaries and affiliates is as follows:

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(a) Includes IT equipment contracts classified as finance lease in the amount of R$ 41,919. Information on amounts payable is stated in Note 20.

(a) Goodwill arising from the spin-off of Figueira, which was merged into the Company as a result of the merger of Telefônica Data Brasil Holding S.A. (TDBH) in 2006.
(b) Goodwill arising the acquisition of control over Santo Genovese Participações Ltda. (controlling shareholder of Atrium Telecomunicações Ltda.), in 2004.
(c) The goodwill arising from TTP acquisition (see Note 2.c) which is based on a future profitability analysis. For financial tatement presentation purposes, the tax credit as of December 31, 2008 in the amount of R$265,435 was reclassified to eferred and Recoverable Taxes in the form of tax credits from merger (Note 7), considering that goodwill amortization was eased to be accounted for at December 31, 2008

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On October 10, 2007, BNDES approved a credit facility capped at R$2,034,717 to fund Company investments, of which R$1,959,464 (principal amount) has already been released and the related investments have been duly proven and accepted by BNDES. This credit facility is intended for investments in goods and services produced locally (sub-credit at the cost of Long-Term Interest Rate [TJLP] + 3.73% p.a.) and which, concurrently, contain local technology (sub-credit at the cost of TJLP + 1.73% p.a.), according to BNDES methodology to evidence and confirm these facts.The TJLP is a specific referential rate not comparable with other market-observable rates applicable to similar repayment terms.

Accordingly, at December 31, 2009 this instrument was recognized in the balance sheet at its amortized cost, which is equivalent to its fair value as of that date.

Covenants and collaterals

The loan from BNDES includes restrictive covenants related to maintenance of certain financial indexes, which is biannually settled over the agreement term and, up to date have been met.

The loan from Mediocrédito is secured by the Federal Government, whereas BNDES financing is guaranteed by SP Telecomunicações Participações Ltda.

Debentures conditions were renegotiated on September 1, 2007, date of end of the first Remuneration period and beginning of the second Remuneration period. This period ends on the debentures maturity date; namely September 1, 2010. Debentures are entitled to interest yield, payable on a quarterly basis indexed for DI rates, plus 0.35% yearly spread.

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(a) Income and social contribution taxes payable are presented net of payments on an estimate basis.

(b) The item Legal liabilities accounts for amounts related to lawsuits in which the Company seeks noncollection of CIDE (Social Contribution Tax for Intervention in the Economic Order) on remittances as consideration for international telecommunications and other services provided for in contracts executed with foreign companies. These suits are currently examined in higher courts.

(c) The item Others includes FUST amounts payable of R$185,201 as of December 31, 2009 (R$139,511 as of December 31, 2008), net of judicial deposits of R$192,109 (R$126,832 as of December 31, 2008). The corresponding difference of R$6,908 as of December 31,2009 remained in the escrow deposits caption.

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

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19. Reserves for contingencies,net

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 reserves for those cases in which an unfavorable outcome is considered probable. The table below shows the breakdown of reserves by nature and activities during 2009:

(a) In the case lawsuits of civil and labor natures referring to cases considered similar and usual (massive), management has been using, as from the second quarter of 2009, estimates calculated based on the historical average of payments made in mass lawsuits to set up provision for contingencies. The reversal of provision for labor claims amounted to R$158,478 and supplementation of provision for civil suits totaled R$ 49,474, both of which are recorded in Other operating income (expenses), net (Note 27).

19.1. Labor contingencies and reserves

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19. Reserves for contingencies, net (Continued)

19.1 Labor contingencies and reserves (Continued)

These contingencies involve several lawsuits, mainly related to wage differences, wage equivalence, overtime, employment relationship with employees of outsourced companies and job hazard premium, among others. In addition, the Company is party to a Public Civil Action instituted by the Labor Public Prosecution Office in respect of decision on refraining Telesp from engaging an unrelated appointed company to carry out the Company s main activities, which had its degree of risk changed from remote to possible. 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.

The Company made escrow deposits in the amount of R$112,752 for the reserves mentioned above.

19.2. Tax contingencies and reserves

The principal tax contingencies according to the risk, are as follows:

Claims by the National Institute of Social Security (INSS) referring to:

a) Work Accident Insurance SAT Collection and jointly liability for social security contributions allegedly not had been paid by its contractors in the amount of approximately R$338,964, of which R$98,660 were provisioned. In September 2009 the Company management partially waived this litigation by settling the amount involved of R$54,241 through the government s Tax Amnesty Program REFIS which provides for reduced fine and interest charges. The remaining balance of this provision was reversed to P&L in the amount of R$44,419 (Note 27). The lawsuit is in the 2nd Court Level and no provision was made since the likelihood of loss is deemed possible.

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19. Reserves for contingencies, net (Continued)

19.2. Tax contingencies and reserves (Continued)

b) Social security contribution on compensation of salary devaluation arising from inflationary losses related to Plano Verão and Plano Bresser , in the amount of approximately R$148,503. In view of an official decision handed down by the Brazilian IRS which, based on Binding Abridgement No. 8 from the Federal Supreme Court, acknowledged the barring period for part of the amount involved, the Company s management decided to reverse the provision set up for the amounts so barred in the amount of R$2,940, with a provision of only R$26 remaining. For the amounts not covered by the barring period, no provision was made since the likelihood of loss is deemed possible.

c) Notification demanding social security contributions, SAT and amounts for third parties (National Institute for Agrarian Reform and Colonization (INCRA) and Brazilian Mini and Small Business Support Agency (SEBRAE)) for the payment of various salary amounts for the period from January 1999 to December 2000, in the amount of approximately of R$64,073. These lawsuits are in the 2nd Court Level. No provision was made in the balance sheet, for which the likelihood of loss is deemed possible.

d) Legal proceedings imposed fines amounting to R$161,982 for distribution of dividends when the Company was allegedly in debt to INSS. No provision was made in the balance sheet, for which the likelihood of loss is deemed possible. This matter is at the 2nd administrative level.

Claims by the Finance Secretary of the State of São Paulo referring to:

e) Assessments on 2001, related to ICMS (State VAT) allegedly due on international long-distance calls for the period from November, 1996 to December, 1999. In view of the partially favorable decision awarded at administrative level, the contingency amount was reduced to R$364,067.
One suit is at the last administrative level and two suits are at the 1st Court level. Considering the risk of a possible loss, no provisions were recognized.

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19. Reserves for contingencies, net (Continued)

19.2. Tax contingencies and reserves (Continued)

f) Infraction notice related to the use of credits in the period from January to April 2002. Since this dispute was rendered an unfavorable administrative decision, a lawsuit was filed in the amount of R$46,211, where chances of loss were assessed as possible. This suit is currently at the 1st Court level. Considering the risk degree, no provision was made.

g) Infraction notice related to the non-reversal of ICMS credits in proportion to sales and exempt and non-taxed services in the period from January 1999 to June 2000 and from July 2000 to December 2003, in addition to an ICMS credit unduly used in March 1999. The total amount involved is R$135,911. The risk is considered possible by legal counsel. The claims are at the 2nd administrative level. Considering the risk level, no provision was made.

h) Infraction notice related to nonpayment of ICMS, from January 2001 to December 2005, on amounts received for equipment lease (modem), totaling R$169,628. The suit is at the last administrative level. Considering the risk of a possible loss, no provision was recognized.

i) Infraction notices related to nonpayment of ICMS in the period from August 2004 to December 2005, for non-inclusion of revenues from rendering of several supplemental services and value added, in the amount of R$371,034. This proceeding was awarded an unfavorable decision at administrative level and is currently awaiting a lower-court decision. No provision was made since chances of loss were assessed as possible.

j) Infraction notice drawn up by the Finance Secretary of the State of São Paulo on June 14, 2007, referring to co-billing operations from May to December 2004, due to: (i) non presentation of the totality of the files provided for in Administrative Ruling CAT No. 49/03; (ii) untimely compliance with notices referring to filing of electronic files; (iii) lack of or irregular recording on the Shipment records; and (iv) unpaid of tax concerning to a portion of the communication services rendered. The amount involved is R$9,116, already considering payment of the notice item one in the terms of Law No. 6374/89 and of Decree No. 51960/07 (PPI), related to non-payment of taxes. Part of the infractions results from the not filed information by other operating companies. The likelihood of loss is assessed as possible.

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19. Reserves for contingencies, net (Continued)

19.2. Tax contingencies and reserves (Continued)

The claim is at the 1st administrative level. Considering the risk involved, the Company did not record a provision.

k) Infraction notice relating to non-collection of ICMS for the period from January 2006 to December 2007 on amounts received for equipment lease (modem) in the amount of R$55,297. This suit is currently examined at 1st Court level, and no provision was made since its chances of loss assessed as possible.

l) Infraction notice relating to non-collection of ICMS for the period from January 2006 to December 2007, since the Company would have failed to include revenues from miscellaneous supplementary services in its ICMS base. The amount subject of these notices totals R$443,913. This claim is currently examined at 1st administrative level, and no provision was made given its chances of loss assessed as possible.

Litigation at the Federal and Municipal Levels:

m) Collection of COFINS due to the offsetting made in November 1995 against FINSOCIAL credits (increased rate) and of PIS/PASEP offset of debts against PIS/PASEP credits declared unconstitutional (Resolution No. 49 of the Federal Senate). Both suits total R$ 5,161 and are awaiting decisions at the last administrative level and the second court, respectively. A provision was made in the total amount of R$ 5,161.

n) The City of São Paulo assessed the Company, alleging differences in the payment of the municipal tax on services (ISS), by the imputation of fines of 20% not paid by the Company, in the amount of R$33,438. The claim is at the 2nd court level. The risk is considered possible. Considering the risk level, no provision was made.

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19. Reserves for contingencies, net (Continued)