

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

FORM 20-F/A

(AMENDMENT NO. 1)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2010

Commission file number: 000-51490

CONTAX PARTICIPAÇÕES S.A.

(Exact Name of Registrant as specified in its charter)

Contax Holding Company
(Translation of Registrant's name into English)

The Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Rua do Passeio 56, 16º andar (parte)
20021-290 Rio de Janeiro – RJ – Brazil
(Address of principal executive offices)

Marco Norci Schroeder, Tel: +55 21 3131-0010, ri@contax.com.br, Rua do Passeio 56, 16º andar
CEP: 20021-290, Rio de Janeiro – RJ – Brazil
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None
Securities registered or to be registered pursuant to Section 12(g) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Preferred Shares, without par value ("preferred shares")	BM&FBovespa
Common Shares, without par value ("common shares")	BM&FBovespa

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

The number of outstanding shares of each of the Issuer's classes of capital, common or preferred stock, as of the close of the period covered by the annual report was:

36,681,000 preferred shares
23,089,600 common shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued
by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17
 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

700228121.2

Explanatory Note

This Amendment No. 1 to Form 20-F (the "Form 20-F/A") amends our annual report on Form 20-F for the fiscal year ended December 31, 2010, originally filed with the U.S. Securities and Exchange Commission ("SEC") on June 27, 2011 (the "Form 20-F"). The sole purpose of this Form 20-F/A is to amend the Form 20-F to update "Item 18. Financial Statements" by amending the amounts related to the year ended December 31, 2008 in the table of Note 6.4 on page F-36 and in the first two tables of Note 7 on page F-37 of the Form 20-F, and to change the page reference under the heading "Item 18. Financial Statements" from "F-1 through F-13" to "F-1 through F-94".

Item 18. Financial Statements

See pages F-1 through F-94

SIGNATURES

Contax Participações S.A. hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 to annual report on Form 20-F on its behalf.

CONTAX PARTICIPAÇÕES S.A.

By: /s/ Michel Neves Sarkis
Name: Michel Neves Sarkis
Title: Chief Executive Officer
Dated: June 30, 2011

Contax Participações S.A.
Consolidated Financial Statements as of December 31, 2010 and 2009 and for the three years 2010 ended and
Reports of Independent Registered Public Accounting Firms

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Contax Participações S.A. and subsidiaries (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934.

The Company's internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial and Investor Relations Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework").

Based on our assessment, we have concluded that our internal control over financial reporting was effective at December 31, 2010.

In reliance on guidance set forth in Question 3 of a “Frequently Asked Questions” interpretative release issued by the Staff of the SEC’s Office of the Chief Accountant and the Division of Corporation Finance in September 2004, as revised on September 24, 2007, regarding Securities Exchange Act Release No. 34-47986, Management’s Report on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, our management determined that it would exclude the business of Ability Comunicação Integrada Ltda. (“Ability”) from the scope of its assessment of the effectiveness of internal control over financial reporting for the year ended December 31, 2010. The reason for this exclusion is that we acquired Ability in September 2010 and it was not possible for management to conduct an assessment of internal control over financial reporting in the period between the date the acquisition was completed and the date of management’s assessment. Accordingly, management excluded Ability from its assessment of the effectiveness of internal control over financial reporting during the year ended December 31, 2010. Ability’s total assets represent approximately 8% of the Company’s total assets and total net operating revenue and net income represent approximately 1% and 2% of the Company’s total net operating revenue and net income, respectively, as reflected in the Company’s Consolidated Financial Statements as of and for the year ended December 31, 2010. Ability will be included in management’s assessment of the effectiveness of internal control over financial reporting starting no later than our annual assessment for the fiscal year beginning January 1, 2011.

The Company’s independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes, has issued its report on the effectiveness of the Company’s internal control over financial reporting, included herein.

Rio de Janeiro, June 27, 2011

/s/ Michel Neves Sarkis

Michel Neves Sarkis
Chief Executive Officer
June 27, 2011

/s/ Marco Norci Schroeder

Marco Norci Schroeder
Chief Financial and Investor Relations Officer
June 27, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of
Contax Participações S.A.
Rio de Janeiro, Brazil

We have audited the internal control over financial reporting of Contax Participações S.A. and subsidiaries (the “Company”) as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Ability Comunicação Integrada Ltda. (“Ability”), which was acquired on September 2010 and whose financial statements constitute approximately 8% of total assets and approximately 1% and 2% of net operating revenue and net income, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2010. Accordingly, our audit did not include the internal control over financial reporting at Ability. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated June 27, 2011 expressed an unqualified opinion on those financial statements.

/s/Deloitte Touche Tohmatsu Auditores Independentes
Deloitte Touche Tohmatsu Auditores Independentes
Rio de Janeiro, Brazil
June 27, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Stockholders of
Contax Participações S.A.
Rio de Janeiro, Brazil

We have audited the accompanying consolidated balance sheets of Contax Participações S.A. and subsidiaries' (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2010, in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 27, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/Deloitte Touche Tohmatsu Auditores Independentes
Deloitte Touche Tohmatsu Auditores Independentes
Rio de Janeiro, Brazil
June 27, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Contax Participações S.A.

In our opinion, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statements for the year ended December 31, 2008 present fairly, in all material respects, the results of operations and cash flows of Contax Participações S.A. and its subsidiaries for the year ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Auditores Independentes

Rio de Janeiro, June 30, 2009 (except with respect to our opinion on the consolidated financial statements insofar as it relates to the retrospective adjustment on the share amounts and earnings per share for the stock split approved on October 27, 2009, for which the date is June 28, 2010)

CONTAX PARTICIPAÇÕES S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010
AND 2009

(Amounts in thousands of Brazilian reais – R\$)

ASSETS	Note	2010	2009	EQUITY AND LIABILITIES	Note	2010	2009
NON-CURRENT ASSETS				CAPITAL AND RESERVES			
Property, plant and equipment	10	405,873	352,473	Issued Capital	17	223,873	223,873
Goodwill on investments	11	49,081	-	Capital reserve	18	14,731	19,639
Other intangible assets	12	69,073	80,446	Profit reserves	18	118,329	109,831
Judicial deposits	24	93,865	53,382	Treasury shares	19	(12,147)	(10,686)
Restricted cash	16	2,013	-	Foreign currency translation reserve	18	(46)	-
Recoverable taxes	13	10,383	8,578	Proposal for additional dividend distribution Equity attributable to the owners of the Parent Company	20	74,231	59,403
Deferred tax assets	14	64,269	28,773			418,971	402,060
Financial investments held to maturity	16	69,869	26,590				
Other assets		12,058	12,769	Non-controlling interests	21	2,000	1,445
Total non-current assets		<u>776,484</u>	<u>563,011</u>	Total Equity		<u>420,971</u>	<u>403,505</u>
CURRENT ASSETS				NON-CURRENT LIABILITIES			
Trade receivables	15	176,302	128,486	Borrowings	22	317,994	149,521
Recoverable taxes	13	7,133	3,673	Taxes payable	23	-	944
Prepaid expenses and other assets		30,835	18,650	Obligations under finance leases	25	-	3,899
Cash and cash equivalents	16	387,803	357,853	Provision for contingencies	24	88,266	59,921
Total current assets		<u>602,073</u>	<u>508,662</u>	Contingent consideration	24	45,685	-
				Other liabilities	26	1,165	-
TOTAL ASSETS		<u><u>1,378,557</u></u>	<u><u>1,071,673</u></u>	Total non-current liabilities		453,110	214,285
				CURRENT LIABILITIES			
				Trade payables		83,160	77,033
				Borrowings	22	64,873	55,070
				Payroll and related charges	27	230,569	197,818
				Obligations under finance leases	25	4,277	10,118
				Taxes payable	23	43,093	33,477
				Dividends payable	20	28,959	32,787
				Amounts payable to shareholders	17	26,374	16,331
				Other liabilities	26	23,171	31,249
				Total current liabilities		504,476	453,883
						<u>957,586</u>	<u>668,168</u>
				TOTAL LIABILITIES			
						<u><u>1,378,557</u></u>	<u><u>1,071,673</u></u>
				TOTAL EQUITY AND LIABILITIES			

CONTAX PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$, except earnings per share)

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net operating revenue ^(*)	5	2,397,996	2,161,019	1,774,728
Cost of services	7.1	<u>(2,026,392)</u>	<u>(1,760,164)</u>	<u>(1,507,603)</u>
Gross profit		<u>371,604</u>	<u>400,855</u>	<u>267,125</u>
Operating income (expenses)				
Selling	7.1	(26,976)	(27,709)	(28,488)
General and administrative expenses	7.1	(138,007)	(130,715)	(84,967)
Management fees	7.1	(7,142)	(7,879)	(6,317)
Financial revenue	7.4	33,213	24,531	32,547
Financial expenses	7.4	(30,681)	(39,922)	(32,597)
Other operating expenses, net	7.2	(24,440)	(13,440)	(18,626)
		<u>(194,033)</u>	<u>(195,134)</u>	<u>(138,448)</u>
Profit before income tax and social contribution		177,571	205,721	128,677
Income tax and social contribution expenses:				
Current	8	(70,708)	(70,998)	(51,370)
Deferred	8	2,190	(3,666)	5,522
Net income for the year		<u>109,053</u>	<u>131,057</u>	<u>82,829</u>
Net income attributable to:	9			
Owners of the parent company		108,498	131,691	82,826
Minority shareholders		555	(634)	3
		<u>109,053</u>	<u>131,057</u>	<u>82,829</u>
Earnings per share:	9			
Basic				
Common shares (cents per share)		<u>1.82</u>	<u>2.23</u>	<u>1.39</u>
Preferred shares (cents per share)		<u>1.83</u>	<u>2.23</u>	<u>1.31</u>
Diluted				
Common shares (cents per share)		<u>1.80</u>	<u>2.19</u>	<u>1.39</u>
Preferred shares (cents per share)		<u>1.83</u>	<u>2.23</u>	<u>1.31</u>

(*) Revenues are presented net of sales taxes, returns, allowances and discounts.

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

CONTAX PARTICIPAÇÕES S.A.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$)

	Note	2010	2009	2008
Net income for the year		109,053	131,057	82,829
Other comprehensive income:				
Exchange rate difference in the translation of operations abroad:				
Exchange rate differences in the year	18	(46)	-	-
		<u>109,007</u>	<u>131,057</u>	<u>82,829</u>
Total comprehensive income for the year		<u>109,007</u>	<u>131,057</u>	<u>82,829</u>
Total comprehensive income attributed to:				
Owners of the parent company		109,007	131,057	82,829
Minority shareholders		(555)	634	(3)
		<u>108,452</u>	<u>131,691</u>	<u>82,826</u>

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

CONTAX PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in thousands of Brazilian reais - R\$)

	Note	Profit Reserves										
		Share capital	Capital reserve on share subscription	Legal	Statutory	Unrealized reserve	Treasury shares	Foreign currency translation reserve	Retained earnings	Equity attributable to the owners of the Parent Company	Non-controlling interests	Total
Balance at January 1, 2008		223,873	9,254	10,845	40,595	16,626	(10,913)	-	6,725	297,005	-	297,005
Acquisition of own shares		-	-	-	-	-	(38,935)	-	-	(38,935)	-	(38,935)
Dividends lapsed		-	28	-	-	-	-	-	-	28	-	28
Profit for the year		-	-	-	-	-	-	-	82,826	82,826	3	82,829
Allocation of the net income for the year:												
Legal reserve		-	-	4,620	-	-	-	-	(4,620)	-	-	-
Statutory reserve		-	-	-	54,415	-	-	-	(54,415)	-	-	-
Dividends proposed (R\$0.85 per thousand shares)		-	-	-	-	-	-	-	(21,947)	(21,947)	-	(21,947)
Non-controlling interests		-	-	-	-	-	-	-	-	-	2,076	2,076
Balance at December 31, 2008		<u>223,873</u>	<u>9,282</u>	<u>15,465</u>	<u>95,010</u>	<u>16,626</u>	<u>(49,848)</u>	<u>-</u>	<u>8,569</u>	<u>318,977</u>	<u>2,079</u>	<u>321,056</u>
Acquisition of own shares	19	-	-	-	-	-	(314)	-	-	(314)	-	(314)
Cancelation of own shares	19	-	-	-	(39,476)	-	39,476	-	-	-	-	-
Dividends lapsed	20	-	29	-	-	-	-	-	-	29	-	29
Profit for the year	20	-	-	-	-	-	-	-	131,691	131,691	(634)	131,057
Stock option plan	29	-	10,328	-	-	-	-	-	-	10,328	-	10,328
Allocation of net income for the year:												
Legal reserve	18	-	-	6,442	-	-	-	-	(6,442)	-	-	-
Statutory reserve	18	-	-	-	32,390	-	-	-	(32,390)	-	-	-
Payment of dividends (R\$0.85 per thousand shares)	20	-	-	-	-	(16,626)	-	-	(11,428)	(28,054)	-	(28,054)
Dividends proposed (R\$1.52 per thousand shares)	20	-	-	-	-	-	-	-	(30,597)	(30,597)	-	(30,597)
Balance at December 31, 2009		<u>223,873</u>	<u>19,639</u>	<u>21,907</u>	<u>87,924</u>	<u>-</u>	<u>(10,686)</u>	<u>-</u>	<u>59,403</u>	<u>402,060</u>	<u>1,445</u>	<u>403,505</u>
Acquisition of own shares	19	-	-	-	-	-	(1,461)	-	-	(1,461)	-	(1,461)
Other comprehensive income:												
Exchange rate difference in the translation of operations abroad	18	-	-	-	-	-	-	(46)	-	(46)	-	(46)
Profit for the year	20	-	-	-	-	-	-	-	108,498	108,498	555	109,053
Stock option plan												
2007 Program	29	-	(7,024)	-	-	-	-	-	-	(7,024)	-	(7,024)
2010 Program	29	-	2,116	-	-	-	-	-	-	2,116	-	2,116
Allocation of net income for the year:												
Legal reserve	18	-	-	5,425	-	-	-	-	(5,425)	-	-	-
Statutory reserve	18	-	-	-	3,073	-	-	-	(3,073)	-	-	-
Payment of dividends (R\$1.52 per thousand shares)	20	-	-	-	-	-	-	-	(59,403)	(59,403)	-	(59,403)
Dividends proposed (R\$1.69 per thousand shares)	20	-	-	-	-	-	-	-	(25,769)	(25,769)	-	(25,769)

Balance at December 31, 2010 223,873 14,731 27,332 90,997 - (12,147) (46) 74,231 418,971 2,000 420,971

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

CONTAX PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the year	108,498	131,691	82,826
Adjustments to reconcile net income:			
Depreciation and amortization of non-current assets	122,109	116,411	118,043
Loss (gain) on disposal of permanent assets	(6)	1,710	123
Impairment of goodwill			1,788
Contingencies and other provisions	20,913	1,874	16,401
Deferred income tax and social contribution	(2,190)	3,666	(5,002)
Monetary variation gain	(3,868)	(1,890)	(277)
Cost of stock option plan	2,689	9,995	129
Interest expenses on loans and financings	21,242	31,015	22,295
Non-controlling interest	555	(634)	3
Changes in assets and liabilities:			
Accounts receivable	(34,280)	(26,351)	(17,271)
Recoverable taxes	(7,871)	(2,720)	(2,654)
Other assets	(11,955)	(10,076)	(8,588)
Payroll and related charges	25,537	15,894	38,576
Suppliers	2,862	186	4,381
Taxes payable	(7,848)	10,362	7,505
Other liabilities	4,500	28,783	16,600
Interest expenses on loans and financing	(20,483)	(31,130)	(20,105)
Net cash provided by operating activities	<u>220,404</u>	<u>278,786</u>	<u>254,773</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Investment acquisition	(20,019)	-	-
Earnings for the sale of property, plant and equipment	179	27	130
Additions to property, plant and equipment	(162,533)	(158,901)	(167,930)
Judicial deposits	(36,241)	(16,487)	(17,550)
Financial investments held to maturity	(39,497)	(26,590)	
Restricted cash	(2,000)	-	-
Net cash used in investment activities	<u>(260,111)</u>	<u>(201,951)</u>	<u>(185,350)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of capital leases	(9,740)	(11,674)	(18,218)
BNDES financing	180,829	(13,332)	116,731
Payment of BNDES financing	(54,371)	-	-
BNB financing	51,000	-	-
Principal monetary variation	-	(210)	-
Dividends paid	(89,000)	(49,380)	(13,386)
Share buyback payments	(9,061)	(314)	(38,935)

Cash used in financing activities	<u>69,657</u>	<u>(74,910)</u>	<u>46,192</u>
Net increase in cash and cash equivalents	29,950	1,925	115,615
Cash and cash equivalents at the beginning of the year	<u>357,853</u>	<u>355,928</u>	<u>240,310</u>
Cash and cash equivalents at the end of the year	387,803	357,853	355,928
Additional information:			
Income tax and social contribution paid	<u>69,955</u>	<u>66,194</u>	<u>45,792</u>

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

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1. GENERAL INFORMATION

Contax Participações S.A. (the "Company"), established In July 2000, is a publicly-held company, listed in the BM&FBovespa, whose registered corporate purpose is to hold interests in other commercial enterprises and civil societies as a partner, shareholder or quotaholder in Brazil or abroad. The Company is headquartered at Rua do Passeio nº 48 a 56 (Parte), Centro – Rio de Janeiro – RJ.

The Company has (i) Contax S.A. and Ability Comunicação Integrada Ltda., as direct subsidiaries, and (ii) TODO BPO Soluções em Tecnologia S.A., BRC Empreendimentos Imobiliários Ltda, and Contax Sucursal Empresa Extranjera as indirect subsidiaries. The Company and its subsidiaries are jointly referred to in the financial statements as "Company" or "Group". The operations of the direct and indirect subsidiaries are as follows:

1.1. Contax S.A.

Contax S.A. ("Contax") was established in December 2002, after changing the corporate name of the extinguished TNext S.A., an entity established in August 1998. Contax is a joint-stock, privately-held company, whose corporate purpose is providing tele-assistance services in general, offering a variety of integrated customer interaction solutions between its customers and their consumers, including telemarketing operations, customer services, customer retention, technical support and bill collection through a variety of communication channels, including telephone contacts, internet access, e-mail, fax, development of technological solutions related to the tele-assistance services, among others.

1.2. Ability Comunicação Integrada Ltda.

In September 2010, Contax acquired the entire control of Ability Comunicação Integrada Ltda. ("Ability"). Incorporated in June 2001, Ability is a limited-liability company whose purpose is to provide services related to publicity and advertising, sales promotion, merchandising and marketing, campaign and publicity planning, publicity consulting, market and public-opinion research, among others.

1.3. TODO Soluções em Tecnologia S.A.

TODO Soluções em Tecnologia S.A. ("TODO") was established in September 2008, a joint-stock, privately-held company, whose corporate purpose is to provide information technology services, software development and integrated, full and customized solutions, including the full or partial management of the value chain of outsourced processes of business in general; back office processing; customer relationship management, among others.

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1.4. BRC Empreendimentos Imobiliários Ltda.

In November 2009, Contax acquired BRC Empreendimentos Imobiliários Ltda. (“BRC”) for R\$61. This acquisition aimed at separately developing and executing the real estate project included in the Selective Incentive Program for the adjacent region of Estação da Luz (“Nova Luz Program”), in the downtown area of the city of São Paulo.

1.5. Contax Sucursal Empresa Extranjera

Contax Sucursal Empresa Extranjera (“Contax Argentina”) was incorporated in September 2010 with an initial capital stock of R\$817, in the city of Buenos Aires, Argentina. Contax Argentina’s corporate purpose is to provide general telephone services, offering integrated services for client-consumer relations in Argentina.

2. NEW, REVISED OR AMENDED STANDARDS AND INTERPRETATIONS NOT EFFECTIVE AND NOT EARLY ADOPTED

The new pronouncements, changes in the existing pronouncements and new interpretations listed below were published and are mandatory for the years beginning on January 1st, 2011 or after that date.

The Company did not make these changes in advance for the consolidated financial statements of December 31, 2010.

2.1. Amendment to IFRS 7 to Improve Disclosure Requirements on the Transfer of Financial Assets

On October 7, 2010, IASB issued the amendment to IFRS 7 – Financial Instruments: Disclosures, with the improvements that increase the disclosure requirements on the transfer of financial assets. The guideline for the write off of financial assets set forth in IAS 39 – Financial Instruments: Recognition and Measurement, incorporated into the revised version of IFRS 9 – Financial Instruments, has not been amended.

The amendments to IFRS 7 require enhanced level of disclosure when the asset is transferred but not written off, and introduces new disclosures for assets written off, where the company is still subject to continued exposure to the asset after the sale. The purpose of the changes is to clarify the relation among transferred financial assets and the financial obligations and the risks associated to those assets.

The application of the amendments is mandatory for years beginning on or after July 1st, 2011, and allows for early adoption. It is not necessary to disclose information for periods prior to the date of the mandatory adoption of the amendments. The Company is evaluating the effects of adopting such pronouncement.

2.2. IFRS 9 – Financial Instruments (revised in 2010)

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In November 2009, IASB issued IFRS 9 – Financial Instruments and, on October 28, 2010, it issued a new revised version of this rule, maintaining the requirements for the classification and measurement of financial assets in compliance with the version published in November 2009 and included a guideline on the classification and measurement of financial liabilities. As part of IFRS 9 restructuring, IASB also included a guideline on the write off of financial instruments, in addition to the implementation guide of IAS 39 – Financial Instruments: Recognition and Measurement.

IFRS 9 establishes that all financial assets recognized, as set forth by IAS 39 – Financial Instrument: Recognition and Measurement, are subsequently measured at amortized cost or fair value. Specifically, debt instruments held according to a business model whose purpose is to receive cash flows from the agreements, exclusively for the payment of the principal and interest on the principal are usually measured at amortized cost at the end of the following fiscal periods. All other debt instruments and investments in equity instruments are measured at the fair value at the end of the following fiscal periods.

The most significant effect of IFRS 9 on the classification and measurement of financial liabilities refers to the accounting of the changes in the fair value of a financial liability (calculated through the income statement), which can be attributed to changes on the credit risk of that liability. Specifically, according to IFRS 9, for financial liabilities recognized at fair value through the income statement, the value of the change in the fair value of the financial liability can be attributed to changes in the credit risk of that liability and is recognized in “Other comprehensive income”, unless the effects of changes in the credit risk of that liability is recognized in “Other comprehensive results” causes or increases accounting mismatch in the Company’s income. The changes in the fair value, attributed to the credit risk of a financial liability, are not reclassified to the income. According to IAS 39, the total value of the change in the fair value of a financial liability recognized at fair value through result was previously recognized in the result.

The Company is evaluating the possible effects of adopting such pronouncement.

The mandatory application of the revised version of IFRS 9 is January 1st, 2013, the same date of the previous version. The revised version allows for early adoption. If a company decides to apply the guideline relating to the classification and measurement of financial liabilities in advance, it should also apply any other IFRS 9 requirement previously concluded by then. The revised rule should be applied retrospectively according to the IAS 8.

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2.3. IAS 24 – Disclosure of Related Party Transactions (revised in 2009)

In 2009, IASB issued the amendment to IAS 24 – Related Party Disclosures. The revised rule simplifies the disclosure requirements for subsidiaries, jointly-owned subsidiaries or significantly influenced by a government (referred to as entities related to the Government) and changes the definition of a related party. The Standard requires the retroactive application. Therefore, on the year of the initial requirement, companies should correct the disclosure for the period under comparison.

Exemptions introduced by the revision of IAS 24 do not affect the Company and its subsidiaries given that they are not entities related to the Government. However, the disclosures related to third party transactions and the balances of consolidated financial statements can be affected when the revised rule is applied in future periods, considering that some parties were not included in the definition of related party and may be within the scope of the revised standard.

The amendments are mandatory for years beginning on or after January 1st, 2011, and allow for early adoption.

2.4. IFRS 10 Consolidated Financial Statements

In 2011 IASB issued IFRS 10. The IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. This standard has an effective date for annual periods beginning on or after January 1st, 2013 with earlier application permitted so long as each of the new standards IFRS 11, IFRS 12 and amendments of the standards IAS 27 and IAS 28 is also early applied.

2.5. IFRS 11 Joint Arrangements

In 2011 IASB issued IFRS 11. The IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. This standard has an effective date for annual periods beginning on or after January 1st, 2013 with earlier application permitted so long as each of the new standards IFRS 10, IFRS 12 and amendments of the standards IAS 27 and IAS 28 is also early applied.

2.6. IFRS 12 Disclosure of Interests in Other Entities

In 2011 IASB issued IFRS 12. The IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. This standard has an effective date for annual periods beginning on or after January 1st, 2013 with earlier application permitted so long as each of the new standards IFRS 10, IFRS 11 and amendments of the standards IAS 27 and IAS 28 is also early applied.

2.7. IFRS 13 Fair Value Measurement

In 2011 IASB issued IFRS 13. The IFRS 13 established a single framework for measuring fair value where that is required by other Standards. The Standard applies to both financial and non-financial items measured at fair value. Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. IFRS 13 is effective for annual periods beginning on or after January 1st, 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the Standard is adopted.

2.8. IAS 27 Separate Financial Statements (2011)

In 2011, IASB issued the amendment to IAS 27 – Separate Financial Statements. The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. This amendment has an effective date for annual periods beginning on or after January 1st, 2013 with earlier application permitted so long as each of the new standards IFRS 10, IFRS 11, IFRS 12 and amendments of the standard IAS 28 is also early applied.

2.9. IAS 28 Investments in Associates and Joint Ventures (2011)

In 2011, IASB issued the amendment to IAS 28 – Investments in Associates and Joint Ventures. IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. This amendment has an effective date for annual periods beginning on or after January 1st, 2013 with earlier application permitted so long as each of the new standards IFRS 10, IFRS 11, IFRS 12 and amendments of the standard IAS 28 is also early applied.

2.10. Improvements to IFRSs 2010

On May 6, 2010, IASB issued a document called Improvements to IFRSs 2010, which contains amendments to seven standards. This is the third set of amendments issued through the annual improvement process, intended to make the necessary, but not urgent, improvements to the IFRSs.

The Company's Management is analyzing possible impacts from the adoption of those improvements on its financial statements. However, it does not expect material impacts.

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The table below summarizes all the improvements made in the existing rules and interpretations:

Rule	Reason to Change	Adoption and Transition
IFRS 1 – First-time Adoption of International Financial Reporting Standards	Change in the accounting policies in the year of the adoption	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.
	Revaluation as deemed cost	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.
	Use of deemed cost for operations subject to regulatory prices	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.
IFRS 3 – Business Combinations (2008)	Measurement of minority interest	Mandatory for the years beginning on or after July 1 st , 2010. It should be prospectively applied as of the date the entity adopts the IFRS 3 (2008). Early adoption allowed.
	Payment of share-based premiums not replaced or voluntarily replaced	Mandatory for the years beginning on or after July 1 st , 2010. It should be prospectively applied as of the date the entity adopts the IFRS 3 (2008). Early adoption allowed.
	Transition requirements for contingent counterparties of a business combination executed prior to the mandatory adoption date of IFRS 3 (2008)	Mandatory for the years beginning on or after July 1 st , 2010. Early adoption allowed.
IFRS 7 – Financial Instruments: Disclosures	Clarification on disclosures	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.
IAS 1 – Presentation of Financial Statements	Clarification on the statement of changes of shareholders' equity	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.
IAS 27 – Consolidated and Separate Financial Statements (2008)	Transition requirements from the changes introduced by IAS 27 (2008)	Mandatory for the years beginning on or after July 1 st , 2011. Early adoption allowed.
IAS 34 – Interim Financial Reporting	Material events and transactions	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.
IFRIC 13 – Customer Loyalty Programs	Fair value of premium credits	Mandatory for the years beginning on or after January 1 st , 2011. Early adoption allowed.

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3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

3.2. Basis of presentation

The consolidated financial statements of the Group are presented in thousands of Brazilian reais (R\$) and have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

3.3. Basis of consolidation

3.3.1. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.3.2. Non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals of non-controlling interests result in gains and losses for the Group and are recorded in the income statement.

3.4. Business combination

In the consolidated financial statements, business acquisitions are accounted for at the acquisition method. The consideration transferred in a business combination is measured at fair value, calculated as the aggregate of the fair value of the assets transferred and liabilities assumed by the Group on the acquisition date to the former controlling shareholders of the acquiree and the interests issued by the Group in exchange for the control of the acquiree. Acquisition-related costs are usually recognized in profit or loss when incurred.

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Identifiable assets acquired and liabilities assumed are recognized at fair value on the acquisition date, except for:

- Deferred tax assets or liabilities, and assets and liabilities related to employee benefit agreements, which are recognized and measured under IAS 12 – Income Taxes, and IAS 19 – Employee Benefits;
- Liabilities or equity instruments related to share-based payment agreements of the acquiree or payment arrangements based on Group stock, executed to replace the share-based payment agreements of the acquiree, are measured under IFRS 2 – Share-based Payment on the acquisition date; and
- Assets (or disposal groups) classified as held for sale under IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations are measured in compliance with this standard.

Goodwill is measured as the difference between the aggregate of the consideration transferred, the amount of any minority interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree, if any; and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after the assessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed are higher than the aggregate of the consideration transferred, the amount of any minority interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree, if any, this surplus is immediately recognized in income as gains.

Minority interests corresponding to current holding and granting holders the right to a proportionate share of the net assets of the entity in case of liquidation may be initially measured at fair value or based on the proportionate share of the non-controlling interests on recognized amounts of identifiable net assets of the acquiree. The measurement method to be applied is chosen on a transaction by transaction basis. Other types of minority interests are fair valued or, when applicable, as determined by another IFRS.

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When the consideration transferred by the Group in a business combination includes assets or liabilities derived from a contingent consideration arrangement, the contingent consideration is fair valued on the acquisition date and included in the consideration transferred in a business combination. Changes to the fair value of the contingent consideration classified as adjustments of the measurement period are retrospectively adjusted, with the corresponding adjustment in goodwill. Adjustments to the measurement period correspond to adjustments resulting from additional information obtained during the "measurement period" (which shall not be longer than twelve months from the acquisition date) related to facts and circumstances existing on the acquisition date.

The subsequent accounting for changes to the fair value of the contingent consideration not classified as adjustments of the measurement period depend on how the contingent consideration is classified. Contingent consideration classified as equity is not remeasured at subsequent financial statement dates, and its corresponding settlement is accounted for in equity. Contingent consideration classified as asset or liability is remeasured on subsequent financial statement dates, under IAS 39 and IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, as applicable, and the corresponding gain or loss is recognized in the income.

When a business combination is achieved in stages, the interest previously held by the Group in the acquiree is remeasured at fair value on the acquisition date (that is, the date the Group obtained that control), and the corresponding gain or loss, if any, is recognized in the income. The amounts of the interests in the acquiree prior to the acquisition date previously recognized in "Other comprehensive income" are reclassified in the income, provided that such treatment is appropriate in case such interest is disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period when such combination occurred, the Group records provisional amounts for the items whose accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above), or additional assets and liabilities are recognized to reflect new information obtained regarding facts and circumstances existing on the acquisition date that would have affected the amounts recognized on that date if they had been known.

3.5. Goodwill

Goodwill resulting from a business combination is stated at cost on the transaction date (see item 3.4), net of accumulated loss in the recoverable amount, if any.

For purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that will benefit from the synergies of the combination. Goodwill generated on the acquisition of Ability in September 2010 was not tested for impairment, because a year has not elapsed since the acquisition date and such goodwill has not presented any indication of impairment.

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The cash-generating unit's goodwill was allocated to be tested for impairment on a yearly basis, or at shorter intervals whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is lower than its book value, an impairment loss is firstly allocated to reduce the book value of any goodwill allocated to the unit and later to the other assets of the unit, proportionately to the book value of each of its assets. Any goodwill impairment loss is directly recognized in the income for the period. Impairment losses are not reversed in subsequent periods.

Upon the disposal of the corresponding cash-generating unit, the attributable goodwill amount is included in the calculation of the profit or loss of the disposal.

3.6. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for services rendered in the normal course of the Group's activities. Revenue is presented net of sales taxes, returns, allowances, discounts and after eliminating sales within the Group.

The Group recognizes revenue when (i) the amount of revenue can be reliably measured, (ii) it is probable that future economic benefits will flow to the entity and (iii) specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group renders services of telemarketing, contact center and credit recovery services to other companies. These services are provided on a speaking time, workstation position or performance basis or as a fixed-price contract.

Revenue from speaking time service contracts is measured on the basis of hours delivered whereas workstation position service contracts' revenue is measured based on the number of workstation positions that were used by the client.

Revenue from performance targets (i.e., credit recovery services) are recognized based on the fee percentage agreed with the client over the recovered credits and the client's confirmation of such recovered credits.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

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3.7. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the commencement of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8. Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Brazilian reais (R\$), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

3.9. Share-based payments

Share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of share-based transactions are set out in Note 29.

The fair value determined at the grant date of the share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period.

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3.10. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Provisions for deferred and payable income tax and social contribution and tax credit on temporary differences are established at the composite base rate of 34%, comprised of a 25% federal income tax rate plus a 9% social contribution rate.

Prepaid income tax and social contribution are recorded as “Recoverable taxes.”

3.10.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3.10.2. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their corresponding tax bases used, and is computed using the balance sheet liability method. However, deferred income tax is not accounted for if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is only recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

Deferred tax assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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3.10.3. Current and deferred income tax and social contribution for the period

Current and deferred income tax and social contribution are recognized as expense or revenue in the income for the period, unless these correspond to items recorded under “Other comprehensive income”, or directly in shareholders’ equity, in which case current and deferred taxes are also recognized in “Other comprehensive income” or directly in shareholders’ equity, respectively. Where current and deferred taxes result from the initial recognition of a business combination, the tax effect is included in the accounting for the business combination.

3.11. Property, plant and equipment

Property and equipment held for use in the supply of services, or for administrative purposes, are stated in the balance sheet at original cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses, when applicable.

Property and equipment are depreciated using the straight-line method over the useful lives of the related assets. Given the complex nature of our telecommunications and IT systems, the estimates of useful lives require considerable judgment and are inherently uncertain, due to rapidly changing technology and practices in our business sector, which could cause early obsolescence of such systems. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.12. Intangible assets

Intangible assets represent principally software, and are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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3.13. Impairment of tangible and intangible assets (excluding goodwill)

Assets that have indefinite useful lives, such as goodwill, are not amortized but tested for impairment at least annually. In addition, at each balance sheet date, the Group reviews its long-lived non-financial assets (such as property and equipment and intangible assets), to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, in connection with events or changes in circumstances that indicate that the carrying amounts of those assets may not be recovered, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of the asset or group of assets fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. Impairment loss recognized on goodwill is never reversed in subsequent periods.

3.14. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

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3.15. Financial assets

3.15.1. Classification

The Group classifies its financial assets in the loans and receivables category or as long-term investments depending on the maturity and nature. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" in the balance sheet.

3.15.2. Recognition and measurement

Loans and receivables are carried at amortized cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

3.16. Financial liabilities and equity instruments issued by the Group

3.16.1. Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.16.2. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit & loss or other financial liabilities recorded at amortized cost.

3.16.3. Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.17. Costs and expenses

The operating costs and expenses are recorded on an accrual basis and pertain mainly to personnel expenses.

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3.18. Finance income and costs

Finance income and finance costs pertain mainly to interest and inflation adjustments resulting from financial investments loan contracts and leasing contracts, all recorded on an accrual basis.

3.19. Cash and cash equivalents

Comprised of cash balances, bank deposits in cash and financial investments, whose maturity is up to 90 days from the investment date. These financial investments are stated at cost, plus profit earned up to the year-end closing date and their maturity dates are less than 90 days, short term, which are subject to an insignificant risk of change in their value.

3.20. Trade receivables and allowance for doubtful accounts

Trade receivables are recognized initially at fair value which generally represents invoiced amounts and subsequently at outstanding amounts less provision for impairment. An allowance for doubtful accounts is established when there is objective evidence, in addition to whatever guarantees may have been provided by the client, that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within "Selling, general and administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "Selling, general and administrative expenses" in the income statement.

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3.21. Judicial deposits

The Group questions, in some situations, the legality and/or applicability of certain liabilities and/or lawsuits filed against the Group. Pursuant to these questionings, following the court orders or management's strategy, amounts may be deposited in specific bank accounts under the Group's name. Such deposits do not settle the disputed amounts, but entitle the Group to carry the questioning processess. In these situations, although the deposits are still assets of the Group which are inflation adjusted, the amounts are only released upon receipt of a favourable ultimate unappealeble court decision. Judicial deposits are considered to be investing activities for cash flow statement purposes.

3.22. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs. Subsequently, borrowings are accounted for at amortized cost, with interest recognized in income over the borrowing period using the effective interest rate method (Note 22).

3.23. Payroll and related charges

The amounts relate to vacation payable to employees and are recognized on a monthly basis in proportion to the twelve month acquisition period thereof.

The subsidiary Contax has a profit sharing program, for all of its employees, pursuant to an agreement entered into with FITTEL (Interstate Federation of Employees of Telecommunications Companies). This profit sharing program, in which all the employees take part, is based on increasing operating gains and individual performance and the amounts recognized are based on the achievement of such performance targets.

3.24. Trade payables

Trade payables are initially recognized at fair value which generally represents invoiced amounts.

3.25. Dividends distribution

Dividends distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

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3.26. Share buy-back

When the Company buys back its own shares, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity under treasury shares.

3.27. Treasury shares

Reacquired own equity instruments (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the book value and the consideration is recognized in other capital reserves.

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4. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing the Group's financial statements, the Group has relied on estimates and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. "Critical accounting policies" are those that are important to the portrayal of our financial condition and results and require management's most difficult, subjective or complex judgments, estimates and assumptions.

The application of these critical accounting policies often requires judgments made by management regarding the effects of matters that are inherently uncertain. These estimates, including but not limited to the provisions for accounts receivable and contingent liabilities, may differ from the actual value of such assets or liabilities. The following is a discussion of our critical accounting policies, including some of the variables, assumptions and sensitivities underlying the estimates relating to:

- revenue recognition;
- impairment of goodwill;
- depreciation of property and equipment;
- contingent consideration measured at fair value;
- payroll and related accruals;
- provision for contingencies;
- deferred and recoverable income tax and social contribution; and
- share-based payments.

4.1. Revenue recognition

The Group recognizes revenues on an accrual basis at the time services are rendered, except with respect to certain performance-based services, for which revenues are recognized upon their measurement and acceptance by our client. Most service contract revenues are calculated based on indicators such as quantity of workstations and speaking time and on performance targets. Revenues are calculated based on information available in our IT systems that relate to the volume of data services rendered to each client. Revenues related to performance-based services are calculated based on data available in Group's clients' IT systems. In addition, the Group usually allocates operation managers to review, reconcile and discuss such indicators with clients. Some revenue adjustments are recorded after discussions with such clients.

4.2. Impairment of goodwill

To determine if goodwill is impaired, it is necessary to estimate the value in use of the cash-generating unit goodwill was allocated to. The calculation of the value in use requires that Management estimate the future cash flow expected to be derived from the cash-generating unit, and the appropriate discount rate for the present value to be calculated.

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The book value of goodwill on December 31, 2010 was R\$49,081.

4.3. Depreciation of property and equipment

The Group depreciates property and equipment using the straight-line method at rates compatible with the useful lives of the underlying assets. As described in Note 10, the Group revises the estimated useful life of property, plant and equipment items on a yearly basis, at the end of each reporting period. For this reporting period, Management has determined that the useful lives of property and equipment items were appropriate and required no adjustments.

4.4. Contingent consideration measured at fair value

Contingent consideration in a business combination is measured at fair value on the date of acquisition as part of the business combination. If the contingent consideration is classified as a derivative, and, therefore, a financial liability is recognized, it must be subsequently remeasured at fair value on the balance sheet date. The fair value is based on the discounted cash flow. The main assumptions take into account the probability of meeting each goal and the discount factor.

4.5. Payroll and related accruals

Payroll and related accruals are the most significant costs of the Group's operations and are calculated and recorded on an accrual basis by the payroll system. Payroll and related accruals include wages and salaries, paid vacation, Christmas bonus (13th salary), social security charges, executive profit sharing plan and employees' payroll tax withholdings, most of which are defined by Brazilian labor law.

For paid vacation provisions, each employee is entitled to a 30-day calendar paid annual vacation, corresponding to 133.3% of a monthly salary. The Group records a monthly provision for paid vacations, until such benefit is paid (when employees effectively take their vacations). For the thirteenth salary payment provision, we record a monthly provision equal to 1/12 of each employee's monthly salary until such benefit is paid. Fringe benefits, such as paid transportation and meal vouchers, are recognized as expenses on a monthly basis when provided to employees.

Management's executive profit sharing plan is performance-based, based on the achievement of several of our financial and quality targets, as well as individual employees' targets, determined on an annual basis. This provision is recorded on a monthly basis and is recalculated at year-end based on our best estimate of targets attained, as set in the annual budget process, but the actual total amount is only final after being reviewed and approved by the Board of Directors.

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4.6. Provision for contingencies

The preparation of the consolidated financial statements requires management to make estimates and assumptions regarding contingencies that affect our overall financial condition or relate to the changes in the actual value of liabilities at the date of the consolidated financial statements and accounting for the expenses arising during the reported period. Such contingencies include those related to the legal proceedings discussed in Note 24.

Provisions for contingencies are recognized for the amounts of probable losses determined by management based on legal advice from in-house and external legal counsel regarding the outstanding contingent matters. Management continuously evaluates the provisions for contingencies based on changes in relevant facts, circumstances and events, such as judicial decisions, that may impact our estimates, which in turn could have a material impact on our results of operations and shareholders' equity. While management believes that the current provisions for contingencies are adequate, there can be no assurance that these factors will not change in the future.

4.7. Deferred and recoverable income tax and social contribution

The Group records deferred tax assets arising from temporary differences between the accounting bases of assets and liabilities and their tax bases. Deferred tax assets are recognized to the extent the Group expects to generate sufficient future taxable profit based on projections and forecasts prepared by the Group's management. These projections and forecasts include several assumptions related to the performance of the Group, exchange rates, service volumes, tax rates and other factors that could differ from current estimates.

There is no time limit for the use of tax losses carryforwards according to current Brazilian tax regulations. However, accumulated tax losses may be offset up to 30.0% of the annual taxable profit.

4.8. Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 29.

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5. REVENUE

The reconciliation between the gross revenue and net operating revenue reported in the income statement for the year is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Gross revenue	2,588,367	2,335,252	1,916,115
Minus:			
Tax on sales			
COFINS	(79,723)	(69,132)	(55,259)
ISS	(93,379)	(90,122)	(74,156)
PIS	(17,269)	(14,979)	(11,973)
Net operating revenue	<u>2,397,996</u>	<u>2,161,019</u>	<u>1,774,728</u>

5.1. Information about major customers

Included in revenues are R\$1,173,544 (2009 - R\$1,086,517 and 2008 - R\$906,917) related to the Group's largest customer, representing approximately 49% of total revenue (2009 - 50% and 2008 - 51%).

6. SEGMENT INFORMATION**6.1. Services that generate revenue for reportable segments**

During 2010 the Group identified two new reportable segments, in addition to the existing operating segment of telemarketing services. The new operating segments identified are (i) IT services in general and (ii) publicity and advertising services.

In the past two years, IT services provided by TODO did not exceed the quantitative thresholds set forth in paragraph 13 of IFRS 8 (Operating Segments). However, with the enhancement of TODO's operations during 2010, the quantitative thresholds mentioned above have been reached and, consequently, the Group determined to be applicable the presentation of IT services as a separate segment. Additionally, the acquisition of Ability in 2010 led to the entrance of a new reportable segment (i.e., publicity and advertising services).

Additionally, the acquisition of ability in 2010 led to the entrance of a new reportable segment (i.e., publicity and advertising services).

The information presented to the main decision maker to allocate funds and assess the segment performance is focused on the type of services provided, thus, according to the IFRS 8, the Group is divided into 3 segments of operation:

- (a) Provision of telephone assistance services in general (Contax and Contax Argentina);
- (b) Provision of information technology services in general (TODO); and
- (c) Provision of publicity and advertising services (Ability).

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6.2. Revenues and results from reportable segments

The table below presents an analysis of income from continuing operations of the Group per reportable segment:

	2010				
	Telemarketing services in general	IT services in general	Publicity and advertising services	Eliminations	Consolidated
Net operating revenue	2,372,041	95,837	33,488	(103,371)	2,397,996
Cost of services rendered	(2,028,198)	(83,410)	(17,542)	102,758	(2,026,392)
Gross operating income	<u>343,843</u>	<u>12,428</u>	<u>15,946</u>	<u>(613)</u>	<u>371,604</u>
Operating revenue (expenses):					
Selling	(26,170)	(658)	(181)	32	(26,976)
General and administrative	(118,788)	(9,449)	(12,028)	2,258	(138,007)
Management fees	-	-	-	(7,142)	(7,142)
Equity in subsidiaries	780	-	-	(780)	-
Financial revenue	20,638	1,054	75	11,445	33,213
Financial expenses	(29,970)	(383)	(130)	(197)	(30,681)
Other operating expenses, net	(24,321)	(176)	97	(39)	(24,440)
	<u>(177,830)</u>	<u>(9,612)</u>	<u>(12,167)</u>	<u>5,577</u>	<u>(194,033)</u>
Operating income before income tax and social contribution	166,012	2,816	3,779	4,963	177,571
Income tax and social contribution:					
Current	(66,842)	(784)	(1,099)	(1,985)	(70,708)
Deferred	2,576	740	(266)	(860)	2,190
Net income for the year	<u>101,747</u>	<u>2,772</u>	<u>2,414</u>	<u>2,118</u>	<u>109,053</u>
Minority interest					(555)
Net income for the year					<u><u>108,498</u></u>
					2009
	Telemarketing services in general	IT services in general	Publicity and advertising services	Eliminations	Consolidated
Net operating revenue	2,164,732	53,955	-	(57,668)	2,161,019
Cost of services rendered	(1,766,763)	(48,399)	-	54,998	(1,760,164)
Gross operating income	<u>397,969</u>	<u>5,556</u>	<u>-</u>	<u>(2,671)</u>	<u>400,855</u>
Operating revenue (expenses):					
Selling	(27,712)	-	-	3	(27,709)
General and administrative	(116,211)	(9,101)	-	(5,403)	(130,715)
Management fees	-	-	-	(7,879)	(7,879)
Equity in subsidiaries	(2,535)	-	-	2,535	-
Financial revenue	19,994	286	-	4,251	24,531
Financial expenses	(40,152)	(70)	-	300	(39,922)
Other operating expenses, net	(13,236)	(52)	-	(151)	(13,440)
	<u>(179,851)</u>	<u>(8,937)</u>	<u>-</u>	<u>(6,345)</u>	<u>(195,134)</u>
Operating income before income tax and social contribution	218,118	(3,381)	-	(9,016)	205,721
Income tax and social contribution:					
Current	(70,753)	-	-	(245)	(70,998)

Deferred	<u>1,774</u>	<u>-</u>	<u>-</u>	<u>(5,440)</u>	<u>(3,666)</u>
Net income for the year	<u>149,139</u>	<u>(3,381)</u>	<u>-</u>	<u>(14,702)</u>	<u>131,057</u>
Minority interest					<u>634</u>
Net income for the year					<u><u>131,691</u></u>

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	2008				
	Telemarketing services in general	IT services in general	Publicity and advertising services	Eliminations	Consolidated
Net operating revenue	1,774,728	-	-	-	1,774,728
Cost of services rendered	(1,507,603)	-	-	-	(1,507,603)
Gross operating income	267,125	-	-	-	267,125
Operating revenue (expenses):					
Selling	(28,488)	-	-	-	(28,488)
General and administrative	(84,967)	-	-	-	(84,967)
Management fees	(6,317)	-	-	-	(6,317)
Equity in subsidiaries	-	-	-	-	-
Financial revenue	32,529	18	-	-	32,547
Financial expenses	(32,597)	-	-	-	(32,597)
Other operating expenses, net	(18,626)	-	-	-	(18,626)
	(138,466)	18	-	-	(138,448)
Operating income before income tax and social contribution	128,659	18	-	-	128,677
Income tax and social contribution:					
Current	(51,365)	(4)	-	-	(51,370)
Deferred	5,522	-	-	-	5,522
Net income for the year	82,816	14	-	-	82,829
Minority interest					(3)
Net income for the year					82,826

The accounting policies for the reportable segments are the same as the Group's (described in Note 3).

6.3. Assets and liabilities of reportable segments

	2010				
	Telemarketing services in general	IT services in general	Publicity and advertising services	Eliminations	Consolidated
Assets:					
Current	473,740	25,644	28,929	73,759	602,073
Non-current	647,590	5,789	34,598	39,427	727,403
Goodwill	-	-	49,081	-	49,081
Total assets	1,121,330	31,433	112,608	113,186	1,378,557
Liabilities and shareholders' equity:					
Current	427,719	21,407	26,619	28,731	504,476
Non-current	402,286	27	10,438	40,359	453,110

Total liabilities	<u>830,004</u>	<u>21,433</u>	<u>37,057</u>	<u>69,090</u>	<u>957,586</u>
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	2009				
	Telemarketing services in general	IT services in general	Publicity and advertising services	Eliminations	Consolidated
Assets:					
Current	509,311	15,052	-	(15,702)	508,662
Non-current	531,329	4,947	-	26,735	563,011
Total assets	<u>1,040,640</u>	<u>19,999</u>	<u>-</u>	<u>11,034</u>	<u>1,071,673</u>
Liabilities and shareholders' equity:					
Current	490,778	12,744	-	(49,639)	453,883
Non-current	214,258	27	-	-	214,285
Total liabilities	<u>705,037</u>	<u>12,770</u>	<u>-</u>	<u>(49,639)</u>	<u>668,168</u>

In order to monitor the segment performance and to allocate funds among the segments:

- Goodwill was allocated to the reportable segments of publicity and advertising as described in Note 11. The assets jointly used by the reportable segments are allocated based on the revenues generated by each reportable segment; and
- All liabilities are allocated to the reported segments, except for "Other financial liabilities", loans and deferred tax liabilities. Liabilities under the joint responsibility of reportable segments are allocated proportionally to the segment's assets.

6.4. Geographic information

The Group operates in two geographic areas: Brazil (domestic) and Argentina. The revenue from the Group's continuing operations, resulting from external clients per geographic area is detailed as follows:

	Revenue from foreign clients		
	2010	2009	2008
Brazil	2,397,309	2,161,019	1,774,728
Argentina	687	-	-
	<u>2,397,996</u>	<u>2,161,019</u>	<u>1,774,728</u>

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7. INFORMATION ON THE NATURE OF COSTS AND EXPENSES RECOGNIZED IN THE INCOME STATEMENT

The Company reported an income statement classifying the costs and expenses based on their function. The information on the nature of these costs and expenses recognized in the income statement is presented below:

	<u>Note</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Depreciation and amortization		122,109	116,410	118,042
Personnel expenses		1,630,212	1,400,369	1,165,992
Raw material and use and consumption materials		13,853	11,042	11,766
Third party services		196,830	182,750	139,489
Electricity		52,719	45,367	34,140
Rent and insurance		98,949	97,896	74,735
Other expenses		138,966	125,995	134,434
		<u>2,253,638</u>	<u>1,979,829</u>	<u>1,678,598</u>

Classified as:

Cost of services rendered	8.1	2,026,392	1,760,164	1,507,603
Selling	8.1	26,976	27,709	28,488
General and administrative	8.1	138,007	130,715	84,967
Management compensation	8.1	7,142	7,879	6,317
Financial expenses	8.4	30,681	39,922	32,597
Other operating expenses, net	8.2	24,440	13,440	18,626
		<u>2,253,638</u>	<u>1,979,829</u>	<u>1,678,598</u>

7.1. Cost of services rendered and operating expenses

	2010			
	Cost of services rendered	Selling	General and administrative	Total
Personnel (i)	1,535,701	12,135	79,688	1,627,524
Share-based payment (ii)	-	-	2,689	2,689
Third-party services (iii)	241,001	2,712	44,581	288,294
Depreciation/amortization (iv)	112,029	4	10,076	122,109
Rent and insurance (v)	93,062	-	5,888	98,950
Other inputs	44,599	12,125	2,227	58,951
	<u>2,026,392</u>	<u>26,976</u>	<u>145,149</u>	<u>2,198,517</u>

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	2009			
	Cost of services rendered	Selling	General and administrative	Total
Personnel (i)	1,315,520	11,161	63,693	1,390,374
Share-based payment (ii)	-	-	9,995	9,995
Third-party services (iii)	241,304	5,824	40,076	287,204
Depreciation/amortization (iv)	98,786	9	17,616	116,411
Rent and insurance (v)	91,981	3	5,915	97,899
Other inputs	12,573	10,712	1,299	24,584
	<u>1,760,164</u>	<u>27,709</u>	<u>138,594</u>	<u>1,926,467</u>

	2008			
	Cost of services rendered	Selling	General and administrative	Total
Personnel (i)	1,110,073	9,121	46,669	1,165,863
Share-based payment (ii)	-	-	129	129
Third-party services (iii)	207,667	3,245	28,750	239,662
Depreciation (iv)	105,302	9	12,731	118,042
Rental and insurance (v)	72,820	3	1,912	74,735
Other inputs	11,741	16,110	1,093	28,944
	<u>1,507,603</u>	<u>28,488</u>	<u>91,284</u>	<u>1,627,375</u>

- (i) Costs with personnel have increased due to the growth of the business volume and to salary increases provided for in collective bargaining agreements.
- (ii) The cost with share-based payment reduced due to certain changes made to the plan in 2009 (Note 29).
- (iii) The third-party services considered as Cost of Services Rendered refer mainly to expenses with workstation maintenance, facilities and data processing, while the third-party services considered as selling, general and administrative expenses refer, substantially, to expenses with consulting services, traveling, and legal advice, among others.
- (iv) Refers to depreciation and amortization expenses of property, plant and equipment and intangible assets acquired through financial leasing agreements which were classified as fixed assets pursuant to IAS 17 Leases - and have been depreciated on a straight-line basis based on the asset's expected useful life (Notes 10 and 12).
- (v) They substantially represent expenses with rental of properties used in the operations and operational infrastructure of the contact center.

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7.2. Other operating income (expenses), net

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Other Operating Income			
Reversal of provision for contingencies (Note 30)	17,918	15,123	4,186
Penalty over overdue accounts	135	40	537
Recovered expenses	473	169	814
Sale of property, plant and equipment	179	27	131
	<u>18,705</u>	<u>15,359</u>	<u>5,668</u>
Other Operating Expenses			
Provision for contingencies (Note 30)	(33,390)	(21,035)	(17,425)
Municipal Real Estate Tax	(4,894)	(3,375)	(2,402)
Cost of property, plant and equipment written-off	(173)	(1,761)	(255)
Other	(4,689)	(2,628)	(4,211)
	<u>(43,146)</u>	<u>(28,799)</u>	<u>(24,293)</u>
	<u>(24,441)</u>	<u>(13,440)</u>	<u>(18,626)</u>

7.3. Expenses with employees' benefits

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fixed compensation ⁽ⁱ⁾	833,683	722,218	593,309
Social charges ⁽ⁱⁱ⁾	345,839	280,371	230,127
Stock option plan	2,689	9,995	129
	<u>1,182,211</u>	<u>1,012,584</u>	<u>823,565</u>

(i) Fixed compensation include salaries and fees, paid vacations, thirteenth salary and private pension plan.

(ii) Social charges include contributions to social security - INSS, FGTS, among others.

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7.4. Financial income (expenses), net

	2010	2009	2008
Financial income			
Yield from investments ⁽ⁱ⁾	26,979	22,330	30,345
Interest and monetary variation on other assets	5,637	2,096	1,599
Other	597	105	603
	<u>33,213</u>	<u>24,531</u>	<u>32,547</u>
	2010	2009	2008
Financial expenses			
Interest and monetary variation on other liabilities	(618)	(288)	(92)
Interest and monetary variation of contingencies	(5,547)	(5,890)	(7,274)
Interest on BNDES financing (Note 24)	(18,151)	(17,234)	(14,738)
Interest on BNB financing (Note 24)	(897)	-	-
Interest on leasing (Note 26)	(2,195)	(13,780)	(7,123)
Comission – Guarantee letter ⁽ⁱⁱ⁾	(1,294)	(1,378)	(1,782)
Other financial expenses ⁽ⁱⁱⁱ⁾	(1,979)	(1,352)	(1,588)
	<u>(30,681)</u>	<u>(39,922)</u>	<u>(32,597)</u>

(i) The return on Parent Company's financial investments increased due to the maintenance of a higher cash volume mainly deriving from dividends received in May 2010 and in April 2009.

(ii) Cost mainly related to letters of guarantees from financial institutions, presented as guarantee in the BNDES loan (Note 22).

(iii) Refers to bank services, adjustments of short-term liabilities and taxes on foreign operations.

8. INCOME TAXES

Income taxes in Brazil comprise federal income tax and social contribution (which is an additional federal income tax). The deferred tax balances at each period end are computed at the rates to be in force in the subsequent years and the current tax balances at each period end include taxes to be paid currently. The statutory enacted rates applicable for federal income tax and social contribution were 25% and 9%, respectively, which represented a composite statutory rate of 34%, for 2010, 2009 and 2008.

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8.1. Income tax recognized in profit or loss

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current			
Income tax	(51,238)	(51,430)	(37,221)
Social contribution	<u>(19,470)</u>	<u>(19,568)</u>	<u>(14,149)</u>
	<u>(70,708)</u>	<u>(70,998)</u>	<u>(51,370)</u>
Deferred			
Income tax on temporary differences	2,243	(2,611)	11,121
Social contribution on temporary differences	807	(940)	4,004
Income tax on tax losses	(632)	(85)	(7,053)
Social contribution on negative base (tax loss)	<u>(228)</u>	<u>(30)</u>	<u>(2,550)</u>
	<u>2,190</u>	<u>(3,666)</u>	<u>5,522</u>
Total tax expense	<u><u>(68,518)</u></u>	<u><u>(74,664)</u></u>	<u><u>(45,848)</u></u>

The expense for the year can be reconciled to the accounting profit as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Profit before tax	<u>177,570</u>	<u>205,721</u>	<u>128,677</u>
Income tax and social contribution at nominal rate (34%)	(60,374)	(69,945)	(43,750)
Tax effects on permanent differences, net(i)	(10,384)	(5,492)	(4,143)
Other	<u>2,240</u>	<u>773</u>	<u>2,045</u>
Income tax and social contribution benefits (expenses)	<u><u>(68,518)</u></u>	<u><u>(74,664)</u></u>	<u><u>(45,848)</u></u>
Effective income tax and social contribution rate	<u><u>38.59%</u></u>	<u><u>36.29%</u></u>	<u><u>35.63%</u></u>

(i) This refers basically to expenses with fines, donations, free gifts and sponsorships deemed not deductible, among others.

The tax rate used for the 2010, 2009 and 2008 reconciliations above is the corporate tax rate of 34% payable by corporate entities in Brazil on taxable profits under tax law in that jurisdiction.

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9. EARNINGS PER SHARE

As described in Note 9, as a result of the reverse stock split and simultaneous stock split, in compliance with the paragraph 64 of IAS 33, the information related to the number of shares and earnings per share was adjusted retroactively to reflect the reverse stock split and simultaneous stock split.

9.1. Basic earnings per share

Earnings per shares are basically calculated by dividing the net income for the year, allocated to the Company's common shareholders, by the weighted average number of common shares available in the year. Net income and weighted average number of thousand shares used to calculate the basic earnings per share are the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Profit for the year attributed to controlling shareholders:			
Common shares	41,463	49,947	31,425
Preferred shares	67,035	81,744	51,401
	<u>108,498</u>	<u>131,691</u>	<u>82,826</u>
Weighted average number of shares for the purpose of basic earnings per share (all measures):			
Common shares	22,757	22,425	22,570
Preferred shares	36,681	36,681	39,114
	<u>59,438</u>	<u>59,106</u>	<u>61,684</u>
		Cents per share	
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Basic Earnings per share			
Common shares	1.82	2.23	1.39
Preferred shares	1.83	2.23	1.31

9.2. Diluted earnings per share

Diluted earnings per share is calculated by dividing the net income allocated to the parent company's common shareholders (after the adjustment in the denominator to reflect the potential dilutive effect of the stock option plan discussed in Note 29) by the weighted average number of common shares available in the year, plus the weighted average number of common shares that would be issued at the conversion of all potential common shares diluted into common shares. Net income used to calculate all diluted earnings per share is the same used to calculate the basic earnings per share, as previously described.

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The following table presents the weighted average number of shares for the purposes of diluted earnings per share and the weighted average number of shares used to calculate the basic earnings per share, as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Profit for the year attributed to controlling shareholders:			
Common shares	41,463	49,947	31,425
Preferred shares	67,035	81,744	51,401
	<u>108,498</u>	<u>131,691</u>	<u>82,826</u>
Weighted average number of shares for the purpose of basic earnings per share (all measures):			
Common shares	23,046	22,762	22,570
Preferred shares	36,681	36,681	39,114
	<u>59,727</u>	<u>59,443</u>	<u>61,684</u>
		Cents per share	
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Diluted Earnings per Share			
Common shares	1.80	2.19	1.39
Preferred shares	1.83	2.23	1.31

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10. PROPERTY, PLANT AND EQUIPMENT

	<u>Telecom and IT equipment (i)</u>	<u>Furniture, fixture and equipment (i)</u>	<u>Improvements on third-party assets (ii)</u>	<u>Construction in progress</u>	<u>Building</u>	<u>Land</u>	<u>Other</u>	<u>Total</u>
Cost								
December 31, 2009	361,134	79,486	243,584	5,473	2,709	831	45,843	739,060
Additions	42,301	18,316	33,023	41,573	-	-	14,380	149,593
Disposals	(99)	(41)	(179)	-	-	-	(39)	(358)
Transfers	1,670	402	7,565	(11,847)	319	-	103	(1,788)
December 31, 2010	405,006	98,163	283,993	35,199	3,028	831	60,287	886,507
Accumulated depreciation								
December 31, 2009	(266,811)	(33,106)	(72,892)	-	(210)	-	(13,568)	(386,587)
Amortization	(50,191)	(10,902)	(27,677)	-	(112)	-	(5,305)	(94,187)
Disposals	94	27	-	-	-	-	23	144
Transfers	346	(189)	21	-	-	-	(182)	(4)
December 31, 2010	(316,562)	(44,170)	(100,548)	-	(322)	-	(19,032)	(480,634)
Carrying amount								
December 31, 2009	94,323	46,380	170,692	5,473	2,499	831	32,275	352,473
December 31, 2010	88,444	53,993	183,445	35,199	2,706	831	41,255	405,873

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The following useful lives are used in the calculation of depreciation:

Telecom and IT systems	3 years
Improvements on third party assets	10 years
Furniture and fixtures	8 years
Building	25 years
Other	10 years

- (i) The acquired assets' monthly depreciation rates under the items "IT equipment" and "furniture and fixtures" were reviewed due to the reduction of its economic useful life estimate. The evaluation studies to determine the new economic useful lives of these assets were prepared in accordance with the rules of Brazilian Association of Technical Rules (ABTN) by a specialized consultant qualified for this type of activity and supported by technical appraisal reports. Such evaluation is in conformity with requirements set forth in IAS 16 - Property, Plant and Equipment.
- (ii) The real estate rental agreements effectiveness varies from 5 up to 10 years. The Company may renew it for the same period.
- (iii) Property, plant and equipment in progress mainly include expenses with new constructions and equipment installations until beginning of operations, when it is reclassified to Assets in operation. Additions taken place in the period are stated by the transfers net value.

Finance lease

Assets acquired through finance lease agreements were classified as property, plant and equipment and recorded under "IT equipment" and "Furniture and fixtures" and generated depreciation expenses in the amounts of R\$738 and R\$7,264 on December 31, 2010 and 2009, respectively.

The book value of property, plant and equipment held under finance lease agreements on December 31, 2010 was R\$2,120 (2009 - R\$2,790).

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11. GOODWILL ON INVESTMENTS

	2010
Cost	
December 31, 2009	-
Additions	49,081
Disposals	-
Transfers	-
December 31, 2010	<u>49,081</u>

In September 2010, Contax acquired full control of Ability for R\$72,585, of which R\$49,081 as goodwill based on its economic value, due to the estimate of business' future profitability.

12. OTHER INTANGIBLE ASSETS

	Data processing system (Software)	Trademarks and patents	Total
Cost			
December 31, 2009	174,503	-	174,503
Additions	16,595	82	16,677
Transfers	1,787	-	1,787
December 31, 2010	<u>192,885</u>	<u>82</u>	<u>192,967</u>
Accumulated amortization			
December 31, 2009	(94,057)	-	(94,057)
Amortizations	(29,841)	-	(29,841)
Transfers	4	-	4
December 31, 2010	<u>(123,894)</u>	<u>-</u>	<u>(123,894)</u>
Carrying amount			
December 31, 2009	80,446	-	80,446
December 31, 2010	68,991	82	69,073

Management has estimated a useful life of 5 years for software.

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13. RECOVERABLE TAXES

	2010		2009	
	Current	Non Current	Current	Non Current
Income tax recoverable	32	-	-	-
Social contribution recoverable	11	-	-	-
Withholding income tax ⁽ⁱ⁾	4,638	5,273	2,416	5,091
Withholding PIS/COFINS/CSLL	1,815	-	868	-
INSS recoverable	389	-	389	-
ISS recoverable ⁽ⁱⁱ⁾	11	5,110	-	3,487
Other taxes recoverable	237	-	-	-
	<u>7,133</u>	<u>10,383</u>	<u>3,673</u>	<u>8,578</u>

(i) Withholding income tax on financial investment income.

(ii) The ISS recoverable is classified as non-current assets due to the refund maturities with Municipal agencies.

14. DEFERRED TAXES

Deferred income tax and social contribution on the final dates of the fiscal periods refer to:

	2010				2009			
	Temporary differences	Income tax	Social contribution	Total	Temporary differences	Income tax	Social contribution	Total
Assets:								
Depreciation	19,148	4,786	1,723	6,510	7,539	1,884	679	2,563
Contingent liabilities	74,411	18,603	6,697	25,300	52,018	13,005	4,681	17,686
Ability's deferred taxes ⁽ⁱ⁾	80,555	20,139	7,250	27,389	-	-	-	-
Profit sharing program	12,762	3,191	1,149	4,340	19,440	4,860	1,750	6,610
Tax loss	2,150	537	193	730	5,629	1,407	507	1,914
Deferred income tax and social contributions - assets	<u>189,026</u>	<u>47,256</u>	<u>17,011</u>	<u>64,269</u>	<u>84,626</u>	<u>21,157</u>	<u>7,616</u>	<u>28,773</u>

(i) On December 21, 2010, Contax transferred the control of Ability to the Company through a partial spin-off of assets, as well as the liabilities mentioned above (contingent consideration amounting to R\$45,585, according to the balance as of December 31, 2010). Therefore, goodwill previously recorded in Contax was transferred to Ability's records as tax credit in the amount of R\$25,284, according to the balance as of December 31, 2010.

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Up to December 31:

2011	37,932
2012	6,300
2013	6,900
2014	8,856
2015	4,281
	<u>64,269</u>

- (i) Technical studies prepared about future taxable income consider estimates related, among other things, to the Group's performance, as well as the behavior of operating markets and certain economical aspects. The real amounts may differ from the adopted estimates.

15. TRADE RECEIVABLES

	<u>2010</u>	<u>2009</u>
Clients		
Related parties	12,118	15,969
Other clients (third parties)	<u>164,184</u>	<u>112,517</u>
	<u>176,302</u>	<u>128,486</u>

Total trade receivables (net of allowances) held by the Group at December 31, 2010 amounted to R\$176,302 (2009 - R\$128,486). The average credit period on sales is 20 days. Interest is charged at 1% per month on the outstanding balance.

Allowance for doubtful accounts is recorded to recognize incurred losses in relation to accounts receivable, whose calculation is based on estimates considering the situation of each customer and the guarantees provided by them. The basis for measurement of the allowance for doubtful accounts considers the position of each overdue client individually. Significant financial difficulties of the debtor, identification that the debtor has entered into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. At December 31, 2010 and 2009 there was no allowance for doubtful accounts registered.

Out of the balance of trade accounts receivable at the end of the year, R\$3,790 and R\$2,720 on December 31, 2010 and 2009 corresponds to Telemar Norte Leste S/A ("Oi Fixa"), the main client of the Group (Note 30).

Transactions with related parties account for 46% of the revenues from services rendered in 2010 (2009 - 55% and 2008 - 57%).

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Ageing of receivables overdue but not impaired:

	<u>2010</u>	<u>2009</u>
Due	162,517	122,518
Overdue for up to 30 days	7,883	4,949
Overdue from 31 to 60 days	1,794	127
Overdue from 61 to 90 days	797	-
Overdue from 91 to 180 days	2,422	-
Overdue for over 180 days	889	892
	<u>176,302</u>	<u>128,486</u>

Movement in the allowance for doubtful accounts:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	-	3,465
Amounts written-off during the year	-	(3,465) (i)
Balance at the end of the year	<u>-</u>	<u>-</u>

(i) In view of the unsuccessful credit recovery, through administrative and legal collection, the Company wrote off the provision for doubtful accounts.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

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16. CASH AND CASH EQUIVALENTS, RESTRICT CASH AND FINANCIAL INVESTMENTS

	<u>2010</u>	<u>2009</u>
Current:		
Cash and banks (i)	70,491	14,446
Financial investments (ii)	<u>317,312</u>	<u>343,407</u>
Total current	<u>387,803</u>	<u>357,853</u>
Non-current:		
Restrict cash (iii)	2,013	-
Long-term investments (iv)	<u>69,869</u>	<u>26,590</u>
Total non-current	<u>71,882</u>	<u>26,590</u>

- (i) The amounts are kept in a current account, as the Group has accounts payable due on the first days of each month, relating to the payment of suppliers, taxes and payroll.
- (ii) The financial investments are promptly convertible into a known cash amount and are subject to an insignificant risk of change in said amount. These financial investments refer to Bank Deposit Certificates (CDB), remunerated based on the variation in Interbank Deposit Certificate (CDI).
- (iii) As a partial guarantee to the payment of the additional price, as provided for in Ability's Agreement, Contax offers all funds deposited in the first money market fund. The retained amount under the Agreement is invested in CDBs, paid at a weighted average rate of 99% of the CDI. On December 31, 2010, the balance of the restricted amount recorded in the non-current assets corresponded to R\$2,013, with maturity in November 2012 (Note 33).

The restricted amount deposited in a money market fund will be released to the Seller in two annual installments ("annual release"), whereby (i) the first installment, due in the fourth year from the Closing Date (August 16, 2010), will correspond to 50% of the amount resulting from the money market fund, plus proportional earnings from the financial investments, and discounting the amounts corresponding to materialized contingencies (if applicable) and (ii) the second installment, due in the fifth year from the Closing Date, will correspond to the amount remaining in the money market fund, after the release of the first installment, plus proportional earnings from the financial investment, and discounting the amounts corresponding to materialized contingencies (if applicable).

- (iv) On December 31, 2010, long-term investments comprised investments in Bank Deposit Certificates (CBD) whose original maturity date are in 2014 (R\$28,235) and 2015 (R\$35,840) and were acquired with the intention and financial capacity to hold them in the portfolio up to maturity date. They are evaluated by cost of acquisition, plus the income earned against the income for the year.

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17. ISSUED CAPITAL**17.1. Capital stock**

The subscribed and paid-up capital on December 31, 2010 and 2009 was R\$223,873, represented by 59,770,600 non-par registered book-entry shares (23,089,600 common shares and 36,681,000 preferred shares). Each common share is entitled to one voting right in the resolutions of the General Meeting.

	Share capital		
	2010	2009	2008
23,089,600 common shares (2009 - 5,772,435 / 2008 - 5,824,772)	86,483	86,483	82,237
36,681,000 preferred shares (2009 - 9,170,250 / 2008 - 10,031,914)	137,390	137,390	141,636
	<u>223,873</u>	<u>223,873</u>	<u>223,873</u>

17.1.1. Common shares

	Number of shares	Share capital
Balance on December 31, 2008	5,824,772	82,237
Shares canceled on January 15, 2009	(52,337)	4,246
Balance on December 31, 2009	5,772,435	86,483
50 to 1 reverse split	÷ 50	
	115,448	
1 to 200 stock split	x 200	
Balance on December 31, 2010	<u>23,089,600</u>	<u>86,483</u>

Each common share entitles its holder to a voting right at the Company's General Shareholders' Meeting. Except for the provisions set forth in law, the resolutions of the General Shareholders' Meeting are voted by common shareholders. Blank votes will not be computed.

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17.1.2. Preferred Shares

	<u>Number of shares</u>	<u>Share capital</u>
Balance on December 31, 2008	10,031,914	141,636
Shares canceled on January 15, 2009	<u>(861,664)</u>	<u>(4,246)</u>
Balance on December 31, 2009	9,170,250	137,390
50 to 1 reverse split	<u>÷ 50</u>	
	183,405	
1 to 200 stock split	<u>x 200</u>	
	36,681,000	137,390
Balance on December 31, 2010	<u><u>36,681,000</u></u>	<u><u>137,390</u></u>

The preferred shares issued by the Company shall not have voting rights, but shall have priority of refund in the event the Company is liquidated, without premium, and in the payment of noncumulative minimum dividends of (a) 6% per year, on the amount resulting from the division of the subscribed capital by the number of shares of the Company or (b) 3% of net equity value of shares, prevailing the highest amount between (a) and (b). The payment of such minimum statutory dividends is subject to the existence of distributable profits or realized profit reserves.

The preferred shares may represent up to two thirds of the total shares issued by the Company, with the possibility of changing the previous existing ratio between common and preferred shares.

Preferred shareholders can obtain unrestricted voting rights as of the moment the Company stops paying dividends for 3 (three) consecutive years. Voting rights will last until dividends are duly paid.

Stock option granted to executives by the stock option plan

On December 31, 2010, the beneficiaries of the stock option program held approximately 401,868 stock options for the Company's common shares; however, 1,868 of those options expire on October 1, 2012 and 300,000 expire on October 1, 2013 and 100,000 expire on October 1, 2014. On December 31, 2009, the program's beneficiaries held 1,364,068 stock options for the Company's common shares; however, 330,640 of those options expire on October 1, 2011, 333,428 expire on October 1, 2011, and 350,000 expire on October 1, 2013 and 350,000 expire on October 1, 2014.

Stock options granted within the scope of the stock option plan do not entitle its holders to voting or dividend rights. For more information on the stock option plan, see Note 29.

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17.1.3. Reverse split of shares

First reverse split of shares

At the Extraordinary General Meeting held on October 17, 2007, the reverse split of all shares representing the Company's capital stock was approved, at the ratio of 20 shares for 1 share of the same type. As per a communication made to the shareholders, a term of until November 16, 2007 was granted to carry out the adjustments to share positions.

Share fractions resulting from reverse split were divided, grouped into whole numbers and sold at Bovespa auction on August 13, 2008, as per Notice to the Market dated August 12, 2008. The amounts resulting from this auction totaled R\$ 22,106 thousand, out of which R\$ 5,762 thousand were transferred to shareholders of fractioned shares. The R\$ 16,282 thousand non-transferred amount corresponds to shareholders whose shares are either blocked or their records are not updated and will be exclusively paid upon the presentation of the supporting documentation evidencing the unblocked shares and/or shareholder's identification, whichever is the case.

Second reverse split of shares

The following was approved at the Extraordinary General Meeting held on October 27, 2009, (i) the share reverse split, at the 50:1 share ratio, according to the corresponding types and (ii) the concurrent splitting of all shares existing after the reverse split, at the 1:200 share ratio of the same type, pursuant to Article 12 of Law 6,404/76.

The concurrently share reverse split and split aim at: (a) adjusting the shareholder base and decrease the administrative and operating costs for the Company and shareholders; (b) improving the efficiency of records, controls and reporting systems; (c) diminishing the possibilities of errors of information and communication, improving services to the Company's shareholders; and (d) maintaining the quoted value of Company's shares in the market at an attractive trading level, providing better liquidity to the Company's shares in the market.

As per the notice to shareholders, a term until January 15, 2010 was granted to carry out the adjustments to share positions.

Once elapsed the terms for shareholding adjustments by shareholders, eventual fractions of shares resulting from the reverse split, except for those which are manifestly expressed by the holder's nonparticipation in the auction, will be reversely split into whole figures and sold in an auction to be held at BM&FBOVESPA S.A., and the amounts resulting from such sale to be available on behalf of respective shareholder, pursuant to the procedures to be disclosed.

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As of January 18, 2010, the Company's shares began to be traded exclusively at the ratio resulting from the reverse split and simultaneous split of shares, carried out on said date. Said transactions resulted in 59,770,600 shares, of which 23,089,600 are common shares and 36,681,000 are preferred shares.

The Company fully sold the fraction of remaining shares, conducted the reverse split and split operations resolved at the Extraordinary General Meeting held on October 27, 2009, in auctions held on May 17, 2010, where 478,750 common shares and 98,466 preferred shares were sold and on May 24, 2010, 181,200 preferred shares were sold.

The sales amount of fractional shares amounted to R\$18,707. According to the notice to shareholders, the financial amount refers to the operation made available to shareholders on June 4, 2010, amounting to R\$8,398. For shareholders who were not paid due to blocked shares or outdated record, the amount will be retained by the Company and made available to corresponding shareholders for payment by submitting supporting unblocking and identification documentation.

18. RESERVES

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital reserve in share subscription	14.731	19.639	9.282
Legal reserve	27.332	21.907	15.465
Statutory reserve	90.007	87.924	95.010
Unrealized profit reserve	-	-	16.626
	<u>132.070</u>	<u>129.470</u>	<u>136.383</u>

18.1. Capital reserve in share subscription

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	19,639	9,282	9,254
Stock option plan			
2007 Program	(7,024)	10,328	-
2010 Program	2,116	-	-
Dividends barred	-	29	28
Balance at the end of the year	<u>14,731</u>	<u>19,639</u>	<u>9,282</u>

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18.2. Profit Reserves**18.2.1. Legal Reserve**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	21,907	15,465	10,845
Allocation of profit for the year	<u>5,425</u>	<u>6,442</u>	<u>4,620</u>
Balance at the end of the year	<u><u>27,332</u></u>	<u><u>21,907</u></u>	<u><u>15,465</u></u>

Pursuant to Article 193 of Brazilian Corporate Law, Contax Participações S.A. is obliged to allocate 5% of its annual net income determined under the accounting practices adopted in Brazil to a legal reserve, up to 20% of the Company's capital stock. This allocation is optional when the legal reserve added to capital reserves exceed 30% of the capital stock. This reserve may be used to increase capital or offset losses, and may not be distributed as dividends.

18.2.2. Statutory reserve

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	87,924	95,010	40,594
Cancelation of own shares	-	(39,476)	-
Allocation of retained earnings	<u>3,073</u>	<u>32,390</u>	<u>54,416</u>
Balance at the end of the year	<u><u>90,997</u></u>	<u><u>87,924</u></u>	<u><u>95,010</u></u>

Pursuant to Article 194 of Brazilian Corporate Law and to Article 29 of the Company's Bylaws, the Company created a Statutory Reserve to ensure the realization of investments by the Company, as well as to preserve its working capital. The Statutory Reserve is limited, together with all other profit reserves, to the amount of the capital stock.

As per resolutions of the Board of Directors, the Statutory Reserve was partially used in share buyback programs (Note 19).

18.2.3. Unrealized profit reserve

	<u>2009</u>
Balance at beginning of the year	<u>16,626</u>
Minimum statutory dividends	(16,626)
Balance at the end of the year	<u>-</u>

The unrealized profit reserve, as provided for in the Company's Bylaws, aims at not distributing the portion of unrealized profit as dividends.

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18.2.4. Foreign currency translation reserve

	<u>2010</u>
Balance at the beginning of the year	-
Foreign exchange differences from the translation of assets from operations abroad	<u>(46)</u>
Balance at the end of the year	<u>(46)</u>

Exchange differences related to the translation of net assets of the Group's operations abroad (Contax Argentina), from its functional currencies (Argentine Peso) to the Group's presentation currency (Brazilian Real) are directly recognized in "Other comprehensive income" and accumulated in the reserve for the translation of foreign currency. As explained in Note 1, Contax Argentina was incorporated in the fiscal year ended December 31, 2010.

19. TREASURY SHARES

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deduced from shareholders' equity. No gain or loss is recognized in the income statement upon the purchase, disposal, issue or cancellation of the Group's own equity instruments. Any difference between the book value and consideration is recognized in other capital reserves.

19.1. Share buyback

From 2006 to 2010, the Company implemented five (5) different share buyback programs, resulting in 15,131 thousand common shares and 56,916 thousand preferred shares repurchased. Out of this total amount, 14,731 thousand common shares and all 56,916 preferred shares repurchased were canceled, and the remaining 400 common shares were held in treasury, not decreasing the Company's capital stock.

19.1.1. First share buyback program

At the Extraordinary Meeting of the Board of Directors held on June 29, 2006, the share buyback proposal was approved, with funds registered in the Capital Reserve and Statutory Reserve accounts, totaling the buyback of 5,886,972 common shares and 11,773,944 preferred shares, fully cancelled as per resolution of the Extraordinary General Meeting held on November 28, 2006.

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19.1.2. Second share buyback program

At the Extraordinary Meeting held on November 30, 2006, the Board of Directors approved the launch proposal of the share buyback program, with funds registered in the Capital Reserve and Statutory Reserve accounts, which amounted to the buyback of 5,298,300 common shares and 24,058,190 preferred shares, cancelled on July 31, 2007, thus 1,750,000 common shares are held in treasury, as per resolution at the Extraordinary General Meeting held on July 27, 2007.

19.1.3. Third share buyback program

At the Extraordinary Meeting, held on July 26, 2007, the Board of Directors approved the new share buyback program with funds registered in the Capital Reserve and Statutory Reserve accounts, totaling the buyback of 3,193,472 common shares and 18,277,422 preferred shares, cancelled on October 17, 2007, of which 1,750,000 common shares are held in treasury, pursuant to the resolutions of the General Extraordinary Meeting, totaling 3,500,000 common shares in treasury.

19.1.4. Fourth share buyback program

At the Extraordinary Meeting held on September 5, 2008, the Board of Directors approved a new share buyback program, with funds from Capital Reserve and Statutory Reserve accounts, totaling the buyback of 861,664 preferred shares and 52,337 common shares, which remained in treasury.

The Extraordinary General Meeting held on December 17, 2008 approved the cancellation of 52,337 common shares and 861,664 preferred shares held in treasury, without decreasing the Company's capital stock, and 166,018 common shares remaining in treasury. All of these shares were canceled in January 2009.

19.1.5. Fifth share buyback program

The Extraordinary General Meeting held on October 27, 2009 approved the Company's Share Buyback Program without reducing the Capital Stock. Funds from the capital and statutory reserves will be used for the acquisition of shares, excluding the amount of treasury shares. The maximum number of shares to be acquired is 699,996 common shares and 1,945,000 preferred shares, which represent less than 10% of outstanding common and preferred shares, respectively. Said Program may be implemented up to October 28, 2010.

Until December 31, 2010 15,120 common shares were subject to the buyback program.

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	Thousands of shares	Buyback price	R\$		
			Average price	Maximum price	Minimum price
Preferred shares					
1st Share Buyback Program	11,774	21,517	1.83	1.95	1.61
Cancellation of shares	(11,774)	(21,517)	1.83		
2nd Share Buyback Program	24,058	46,242	1.92	2.00	1.84
Cancellation of shares	(24,058)	(46,242)	1.92		
3rd Share Buyback Program	18,277	46,424	2.54	2.65	2.46
Cancellation of shares	(18,277)	(46,424)	2.54		
4th Share Buyback Program	862	36,206	42.00	42.81	41.59
Cancellation of shares	(862)	(36,206)	42.00		
	<u>-</u>	<u>-</u>			
Common shares					
1st Share Buyback Program	5,887	19,097	3.24	3.41	3.12
Cancellation of shares	(5,887)	(19,097)	3.24		
2nd Share Buyback Program	5,298	16,144	3.05	3.29	2.97
Cancellation of shares	(3,548)	(10,812)	3.05		
3rd Share Buyback Program	3,193	11,287	3.53	3.62	3.52
Cancellation of shares	(1,443)	(5,102)	3.54		
Sale of shares	<u>(180)</u>	<u>(604)</u>	3.36		
	3,320	10,913			
Grouping of shares (1/20)	166	10,913	65.74		
4th Share Buyback Program	52	2,729	52.50	52.94	51.73
Cancellation of shares	(52)	(3,270)	62.88		
5th Share Buyback Program	<u>3</u>	<u>314</u>	97.97	98.83	85.00
	169	10,686			
Reverse split (1/50) and Split (1/200) of shares	677	10,686	15.79		
5th Share Buyback Program	216	6,311	29.23	30.00	28.50
Sale of shares	(893)	(16,996)	19.04		
5th Share Buyback Program	102	2,971	29.13	30.00	25.59
Sale of shares	(19)	(568)	29.89		
	<u>83</u>	<u>2,404</u>			
5th Share Buyback Program	369	11,254	30.14	32.00	29.25
Sale of shares	<u>(50)</u>	<u>(1,511)</u>	30.22		
	<u>402</u>	<u>12,147</u>			

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20. RETAINED EARNINGS AND DIVIDENDS

20.1. Retained earnings

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	59,403	8,569
Income attributable to the parent company's partners	108,498	131,691
Legal reserve	(5,425)	(6,442)
Statutory reserve	(3,073)	(32,390)
Payment of dividends	(59,403)	(11,428)
Dividends proposed	(25,769)	(30,597)
Balance at the end of the year	<u>74,231</u>	<u>59,403</u>

20.2. Dividend distribution policy

According to the Company's by-laws, Contax Holding is obligated to distribute dividends for each fiscal year in the amount of not less than 25% of the net profit, determined under the accounting practices adopted in Brazil, adjusted in accordance with clause 202 of Law No. 6,404/76. The Company may also distribute quarterly dividends, as long as the total amount of dividends paid does not exceed the capital reserve. In accordance with Brazilian Corporate Law, on December 31, 2010, management proposed the payment of R\$ 25,769 (December 31, 2009 - R\$ 30,597) as the minimum mandatory dividends, prescribed by Law No. 6404/76.

The Annual General Meeting held on April 28, 2010 approved the proposal as to the allocation of net income for the year ended December 31, 2009, already included in the financial statements on that date, as follows: (a) accumulated loss carry forward in the amount of R\$11,084; (b) allocation of R\$6,442 to the legal reserve; (c) distribution of dividends to the Company's shareholders owning position on June 17, 2010, in the amount of R\$90,000, and (d) allocation of R\$32,390 to the statutory reserve.

The payment of dividends started on June 28, 2010, and since January 1, 2010 earn interest based on the Reference Rate (TR), and R\$89,156 were paid up to December 31, 2010.

The annual dividend distributed to holders of preferred shares (the "Preferred Dividend") has priority in the allocation of Adjusted Net Income when determining the Preferred Dividend in relation to the general dividend. Remaining amounts to be distributed, if any, are allocated first to the payment of a dividend to holders of common shares in an amount equal to the Preferred Dividend and the remainder, if any, is distributed equally among holders of preferred shares and common shares.

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The Preferred Dividends corresponds to a non-cumulative preferred dividend equal to 6% of share capital determined in according to accounting practices adopted in Brazil, in proportion of preferred shares to total capital, or 3% of shareholders' equity book value per share, whichever is greater. The payment of such minimum statutory dividends is subject to the existence of distributable profits or realized profit reserves.

Statutory minimum dividends for the fiscal years ended on December 31, 2010 and 2009 were calculated as follows:

	<u>2010</u>	<u>2009</u>
Net income for the year	108,498	139,916
Absorption of accumulated losses	-	(11,084)
Recording of legal reserve - 5%	(5,425)	(6,442)
Adjusted net income	<u>103,073</u>	<u>122,390</u>
Minimum mandatory dividends	(25,769)	(30,597)
Dividends in excess	(74,231)	(59,403)
Allocation to the statutory reserve	<u>3,073</u>	<u>32,390</u>
Dividends payable		
Proposed dividends	100,000	90,000

The Company's Management made a proposal to pay proposed dividends in 2010, thirty (30) days after the approval by the Annual General Meeting. The dividends proposed by the Management represent a dividend equivalent to R\$1.68439 per common share and R\$1.68439 per preferred share.

The minimum mandatory dividends are recorded in the 2010 balance sheet as legal obligations (provisions in current liabilities), and dividends exceeding this minimum as dividends reserve in a special account of the statement of changes in the shareholders' equity.

21. NON-CONTROLLING INTERESTS

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	1,445	2,079
Profit sharing	555	(634)
Balance at the end of the year	<u>2,000</u>	<u>1,445</u>

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22. BORROWINGS

Purpose	Effectiveness		Guarantees	Financial Charges	2010	2009
	Beginning	Maturity				
Expansion of installed capacity (BNDES)	10/2007	09/2013	Bank guarantee	TJLP ⁽ⁱ⁾ + 2.73% p.a	150,033	204,591
Expansion of installed capacity (BNDES)	05/2010	09/2016	Accounts receivable from OI clients	TJLP ⁽ⁱ⁾ + 2.73% p.a	158,052	-
Acquisition of domestic machinery and equipment	05/2010	09/2016	Accounts receivable from OI clients	4.5% p.a	23,579	-
Construction of the Santo Amaro site (BNB)	11/2009	03/2016	Accounts receivable from NET clients	10% p.a	51,203	-
Current					64,873	55,070
Non-current					317,994	149,521

(i) The annual long-term interest rate was 6.00% in 2010 (6.00% on December 31, 2009).

22.1. Summary of borrowing agreements

22.1.1. Financing agreement with BNDES (Brazilian Development Bank)

In August, 2007, Contax entered into a loan agreement with BNDES in the amount of R\$216,514 with the purpose of financing the expansion of its installed capacity, improving current facilities, qualifying human resources, improving the quality of services rendered, productivity and investing in marketing actions. The financing funds were released in five installments, the first of them in October 2007 and the last in November 2008.

The maturity date of the financial charges was quarterly until September 15, 2009, becoming monthly for the period between October 15, 2009 until the maturity date or settlement of contract. The principal shall be settled monthly as from October 15, 2009.

Contax contractually opted for tendering guarantees through sureties from financial institutions, in this case, receivables and restrictive (financial covenants) structures are not applicable. Costs related to these sureties totaled R\$1,075 in the fiscal year ended December 31, 2010 (R\$1,234 in 2009) and are recognized in the income statement over the borrowing term within "Finance costs" (Note 7).

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22.1.2. New agreement with BNDES

In March 2010, Contax entered into a new loan agreement with BNDES in the amount of R\$ 323,552, divided into two sub-loans:

Sub-loan "A" in the amount of R\$ 281,455 destined to investments to increase the installed capacity and improve facilities, implement quality programs, train human resources and invest in Research and Development, within the scope of BNDES Program for the Development of the National Industry of Software and Information Technology Services – BNDES PROSOFT; and

Sub-loan "B" in the amount of R\$ 42,097 thousand destined to investments to acquire domestic machinery and equipment, classified into the criteria of the Special Agency of Industrial Financing - FINAME, required by the project.

Annual interest rate of 1.73% shall incur over the principal amount of sub-loan "A" plus the TJLP (long-term interest rate) variation accrued of 1% p.a., while an annual interest rate of 4.5% shall incur over the sub-loan "B".

The principal of debt will be settled in 60 monthly and consecutive installments, the first installment maturing on October 15, 2011 and the last installment maturing on September 15, 2016. Financial charges will mature on a quarterly basis between March 2010 and September 2011, and on a monthly basis from October 2011.

Contax will tender as guarantee the receivables deriving from the Services Agreement executed with Oi Fixa, TNL PCS S/A (Oi Móvel) and Telemar Internet Ltda. In addition, during the effectiveness of this Agreement, it shall maintain the Debt Service Coverage Ratio ("Ratio") equal or higher than 1.65, of which:

- a) Debt Service Coverage Ratio calculated by dividing the Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) by Debt Service on a half-yearly basis;
- b) EBITDA corresponds to the operating income before the financial result, income tax and social contribution and depreciation and amortization expenses in the half year;
- c) The Debt Service corresponds to the amount of debt effectively paid to creditors as amortization of principal and interest rates in the half year.

On December 31, 2010, Contax reviewed the restrictive covenants referring to this financing agreement, and it concluded that said Ratio had been honored.

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On May 28, 2010 the first releases referring to this agreement were received, R\$70,364 referring to the sub-loan "A" and R\$10,524 referring to sub-loan "B." On December 10, 2010 the following releases referring to this agreement were received, R\$87,000 referring to sub-loan "A" and R\$13,000 referring to sub-loan "B".

22.1.3. Agreement with Banco do Nordeste do Brasil S.A. (BNB)

In March 2010, Contax executed a loan agreement with BNB in the amount of R\$51,000, aiming at financing the implementation of a new operating unit in the city of Recife, state of Pernambuco. The outstanding balance will be adjusted by a fixed rate of 10% p.a., including full performance bonus of 15%. The maturity of financial charges shall occur quarterly until March 2012, and then monthly between April 2012 and March 2015. The principal shall be paid in 36 monthly installments, from April 2012 to March 2015. As long as each installment is paid on the maturity date, the loan will bear interest rate of 8.5% p.a.; otherwise, the interest rate will be 10% p.a.

On September 21, 2010, the first release under this agreement was received for a total of R\$29,880. On December 15, 2010 the second release under this agreement was received for a total of R\$21,120.

The loan and financing breakdown in the year ended December 31, 2010 is shown as follows:

	<u>BNDES</u>	<u>BNB</u>
December 31, 2009	204,591	-
Release	180,888	51,000
Amortization - principal	(54,370)	-
Amortization - interest	(17,595)	(694)
Interest accrued	18,150	897
December 31, 2010	<u>331,664</u>	<u>51,203</u>
		<u>382,867</u>

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As of December 31, 2010, the maturities of the principal installment recorded in non-current liabilities are as follows:

	<u>Principal</u>
2012	103,299
2013	93,956
2014	53,178
2015	40,428
2016	27,133
	<u><u>317,994</u></u>

The amount of interest payable will be based on future long-term interest rates.

23. TAXES PAYABLE

	<u>2010</u>	<u>2009</u>
Income taxes (IRPJ and CSLL) ⁽ⁱ⁾	16,290	11,786
Services tax (ISS)	14,344	12,637
PIS and COFINS ⁽ⁱⁱⁱ⁾	9,113	8,273
Social Security paid by installments ⁽ⁱⁱ⁾	646	1,712
Other taxes payable	<u>2,700</u>	<u>13</u>
	43,093	34,421
Current	43,093	33,477
Non-current	-	944

- (i) There are advance payments to offset the taxes calculated, in accordance with the amounts recorded under Recoverable Income Tax and Social Contribution (Note 13).
- (ii) Refers to the installments related to the Social Security tax assessment liability, which has been fully transferred to third parties, recorded under "Other Assets" in current assets, without affecting Contax's results.
- (iii) Employees' profit participation program (PIS) and tax for social security financing (COFINS).

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24. PROVISION FOR CONTINGENCIES AND JUDICIAL DEPOSITS**24.1. Contingent assets**

The Company has no contingent assets registered.

24.2. Provisions

The Group is party to tax, civil and labor lawsuits filed in the normal course of business and have been discussing these issues in the administrative and judicial levels, and where applicable, it is supported by court deposits. The Company recognizes a provision when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

24.3. Breakdown of provisions

	<u>Court deposits</u>		<u>Provisions</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Tax	20,156	1,566	30,039	10,944
Labor	73,597	51,807	57,500	48,362
Civil	<u>112</u>	<u>9</u>	<u>727</u>	<u>615</u>
	<u>93,865</u>	<u>53,382</u>	<u>88,266</u>	<u>59,921</u>

24.3.1. Tax disputes

The Company was party to certain lawsuits mainly related to mandatory contributions due to the INSS, Service Tax (ISS) and Social Integration Program (PIS)/Contribution for Social Security Financing (COFINS).

Until December 31, 2010, the total provisioned for tax claims was R\$30,039 (R\$10,944 on December 31, 2009). Of this amount, R\$12,625 (R\$8,457 on December 31, 2009) refer to PIS/COFINS and R\$4,188 (R\$2,248 on December 31, 2009) refer to ISS.

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24.3.2. Labor disputes**a) Lawsuits filed in court**

As part of its operations, the Group is the defendant in several lawsuits filed by the Unions and the Labor Prosecution Office, therefore creating a reserve to cover these demands, which the Company's Management understands to be sufficient. On December 31, 2010, the Company was party to approximately 8,796 labor claims, compared to the 7,009 on December 31, 2009. The total amount estimated for such lawsuits on December 31, 2010 was R\$587,614, as compared to the R\$504,919 on December 31, 2009. The company records provisions on the history of losses which, on December 31, 2010 amounted to approximately R\$57,500, as compared to the R\$48,362 on December 31, 2009.

	<u>2010</u>	<u>2009</u>
Provisions	57,500	48,362
Contingencies - Possible/Remote	<u>530,114</u>	<u>456,557</u>
Total	<u><u>587,614</u></u>	<u><u>504,919</u></u>

The lawsuits mainly refer to: (i) over-time; (ii) equal pay; (iii) permanence in the job; and (iv) injury, physical and psychological suffering. The increased number of labor claims, from 7,009 on December 31, 2009 to 8,796 on December 31, 2010, is directly related to the significant increased number of employees since 2004.

b) Administrative proceedings

On December 31, 2010, 208 deficiency notices (39 on December 31, 2009), under the argument of infringement to labor laws, were pending judgment. The amounts of the deficiency notices depend on the type of violation, the number of employees involved and on whether it was the first time the alleged violation occurred in the Company. Court deposits amounting to approximately R\$40,366 (R\$119,485 on December 31, 2009) were made on December 31, 2010, so that the Company could file for administrative appeals, in accordance with the legal provisions.

The Company has been challenging in full the deficiency notices with the administrative authorities and currently awaits final decisions. In case the administrative proceeding outcome is not favorable, the Company can file a lawsuit requesting the annulment of any and all debt in the administrative proceeding and the reimbursement of fines paid to present funds recorded in a provision for payment purposes.

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Considering that the Company, based on the opinion of its external legal advisors, classified as “possible” the risk of loss of the deficiency notices, those were not included in the contingencies and the fine amounts were not deposited.

The abovementioned labor violations mainly refer to (i) the non-compliance with the rules that regulate the occupational health and safety; (ii) the lack of intraday intervals and weekly day-offs given to employees; (iii) the non-compliance with the quota for handicapped employees; and (iv) the lack of an Occupational Accident Prevention Commission (CIPA).

According to the Brazilian law, if an entity has over 100 (one hundred) employees, 2 (two) to 5 (five) per cent of them should be beneficiaries of the social security who were on a labor-related leave or handicapped. Given the Company’s lack of capacity to reach this percentage, in September 2002, the Company entered into a Consent Decree (TAC) with the Labor Prosecutor Office, granting the Company 3 (three) years to comply with the abovementioned quota. However, even with the implementation of a program to hire beneficiaries of the social security who were on a labor-related leave or handicapped, the positions available have not been completely filled yet.

In January 2010, the Regional Labor Superintendence notified the Company based on procedures relating to the social contribution and contributions to the employment security fund for the employees’ transport voucher. The notification corresponds to R\$29 million. The Company is currently challenging this lawsuit. Based on the opinion of the external legal advisors, the Management understand that the possibility of an unfavorable decision is possible.

24.3.3. Civil disputes

Until December 31, 2010, the Company was a party to 18 (2009 – 90) civil claims, of which 16 (2009 – 89) of them amounting to less than R\$50. There are only 2 (two) cases amounting to more than R\$50.

In addition to the civil lawsuits previously mentioned, Contax received a fine from the Brazilian Post Office and Telegraph Company (EBCT), given the breach of contract. The fines, amounting to R\$2,645 correspond to breach of confidentiality of telephone messages; fail to transfer reserved telephone lines (0800); and fail answer telephone calls. The Company accrued R\$441 until December 31, 2010 (R\$441 until December 31, 2009).

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24.4. Breakdown of provisions and legal obligations in judicial dispute

The breakdown of provisions and legal obligations in judicial dispute in the fiscal year ended December 31, 2010, is shown below:

	Taxes							Total
	PIS/COFINS (i)	FAP (ii)	Tax on services – ISS	INSS (iii)	CSLL (iv)	Labor (v)	Civil	
December 31, 2009	8,457	-	2,248	120	119	48,362	615	59,921
Additions	3,199	14,120	-	-	-	23,368	128	40,815
Usage	-	-	-	-	-	(10,427)	-	(10,427)
Reversal	-	-	-	-	-	(7,449)	(69)	(7,518)
Monetary variation	969	591	101	58	57	3,646	53	5,475
December 31, 2010	12,625	14,711	2,349	178	176	57,500	727	88,266

- (i) Amount accrued on the deduction of the Services Tax (ISS) cost on the calculation basis for determination of Employees' Profit Participation Program (PIS) and Tax for Social Security Financing (COFINS), based on acceptance of the anticipation of the appeal until the trial of Appeal No. 2007.01.00.017041-3/DF, with the Federal Regional Court of the 1st region.
- (ii) The Company is arguing in court the application of the multiplier Accident Prevention Factor (FAP) incident on the social security charge of Occupational Injury Risk (RAT), whose new calculation system took effect from January 1, 2010. On February 11, 2010, an injunction was obtained to conduct a judicial deposit of the amount arising from the difference of the multiplier FAP.
- (iii) Refers to the 2004 amount of negative basis of social contribution used to offset the estimated payment of subsequent years, without the formality of PER/Dcomp.
- (iv) The labor claims filed against Contax by employees and former employees hired in the course of its operations amounted to R\$50,985. According to the service agreement executed between Oi Fixa and Contax, it was decided that labor claims caused by migration of labor contracts are the responsibility of that entity, whose amount was recorded in respect of "Credits receivable". The amount of labor claims under Oi Fixa's responsibility amounts to R\$2,663.

The amount of labor claims referring to Ability (entity acquired by Contax in September 2010) amount to R\$3,826.

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24.5. Contingent liabilities classified as possible losses

On January 22, 2010, Contax was assessed by the Regional Labor and Employment Superintendence (SRTE) of Rio de Janeiro, in the amount of R\$29,136. In the assessment notice, which concerns the period from January 2001 to February 2009, the demanded amounts relate to the FGTS (Employee Severance Indemnity Fund) (Law 8,036/90) and the Social Contribution (Supplementary Law nº 110/01) levied on the cash payments made to Contax's employees corresponding to the transport voucher fringe benefit. Contax challenged the assessment notice in the administrative level and currently awaits judgment.

The Management, based on the opinion of its external legal counsel, considers the likelihood of loss as possible and did not record any provision for eventual unfavorable outcomes.

In addition to the FGTS notification, on December 31, 2010, the Company had tax and civil contingent liabilities, restated based on the SELIC rate, amounting to R\$44,932 and R\$26,473, respectively (R\$37,704 and R\$5,007 on December 31, 2009). These amounts are not provisioned given that Contax filed an appeal and took into consideration the opinion of its external legal counsel, to whom the likelihood of losses is possible or remote.

25. OBLIGATIONS UNDER FINANCE LEASES

Contax has several finance lease agreements related to IT equipment and furniture for the maintenance of its operations. These agreements are recorded at present value in current and non-current liabilities.

The Group has the right, as set forth in the agreement, to acquire the equipment at nominal value (significantly lower than the fair value) at the end of the lease agreements. The Group's obligations with finance lease agreements are guaranteed by the lessees.

Lessor	Balance payable	
	2010	2009
Banco Commercial Investment Trust	-	1,455
Unibanco Leasing S/A	-	237
HP Financial Services Arrendamento Mercantil S/A	2,724	8,504
IBM Brasil-Industria Maquinas e Serviços Limitada	1,424	3,821
Bradesco Leasing S/A	129	-
Total	4,277	14,017
Current	4,277	10,118
Non-current	-	3,899

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26. OTHER LIABILITIES

	<u>2010</u>	<u>2009</u>
Other accounts payable	1,164	1,463
Deferred income	23,107	29,786
Advances from clients for promotional onlending	65	-
	<u>24,336</u>	<u>31,249</u>
Current	23,171	31,249
Non-current	1,165	-

27. PAYROLL AND RELATED CHARGES

	<u>2010</u>	<u>2009</u>
Payroll	57,316	47,664
Provisioned vacation	85,082	71,939
Social charges	72,023	56,682
Other	16,148	21,533
	<u>230,569</u>	<u>197,818</u>

Social charges are mainly composed of social liabilities.

28. FINANCIAL INSTRUMENTS AND RISK ASSESSMENT

28.1. Purposes and strategies of risk management

The Group's policy for financial asset management is to constantly pursue the optimization of its profitability in line with risks by establishing criteria and indicators for adjustments of liquidity, credit and market risk.

Additionally, the Group manages its capital aiming to ensure that its entities will be able to continue their operations so as to maximize the return to shareholders through debt optimization and equity accounting. The Group's capital structure comprises debt, which includes the loan detailed in Note 22, cash and cash equivalents (Note 16) and own capital attributable to controlling shareholders which includes issuance of capital, reserves and retained earnings, as indicated in Notes 17, 18 and 20 respectively.

The Group's policy is to maintain a strong capital structure so as maintain is growth, reduce capital cost and provide good returns to its shareholders.

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The Management believes that the Company's available funds are sufficient to meet its current needs and will be enough to meet its estimated needs regarding capital expenses and other cash needs for the fiscal year of 2011.

28.1.1. Liquidity and credit risk

The credit risk is the possibility of a party non-complying with an obligation set forth in a financial instrument or agreement with a client, thus resulting in financial losses. The financial instruments that expose the Group to credit concentration risk mainly consist of cash and cash equivalents and accounts receivable. All of the Company's cash and cash equivalents are held in major Brazilian financial institutions. The Management believes that its credit policies are reasonable and reflect normal conditions of market and risk. The Company Management does not anticipate the failure to comply with agreements by the counterparties and, therefore, does not require collateral guarantees.

a. Financial instruments and cash deposits

The credit risk of balances with banks and financial institutions is managed by the Group's treasury according to its internal policies. Excess funds are only invested in approved counterparties and within the limit established to each of them. The counterparty's credit limit is annually revised by the Group's Board of Directors and may be restated throughout the year whenever necessary, subject to the approval of the Group's Financial Committee. These limits are established in order to mitigate risk concentration, thus mitigating financial losses in case of a party files for bankruptcy.

b. Accounts receivable

Credit risk related to accounts receivable is mainly minimized due to the financial size of the companies to which the Group provides services. Moreover, the Group continuously monitors its receivables, reassessing, whenever necessary, its credit policies with the purpose of mitigating eventual losses. Whenever necessary, the Group records allowance for doubtful accounts for delinquent customers and applies the collection and negotiation procedures of overdue credits.

The allowance for doubtful accounts is recorded as probable losses in relation to accounts receivable, which is calculated based on estimates considering the situation of each client and guarantees granted by them.

On December 31, 2010, the concentration of clients' credit risk was not relevant since important financial conglomerates represented approximately 52% (54% on December 31, 2009) of accounts receivable outstanding.

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The table below shows a summary of the Group's financial liabilities based on contractual payments not discounted.

	2010			
	<u>Less than 1 year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>More than 5 years</u>
Borrowings (excluding finance leases)	103,299	197,255	187,561	27,133
Obligations under finance leases	4,277	-	-	-
Trade payables	83,160	-	-	-
	2009			
	<u>Less than 1 year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>More than 5 years</u>
Borrowings (excluding finance leases)	54,182	108,365	40,638	-
Obligations under finance leases	10,118	3,899	-	-
Trade payables	77,033	-	-	-

28.1.2. Market Risk

Market risk is the possibility that the fair value of future cash flows of a financial instrument changes due to market price fluctuation. Market prices include two types of risk: interest rate risk and foreign exchange risk. Financial instruments affected by market risk include loans payable, deposits and financial instruments available measured at fair value through the income statement.

a) Interest rate risk

Interest rate risk is possibility that the fair value of future cash flows of a financial instrument may change due to fluctuations in the market interest rates. The Group's exposure to the risk of changes in the market interest rates mainly refer to the Group's long-term obligations subject to floating interest rates. The Group has not executed derivatives contracts to cover this risk; however it continuously follows up the market interest rates with the purpose of monitoring the eventual need of contract these instruments.

BNDES borrowings bear fixed interest rates based on the long-term interest rate (TJLP) with purposes of financing the expansion of installed capacity, improvement of current facilities, qualification of human resources, enhancement of service quality and productivity, and investments in marketing initiatives. Once these rates are considered very low, the Group believes that there is no low volatility risk regarding this part of the debt.

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b) Foreign exchange risk

Foreign exchange risk is the possibility that the fair value of future cash flows of a financial instrument changes due to foreign exchange rate fluctuations. The Group's exposure to the risk of changes in foreign exchange rates mainly refers to (i) capital expenditures in the acquisition of IT equipment with imported parts and (ii) the Group's net investment in subsidiary abroad (Contax Argentina).

Service revenues and costs have basically no exposure to foreign exchange variations, since they are not directly or indirectly pegged to foreign currencies. However, risks related to foreign exchange do exist, given that a significant portion of the Company's capital expenditures consists of investments in IT equipment which, despite not being expressed in foreign currency, are indirectly impacted by variations in foreign exchange rates because they contain imported parts. In 2010, approximately 28% of the Company's capital expenditures include equipment with imported parts (2009 – 31%).

Taking into consideration that the Company's current operations in foreign currency are not material, the Company's Management decided not to present the sensitivity analysis for foreign currency variations.

28.2. Classification and valuation of the financial instruments

The Company operates with several financial instruments, especially financial investments, accounts receivable, suppliers, loans and financings and leasing.

Its financial assets must be classified into the following categories: measured by fair value through the income statement (destined for trading), loans and receivables, held-to-maturity and available-for-sale securities. The financial liabilities are classified as measured by fair value or amortized cost.

The classification depends on the purpose to which the financial instruments were acquired. Management determines the classification of its financial instruments at the initial recognition.

Cash and cash equivalents were not classified in the category of financial instruments, since they represent high liquid financial assets with an insignificant risk of change in value.

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The classification of financial instruments per category can be summarized as follows:

	<u>2010</u>
Financial assets:	
Trade receivables	Loans and receivables
Other receivables	Loans and receivables
Restrict cash	Held to maturity
Financial investments held to maturity	Held to maturity
Financial liabilities:	
Trade payables	Amortized cost
Borrowings	Amortized cost
Obligations under finance leases	Amortized cost

(i) Loans and receivables

This category includes loans granted and receivables which are non-derivative financial assets with fixed or determinate payments, not quoted in an active market. These are included as current assets, except for those with maturity exceeding 12 (twelve) months after the balance sheet date (these are classified as non-current assets). Loans and receivables are accounted by amortized cost, using the real interest rate method.

(ii) Held-to-maturity financial assets

These are basically the financial assets that cannot be classified as loans and receivables, since they are quoted in an active market. In this case, these financial assets are acquired with the intention and financial capacity to be held in portfolio up to maturity. These are measured by acquisition cost, accrued of yields earned with corresponding entry to income for the year. On December 31, 2010, the Company had held-to-maturity financial assets.

(iii) Amortized cost

Amortized cost of a financial asset or liability is the amount by which the financial asset or liability is measured at its initial recognition minus principal repayments, plus or minus the cumulative amortization, using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction (directly or through the use of a reduction account) related to the recoverable amount of the loss or uncollectible amounts.

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28.3. Fair value of financial instruments

The fair value of publicly-quoted investments is based on current purchase prices. For financial instruments without active market or public quote, the Company establishes the fair value through valuation techniques. These techniques include the use of recent operations contracted with third parties, reference to other instruments which are substantially similar, the analysis of discounted cash flows and the option pricing models making use of as much information generated by the market as possible and relying very little on information generated by the Company's Management.

On the balance sheet date, the Company evaluates if there is any objective evidence that a financial asset or a group of financial assets is recorded at a value higher than its recoverable value. If there is any evidence concerning the available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any loss for realization of this financial asset previously recognized in income) is excluded from equity and recognized in the income statement.

The book and fair values of the financial instruments are as follows:

	Book Value		Fair Value	
	2010	2009	2010	2009
<u>Financial assets</u>				
Loans and receivables:				
Trade receivables	176,302	128,486	176,302	128,486
Other receivables	9,485	11,425	9,485	11,425
Held to maturity:				
Restrict cash	2,013	-	2,013	-
Financial investments held to maturity ⁽ⁱ⁾	<u>69,869</u>	<u>26,590</u>	<u>76,629</u>	<u>26,685</u>
Total financial assets	<u>257,670</u>	<u>166,501</u>	<u>264,429</u>	<u>166,596</u>
<u>Financial liabilities</u>				
At amortized cost:				
Trade payables ⁽ⁱⁱ⁾	83,160	77,033	83,160	77,033
Borrowings	360,518	204,591	360,518	204,591
Obligations under finance leases	<u>4,277</u>	<u>14,017</u>	<u>4,277</u>	<u>14,017</u>
Total financial liabilities	<u>447,955</u>	<u>295,641</u>	<u>447,955</u>	<u>295,641</u>

(i) Measured at fair value for level 2.

(ii) As accounts receivable and payable on average are settled within a 30-day term, the book values substantially represent the fair values on the balance sheet dates.

a) Valuation techniques applied and assumptions made for the purposes of fair value measurement

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The fair value measurement of financial assets and liabilities is presented below:

- The fair value of the financial assets and liabilities that present standard terms and conditions and are traded on active markets is determined based on the prices observed in these markets.
 - The fair value of the other assets and liabilities (except those mentioned above) is determined using pricing methods that are generally accepted, based on discounted cash flow analyses.
- b) Fair value measurements recognized in the balance sheet

The financial instruments that are measured at fair value after initial recognition are classified into Levels 1 to 3 according to the observable level of the fair value:

- Financial instruments are considered Level 1 when valuation is based on quoted (non-adjusted) prices in active markets for identical assets or liabilities.
- Financial instruments are considered Level 2 when valuation is based on other variables in addition to the quoted prices included in Level 1, which are directly (i.e., prices) or indirectly (i.e., based on prices) observable for the asset or liability.
- Financial instruments are considered Level 3 when valuation is based on valuation techniques that include variables for the asset or liability, but that are not based on the observable market data (unobservable data).

28.4. Sensitivity analysis to CDI rate variation

The Company maintains a significant portion of its debt and cash and cash equivalents indexed to CDI variation. On December 31, 2010, the Company recorded a net cash of R\$74,553 in the parent company and of R\$659 in the consolidated, represented by cash and cash equivalents, net of loans, financing, and leasing.

The market expectation, as per data published by Brazilian Central Bank (Focus Report), with reference date as of February 25, 2011, pointed an effective median rate (Top 5) of Selic estimated at 12.50%, a probable scenario for 2011, against the effective rate of 10.75% verified on December 31, 2010.

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In addition, the Company carried out sensitivity tests for adverse scenarios, taking into account rate deterioration by 25% or 50% higher than the probable scenario, as per chart below:

Operation	Probable scenario	Scenario I - 25% deterioration	Scenario II - 50% deterioration
Effective rate on December 31, 2010	10.75%	10.75%	10.75%
Net cash (ii)	659	659	659
CDI estimated annual rate	11.50%	8.63%	5.75%
Annual effect on net cash:			
Decrease	-	(14)	(33)
Increase	5	-	-

(i) The net cash includes the amount of R\$74,553 related to cash and cash equivalents without reporting debts on December 31, 2010.

(ii) Net cash considers the amount of R\$387,803 related to cash and cash equivalents and R\$382,867 related to loans and financing and R\$4,277 related to leasing.

28.5. Derivatives

On December 31, 2010 and 2009, the Group did not operate with derivative financial instruments.

28.6. Cash and cash equivalents

The recorded values are close to those of the realization or settlement values. Cash surplus is invested, in line with treasury policies, and periodically revalued by the Management.

28.7. Financing

In August 2007, Contax signed a financing agreement with BNDES in the amount of R\$216,514 with the purpose of financing the expansion of installed capacity, improving current facilities, qualifying human resources, improving the quality of services and productivity, and investing in marketing actions (Note 22).

In March 2010, Contax entered into a new loan agreement with BNDES in the amount of R\$323,552, for investments in the expansion the installed capacity and upgrade of the facilities, implementation of quality programs, human resources qualification and investments in the acquisition of domestic machinery and equipment (Note 22).

In March 2010, Contax executed a loan agreement with BNB, in the amount of R\$51,000, aiming at financing the implementation of a new operating unit in the city of Recife, state of Pernambuco (Note 22).

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28.8. Leasing

Contax has several leasing, IT equipment, furniture agreements, whose payments were separated between financial charges and decrease in liabilities (Note 25).

29. SHARE-BASED PAYMENTS

The purpose of Contax's stock options is to grant the option to subscribe common, book-entry shares issued by the Company on behalf of the Management and beneficiaries in order to retain them (or maintain them) and encourage them to contribute to the Company. To have those rights, beneficiaries should remain in service from one to four years (right acquisition periods).

The plans are an onerous business, exclusively civil, and do not have a legal or social security binding nature between the Company and the Grantees, be them employees or not.

The members of the Stock Option Plan Committee meet to decide which managers, employees and service providers will be eligible, the total number of options to be distributed, as well as the acquisition price of each option. Decisions are made based on the Plan's guidelines. At the discretion of the Compensation Committee, managers, employees and individuals providing services to the Company or its subsidiaries are eligible for this plan.

29.1. Information on the Company's stock option plan

a) 2007 Program

Approved at the Annual General Meeting held on April 16, 2007, the Stock Option Plan was established pursuant to Article 169, paragraph 3, of Law No. 6,404/76. The Management Committee, appointed by the Board of Directors and composed of Board members, manages this plan, whose purpose is to attract executives to the Company, in addition to hold and ensure the close alignment between the Management's and shareholders' interests.

The Stock Option Plan initiated in 2007 ("2007 Program") grants to its beneficiaries, a total corresponding up to 1.9% of the subscribed and paid-up capital stock, representing 350,000 common shares granted within the scope of the 2007 Program. Options may be exercised as of October 1, 2007, in 4 (four) equal annual tranches. In view of the reverse split and simultaneous stock split occurred on January 18, 2010, the 2007 Program now is represented by 1,400,000 common shares.

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On September 4, 2009, the Management Committee approved the following changes in the format of 2007 Program, maintaining the conditions already ruled: (i) to adjust the number of options granted to the beneficiaries of the 2007 Program due to the Company reverse stock split at the 20:1 ratio, approved by the Extraordinary General Meeting held on October 17, 2007; (ii) to adjust the options strike price from R\$51.20 to R\$45.00; (iii) to change the index that adjusts for inflation the options strike price from IGP-M to IPCA to be applied over the strike price of the next annual tranches related to the 2007 Program; (iv) to determine the discontinuance of the obligation to allocate a minimum amount of the annual bonus to acquire shares deriving from options whose initial grace period has already elapsed.

The changes outlined above are applicable as from the second tranche, whether or not the initial grace periods of the corresponding annual tranches have elapsed or not.

The main features of each of the plan's tranches are shown below:

2007 Program	<u>Number of options</u>	<u>Grant/amendment date</u>	<u>Vesting date (can be exercised)</u>	<u>Maturity date</u>	<u>Exercise price</u>	<u>Fair value at the grant date (*)</u>
<u>1st grant:</u>						
Tranche 1	87,500	4/16/2007	Apr-07	10/1/2014	51.20	14.13
Tranche 2	87,500	4/16/2007	Oct-08	10/1/2014	45.00	37.31
Tranche 3	87,500	4/16/2007	Oct-09	10/1/2014	45.00	37.31
Tranche 4	<u>87,500</u>	4/16/2007	Oct-10	10/1/2014	45.00	37.31
Total options	350,000					

(*) At the plan's grant date, for the 1st tranche and on the date the plan was amended for the other tranches.

b) 2010 Program

In a meeting, the Stock Option Plan Management Committee approved the creation of a Company Stock Option Program for 2010 ("2010 Program") in accordance with the Company's Stock Option Plan ("Plan"), pursuant to article 168, paragraph 3, of Law 6,404/76, which provides that the Company may, within the limits of its authorized capital, and in accordance with the Plan approved at the General Meeting, grant stock options to its managers or employees. Administration of the 2010 Program is incumbent upon the Administration Committee, as defined by the Board of Directors, and is composed of members thereof.

The main goal of the 2010 Program is to attract executives to the Company, aiming to align the executives' interests with those of the shareholders, in addition to sharing the risks inherent to the capital markets.

The 2010 Program grants beneficiaries a total volume equivalent to 3.1% of the Company's total capital stock at the time of approval, corresponding to 2,244,611 common shares.

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Beneficiaries may exercise their options over 4 (four) annual equal tranches (“annual tranches”), each corresponding to 25% of the entire option granted, as defined in the agreements. The option related to the first annual tranche may be exercised as of October 1, 2010, and the other options may be exercised annually and successively as of October 1, 2011.

The strike price of the options will be R\$25.00 per share, corresponding to the average share price over the last 30 trading days on the BM&FBOVESPA S.A. – Securities, Commodities and Futures Exchange (“BVMF”) – the São Paulo Stock Exchange, to which a 15% discount was applied, as authorized by the Plan. The strike price of the options related to the annual tranches will be restated based on the Broad Consumer Price Index (IPCA).

The main features of each of the plan’s tranches are shown below:

2010 Program	Number of options	Grant date	Vesting date (can be exercised)	Maturity date	Exercise price	Fair value at the grant date
<u>1st grant:</u>						
Tranche 1	185,000	08/31/10	Oct-10	Oct-18	25.00	6.84
Tranche 2	185,000	08/31/10	Oct-11	Oct-18	25.00	8.19
Tranche 3	185,000	08/31/10	Oct-12	Oct-18	25.00	9.23
Tranche 4	<u>185,000</u>	08/31/10	Oct-13	Oct-18	25.00	9.88
Total options	740,000					
<u>2nd grant:</u>						
Tranche 1	12,500	12/01/10	Dec-10	Oct-18	27.29	4.46
Tranche 2	12,500	12/01/10	Oct-11	Oct-18	27.29	6.99
Tranche 3	12,500	12/01/10	Oct-12	Oct-18	27.29	8.79
Tranche 4	<u>12,500</u>	12/01/10	Oct-13	Oct-18	27.29	9.84
Total options	50,000					

29.2. Information on the price of the Company’s stock option plan

The options were priced according to the Black & Scholes pricing model.

For the 2007 Program, the fair value of the options was calculated again on September 4, 2009, date of the amendments described above, and are shown in the chart below, which refers to tranches 2, 3 and 4 of the plan.

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Data inserted in the model:	2007 Program		2010 Program	
	1st grant		1st grant	2nd grant
	1st tranche (before the change)	2nd to 4th tranches (after the change)		
Share price at grant date	64.00	79.00	32.40	31.50
Exercise price	51.20	45.00	25.00	27.29
Option duration	1 to 4 years	1 to 4 years	Up to 8 years	Up to 8 years
Risk-free return rate	11.08%	11.07%	11.19%	9.13%
Dividend yield	1.40%	1.50%	6%	6%
Expected volatility	19.64%	17.59%	38.44%	45.26%
Fair value of the options (weighted average)	14.13	37.31	8.54	7.52

The table below reconciles the outstanding stock options at the beginning and at the end of the years reported:

	2010		2009	
	Average weighted exercise price (R\$)	Number of options (thousands)	Average weighted exercise price (R\$)	Number of options (thousands)
January 1st		1,364,068		1,364,068
Granted	8.47	790,000		
Exercised	11.93	(962,200)		
Expired				
December 31		1,191,868		1,364,068

Out of the 1,191,868 outstanding options on December 31, 2010, 599,368 were exercisable on this date. On December 31, 2009, out of the 1,364,068 outstanding options, 1,014,068 were exercisable on this date.

29.3. Stock options exercised on the years reported

The following stock options were exercised on the years reported:

	2010			2009		
	Options exercised (thousands)	Exercise date	Stock option on the exercise date	Options exercised (thousands)	Exercise date	Stock option on the exercise date
2007 Program – 1st Grant	774,700	08.03.10	28.50	35,932	18.10.07	18.15
	111,919	15.03.10	31.40			
	6,081	19.03.10	31.49			
	4,700	04.06.10	28.50			
	10,800	11.06.10	29.50			
	4,000	17.06.10	30.40			
	25,000	12.11.10	32.02			

25,000	30.11.10	32.50
<hr/>		<hr/>
962,200		35,932

No stock options were exercised by the beneficiaries of the 2010 Program in the fiscal year 2010.

CONTAX PARTICIPAÇÕES S.A.

Notes to the Consolidated Financial Statements
For the Years ended December 31, 2010, 2009 and 2008
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30. RELATED PARTY TRANSACTIONS

30.1. Balances and transactions

									2010
	Oi	Oi	Oi	Brasil	Brasil	Paggo			
	Fixa	Móvel	Internet	Telecom	Telecom	Administradora	Way TV	BNDES	Total
				Fixa	Móvel	de Crédito			
Assets									
Accounts receivable	3,790	3,311	-	3,886	1,131	-	-		12,118
Accounts receivable - contingencies	7,063								7,063
	<u>10,853</u>	<u>3,311</u>	<u>-</u>	<u>3,886</u>	<u>1,131</u>	<u>-</u>	<u>-</u>		<u>19,181</u>
Liabilities									
Suppliers	5,001	175							5,176
Loans and Financing (Note 24)								331,663	331,663
	<u>5,001</u>	<u>175</u>						<u>331,663</u>	<u>336,839</u>
									2009
	Oi	Oi	Oi	Brasil	Brasil	Paggo			
	Fixa	Móvel	Internet	Telecom	Telecom	Administradora	Way TV	BNDES	Total
				Fixa	Móvel	de Crédito			
Assets									
Accounts receivable	2,720	1,382	59	3,608	8,200	-	-		15,969
Accounts receivable - contingencies	7,955								7,955
	<u>10,675</u>	<u>1,382</u>	<u>59</u>	<u>3,608</u>	<u>8,200</u>	<u>-</u>	<u>-</u>		<u>23,924</u>
Liabilities									
Suppliers	3,194	605							3,799
Loans and Financing (Note 24)								204,591	204,591
	<u>3,194</u>	<u>605</u>						<u>204,591</u>	<u>208,390</u>

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Notes to the financial statements
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	2010									
	Oi	Oi	Oi	Brasil	Brasil	Paggo	Paggo	Way TV	BNDES	Total
	Fixa	Móvel	Internet	Telecom	Telecom	Adm.	Acquirer			
	Fixa	Móvel	Internet	Fixa	Móvel	Crédito				
Revenues										
Revenues from services rendered	<u>727,513</u>	<u>371,418</u>	<u>19,560</u>	<u>44,224</u>	<u>71,372</u>	<u>12,109</u>	<u>783</u>	<u>10,491</u>		<u>1,257,470</u>
Costs and expenses										
Cost of services rendered	(27,569)	(6,720)							-	(34,289)
Financial expenses (Note 8)	-	-							(18,824)	(18,824)
	<u>(27,569)</u>	<u>(6,720)</u>							<u>(18,824)</u>	<u>(53,113)</u>

	2009										
	Oi	Oi	Oi	Brasil	Brasil	Paggo	Paggo	Amazônia	Way TV	BNDES	Total
	Fixa	Móvel	Internet	Telecom	Telecom	Adm.	Acquirer	Celular			
	Fixa	Móvel	Internet	Fixa	Móvel	Crédito					
Revenues											
Revenues from services rendered	<u>750,394</u>	<u>362,846</u>	<u>4,893</u>	<u>19,393</u>	<u>33,432</u>	<u>16,420</u>	<u>793</u>	<u>1,361</u>	<u>6,436</u>		<u>1,195,968</u>
Costs and expenses											
Cost of services rendered	(28,429)	(8,245)		2						-	(36,672)
Financial expenses (Note 8)	-	-								(17,234)	(17,234)
	<u>(28,429)</u>	<u>(8,245)</u>		<u>2</u>						<u>(17,234)</u>	<u>(53,906)</u>

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Notes to the financial statements
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(i) Related party transactions

The Company's main clients are Oi Fixa and its subsidiary Oi Móvel (hereinafter jointly referred to as "Oi").

The Company provides a complete set of contact center services to Oi, whose operations include wireline terminals, long-distance services, mobile services, as well as broadband and voice and data services to corporate clients. In addition to traditional consumer services, the Company offers services related to consumer retention and collection for Oi's corporate and retail clients.

The Company's current relationship with Oi is represented by several different and independent services, such as customer service to Oi's wireline segment, strong telemarketing services to attract more mobile clients, customer support to prepaid and post-paid users, technical support to broadband users and collection services.

On the other hand, Oi is the main telecommunications provider (commuted wireline services, mobile services, long distance/free calls, data, among others.) and, most importantly, provide such services directly or through Contax to some of its clients, according to their choice. Although Oi currently provides most of its telecommunication services to the Group, should it become unable to do so or decide to terminate such Service agreements, the Company's Management understands that it would be possible to hire another company to provide such services without having major interruption on the Company's businesses.

30.2. Compensation of key management personnel

30.2.1. Operations with the Board of Directors or Board of Executive Officers

Neither the members of the Board of Directors or Board of Executive Officers, nor relatives of their respective families, have or already had any direct interest in any operation made with the Company that is or may be considered unusual by its nature or its conditions or may have been significant for the Company's business.

During the year ended December 31, 2010, the Group did not grant either short-term loans or guarantees to the members of the Board of Directors, Board of Executive Officers, Fiscal Council, or any relatives of the members' families.

30.2.2. Financing agreement of CTX Participações S.A.

In March 2010, CTX Participações S.A., the controlling entity of the Company, and one of the Company's former officers entered into a loan agreement, negotiated only by the former officer, without the Company's involvement. Such loan, in the amount of R\$15,769, matures on March 30, 2011, and is free of interest rates.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Notes to the financial statements
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30.2.3. Short-term benefits

Short-term benefits include fixed compensation (salaries and fees, paid vacations, thirteenth salary and private pension plan), social charges (contributions to social security - INSS, FGTS, among others) and variable compensation (profit sharing).

30.2.4. Share-based compensation

The members of the Company's Management (Chief Executive Officer and Statutory Executive Officers) participate in the Stock Option Plan (Note 29).

30.2.5. Other

The Group offers the following benefits to its employees: (i) health insurance; (ii) dental insurance; (iii) life insurance; (iv) meal program for employees who work six (6) hours a day; (v) meal program for employees who work eight (8) hours a day; (vi) transportation; (vii) discounts in certain drugstore chains; (viii) a plan for funeral expenses; and (ix) day care assistance. Officers, managers and coordinators are also entitled to use mobile phones with a monthly credit ranging from sixty reais (R\$60.00) to one hundred and twenty reais (R\$120.00).

The Company does not have additional post-employment obligations, and it does not offer other long-term benefits, such as length of service leave and other length of service benefits. The Company also does not offer other benefits upon the termination of the top management's labor agreements, besides those agreements envisaged by the Brazilian labor legislation in force.

Pursuant to the Brazilian Corporate Law and the Company's Bylaws, it shall be incumbent upon shareholders at the General Meeting to establish the Management's annual overall compensation. The Board of Directors shall distribute the amount among the Management members.

At the (i) Parent Company's Extraordinary General Meeting held on April 28, 2010, and (ii) the Extraordinary General Meeting of direct subsidiary Contax, held on April 28, 2010, the management's annual overall compensations for fiscal year 2010 was set at the maximum of R\$2,493 and R\$3,200, respectively (2009 – R\$2,390 and R\$3,500, respectively).

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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30.3. Compensation of Board Members, Executive Officers and members of the Fiscal Council

During the years ended December 31, 2010 and 2009, the Management compensation (i.e. board members and statutory officers) paid or payable is outlined below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Payroll and related charges	4,367	2,894	2,735
Fees	1,648	1,555	1,222
Profit sharing	7,142	3,430	2,360
Stock option plan	2,689	9,995	129
	<u>15,846</u>	<u>17,874</u>	<u>6,446</u>

31. BUSINESS COMBINATIONS**31.1. Acquisitions in 2010**

In September 2010, Contax acquired 100% of Ability and recorded goodwill based on its economic value, due to the estimated future profitability of the business.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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	<u>Fair value recognized in the acquisition</u>
Assets:	
Cash and cash equivalents	4,879
Accounts receivable	13,536
Deferred income tax and social contribution	29,834
Tax credit	2,898
Property, plant and equipment and intangible assets	1,749
Other assets	366
	<u>27,978</u>
Liabilities:	
Suppliers	(3,186)
Payroll and social charges	(11,650)
Taxes payable	(13,393)
Deferred revenues	(1,247)
Other	(282)
	<u>(29,758)</u>
Total identifiable liabilities, net	<u>(1,780)</u>
Goodwill from acquisition (Note 12)	49,081
Total consideration	<u><u>72,585</u></u>
Initial price (payment on demand)	24,400
Retained amount (restrict cash)	2,000
Additional price (contingent consideration)	46,185

Contingent consideration

As part of the Partnership Interest Purchase and Sale Agreement (“Agreement”), the parties agreed on a contingent consideration. The fair value of the contingent consideration on the acquisition date corresponds to the amount of the outstanding balance, amounting to R\$46,185 (“additional price”). This amount represents the best estimate of fair value based on (i) the expected profitability of Ability and (ii) information currently available. The payment of the additional price depends on the compliance with certain conditions related to Ability’s growth and profitability within the next 3 years.

As agreed, the acquisition price, composed of the initial price and additional price, may amount to as much as R\$82,474.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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The acquisition sought to expand the services offered by Contax, to include specialized operations at sales points, seeking to consolidate its strategy of being the only specialized corporate-services entity throughout the entire chain of relations between entities and their consumers, through multiple contact channels.

31.2. Acquisitions in 2009

BRC was acquired by Contax in November 2009 for the amount of R\$61, with the purpose of developing the Nova Luz Program (Note 1).

32. INSURANCE COVERAGE

The Group has a risk management program aiming at minimizing risks, obtaining in the market coverage compatible with its size and operations. Coverage was contracted by amounts deemed as sufficient by Management to cover any eventual losses and casualties, taking into account the nature of its operations, the risks involved in its operations and the guidance of its insurance brokers, ensuring the integrity of assets and the continuity of its operations. All of the Group's policies are automatically renewed.

On December 31, 2010, the Company had the following main insurance policies contracted with third-parties:

<u>Branches</u>	<u>Secured amounts</u>	<u>Maturity</u>
Management and officers civil liability ⁽ⁱ⁾	166,540	01.13.2011
Fire of property, plant and equipment	97,000	06.15.2011
Loss of profit insurance	47,556	06.15.2011
General civil liability	10,000	06.15.2011

(i) Maximum limit of guarantee set at US\$100 million.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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33. COMMITMENTS**33.1. Contractual obligations**

The following table presents the Company's contractual obligations on December 31, 2010:

Contractual obligations	Payments due per term				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Lease agreement (facilities) (i)	240,741	72,058	97,505	54,854	16,324
Leasing agreement (financial)	4,277	4,277	-	-	-
Financing (BNDES) (ii)	331,664	64,670	167,505	72,355	27,134
Financing (BNB) (ii)	51,203	203	29,750	21,250	-
Total	627,885	141,208	294,760	148,459	43,458

i. A substantial part of the lease agreements referring to the Company's facilities may be terminated before its maturity, with a prior notice from one (1) to six (6), thus being subject to a termination fee equivalent to three (3) times the monthly rental amount of the property.

ii. Includes payments of estimated interest rates.

33.1.1. Facilities lease agreement

The Company's operating facilities are located in properties rented from related parties, being a substantial part of lease agreements entered into with Oi Fixa. The effectiveness of these lease agreements range from 5 to 10 years and they have a novation clause for the same period. Additionally, all lease agreements contain clauses of market value review, in case the Group exercises its renewal right. The Group does not have any contractual rights to acquire the leased property at the end of the lease term.

During the years ended on December 31, 2010 and 2009, expenses of all lease agreements corresponded to R\$69,931 and R\$61,294, respectively.

On December 31, 2010, the Company did not have any other contractual obligations.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Notes to the financial statements
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33.2. Guarantees

On December 31, 2010, sureties and guarantees were granted to other subsidiaries, regarding loans to third parties and legal claims, as follows:

<u>Bank guarantees</u>	<u>2010</u>	<u>2009</u>
BNDES	156,101	206,697
Contingencies	<u>40,819</u>	<u>21,602</u>
Total	196,920	228,299

34. SUBSEQUENT EVENTS

34.1. Integration of Company's activities with Portugal Telecom, SGPS

In January 2011, the Management Boards of Contax and Mobitel S.A., a subsidiary of Portugal Telecom, SGPS, ("Dedic") and its subsidiary GPTI Tecnologia da Informação S.A. ("GPTI" or, jointly with Dedic, "Dedic GPTI") resolved to propose to their shareholders the integration of their activities subject to certain conditions. Considering that they operate in the same business segment and their activities, client database and services provided complement each other, this integration aims to strengthen their market positions.

i. Merger of Dedic shares into Contax

The Agreement for the Merger of Dedic Shares into Contax, subject to certain conditions, provides for the call of the abovementioned companies' general meetings to resolve on the merger of Dedic shares into Contax, and the consequent increase of Contax's capital. The amount of Contax's capital increase will be determined based on the book value Dedic shares, according to the appraisal report prepared at the appropriate time ("Merger of Dedic Shares"). As a result of the Merger of Dedic shares, Contax will issue new common and preferred shares to the current Dedic's shareholders to replace those held by them.

Contax's Management hired a fairness opinion, independently prepared by Banco BTG Pactual S.A. ("BTG Pactual"). According to the amounts presented in the report prepared by BTG Pactual, the swap ratio of common shares would vary from 0.0342 to 0.0417 and the swap ratio of preferred shares would vary from 0.0343 to 0.0418 shares issued by Contax for each share issued by Dedic.

Based on the swap ratio, the Managements of Contax and Dedic suggested a swap ratio of common shares corresponding to 0.0362 and of preferred shares corresponding to 0.0363 shares issued by Contax to each share issued by Dedic. This ratio will be adjusted with a possible payment of dividends and with the assumption of debts by those companies.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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Despite the swap ratio proposed by the managements and notwithstanding the Merger of Dedic Shares do not involve the parent company and the subsidiary, the Management of the Companies and of Dedic, in compliance with CVM Advisory Opinion no. 35/08, will properly create an independent committee (“Special Independent Committee”) for the purposes and pursuant to the abovementioned Advisory Opinion. The Special Independent Committee will have an independent financial advisor to assess the conditions of the Merger of Dedic Shares.

The merger of Dedic shares is subject to the approval of the general shareholders’ meetings of both Dedic and Contax, without prejudice of the opinion of the Special Independent Committee.

ii. Purchase and Sale of CTX Participações S.A. Shares

On the same date, shareholders of CTX Participações S.A. (“CTX”), AG Telecom Participações S.A. (“AG Telecom”), L.F. Tel S.A. (“L.F. Tel”) and Fundação Atlântico de Seguridade Social (“FASS”), and Portugal Telecom SGPS and Portugal Telecom Brasil S.A. (jointly “Portugal Telecom”) reached an agreement about their association as CTX’s shareholders in operations resulting in the acquisition of all of the shares currently held by BNDES Participações S.A. - BNDESPAR (“BNDESPAR”), Caixa de Previdência dos Funcionários do Banco do Brasil - PREVI (“PREVI”), Fundação Petrobras de Seguridade Social – PETROS (“PETROS”) and Fundação dos Economistas Federais – FUNCEF (“FUNCEF”), as described below.

By means of the Purchase and Sale Agreements of CTX shares executed in this date between AG Telecom and L.F. Tel, as one party, and PREVI, PETROS and FUNCEF, as the other party; and between Portugal Telecom, as one party, and BNDESPAR, as the other party, and between Portugal Telecom, as one party, and PREVI, PETROS and FUNCEF, as the other party (“Purchase and Sale Agreements”), subject to specific conditions:

- (i) AG Telecom and L.F. Tel will acquire part of the interest held by PREVI, PETROS and FUNCEF in CTX; and
- (ii) Portugal Telecom will acquire all the interest held by BNDESPAR, in addition to the remaining interest held by PREVI, PETROS and FUNCEF in CTX.

With the conclusion of the operations set forth in the Purchase and Sale Agreements, AG Telecom and L.F. Tel will hold 36.80% each in the capital stock of CTX, and Portugal Telecom will be the direct holder of shares representing 16.21% of CTX’s capital stock.

On the same date, AG Telecom, L.F. Tel, Portugal Telecom and FASS executed the Shareholders’ Agreement (“Shareholders’ Agreement”) that replaces the agreements in effect, which will provide for their relationship as shareholders of CTX. The efficacy of the new Shareholders’ Agreement will be suspended up to the effective acquisition of CTX shares by Portugal Telecom.

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

Notes to the financial statements
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iii. Acquisition by CTX of part of Contax shares held by Portugal Telecom / CTX's Capital Increase

According to the Purchase and Sale Agreement of shares executed in this date, subject to specific conditions, including the approval of the Merger of Dedic Shares, CTX will acquire part of the common and preferred shares issued by Contax received by Portugal Telecom as a result of the merger of Dedic shares ("Acquisition of Contax Shares").

In addition, the Subscription Agreement of CTX Shares was executed on this date, through which Portugal Telecom, AG Telecom, L.F. Tel and FASS undertook, subject to specific conditions, to approve CTX's capital increase to be subscribed by Portugal Telecom and FASS ("CTX's Capital Increase").

Due to the Acquisition of Contax Shares and CTX's Capital Increase, and taking into consideration the swap relation proposed by the managements of Contax and Dedic, subject to analysis, evaluation and resolution of the Special Independent Committee, Portugal Telecom may hold direct interest of 19.90% in the capital stock of CTX and direct and indirect interest of 19.52% in the capital stock of Contax, and FASS will maintain its direct interest of 10.18% in the capital stock of CTX and the indirect interest of 3.48% in the capital stock of Contax.

iv. Shareholding after the operations described above

After the conclusion of the corporate operations described above, the estimated shareholding of CTX and Contax is as follows:

(i) CTX's Estimated Shareholding after the conclusion of the operations described above:

Shareholder	Common shares	Common shares %
AG Telecom	784,730,222	24.12
L.F. Tel	1,137,460,810	34.96
Luxemburgo Participações S.A.	352,730,588	10.84
FASS	331,151,534	10.18
Portugal Telecom	647,451,385	19.9
Board members	10	-
Total	3,253,524,549	100

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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(ii) Contax's Estimated Shareholding (in thousands of shares) after the conclusion of the operations described above:

Shareholder	Common shares	Common shares %	Preferred shares	Preferred shares %	Total	Total %
CTX Participações S.A.	17,871	72.70%	4,136	10.40%	22,007	34.20%
Portugal Telecom	0.000	0.00%	2,782	7.00%	2,782	4.30%
Outstanding shares	6,695	27.30%	32,800	82.60%	39,495	61.40%
TOTAL	24,566	100.00%	39,718	100.00%	64,284	100.00%

34.2. Allus acquisition

On April 5, 2011, we entered into a stock purchase agreement to acquire all the then-outstanding shares issued by the Allus Group. The Allus Group was indirectly controlled by Eton Park, a global multi-disciplinary investment organization.

The Allus Group is a contact center service provider with operations in Latin America, having 22 units in Argentina, Colombia and Peru, as well as commercial activities in the United States and Spain. The acquisition of the Allus Group represents a further development of our internationalization strategy focused on Latin America.

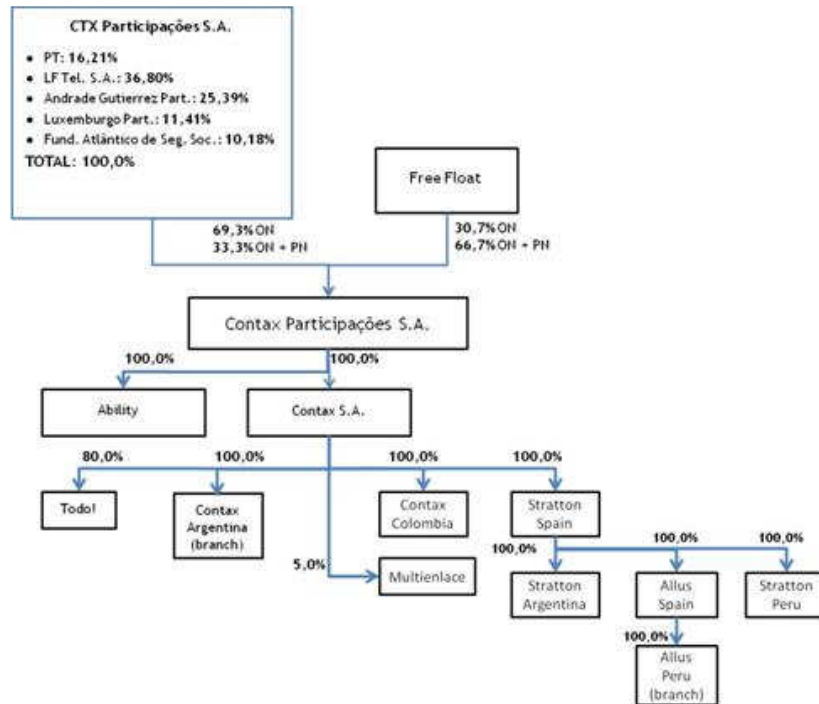
The transaction was approved on April 25, 2011 by the shareholders of Contax. The acquisition price to be paid for the Allus Group will range between R\$307 million and R\$332 million (based on the U.S. dollar to real exchange rate prevailing on the date the transaction was announced), depending on the future EBITDA performance of the Allus Group. In May, 2011, we consummated the acquisition of the Allus Group.

In 2010, the Allus Group's net revenue was US\$174 million. At the end of 2010, the Allus Group had 13.1 thousand employees and 8.5 thousand workstations.

The chart below shows our corporate structure after the acquisition of the Allus Group:

CONTAX PARTICIPAÇÕES S.A. AND SUBSIDIARIES

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35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by Company's management and authorized for issue on June 27, 2011.