

TIM PARTICIPACOES SA

Form 20-F

June 30, 2010

As filed with the Securities and Exchange Commission on June 30, 2010

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

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report

Commission file number: 001-14491

TIM PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

TIM HOLDING COMPANY
(Translation of Registrant's name into English)

THE FEDERATIVE REPUBLIC OF
BRAZIL
(Jurisdiction of incorporation or organization)

Avenida das Américas, 3,434 - 7º andar
22640-102 Rio de Janeiro, RJ, Brazil
(Address of principal executive offices)

Claudio Zezza

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(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:

Name of each exchange on which registered

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Title of each class

Preferred Shares, without par value*	New York Stock Exchange
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 10 Preferred Shares	New York Stock Exchange

* Not for trading, but only in connection with the listing of American Depositary Shares on the New York Stock Exchange

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares, without par value	843,281,477
Preferred Shares, without par value	1,632,453,583

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes x 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 x Accelerated filer o Non-accelerated filer o

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

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

o Item 17 x 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)

o Yes x No

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PRESENTATION OF INFORMATION

In this annual report, TIM Participações S.A., a corporation (sociedade anônima) organized under the laws of the Federative Republic of Brazil, is referred to as “TIM,” “TIM Participações,” the “Company” or the “Holding Company.” References to “we,” “us” and “our” are to TIM together with, where the context so requires and as explained more fully below, one or more of TIM Sul S.A. (“TIM Sul”), TIM Nordeste Telecomunicações S.A. (“TIM Nordeste Telecomunicações”), TIM Celular S.A. (“TIM Celular”), Maxitel S.A. (“TIM Maxitel”), and Intelig Telecomunicações Ltda. (“Intelig”), each a directly or indirectly wholly-owned operating subsidiary of the Holding Company and a corporation organized under the laws of the Federative Republic of Brazil.

References in this annual report to the “preferred shares” and the “common shares” are, respectively, to the preferred shares, which have no voting rights, other than in the limited circumstances described in “Item 10B. Additional Information—Memorandum and Articles of Association—Rights Relating to our Shares—Voting Rights”, and common shares, of TIM. References to the “American Depositary Shares” or “ADSs” are to TIM’s American Depositary Shares, each representing 10 preferred shares. The ADSs are evidenced by American Depositary Receipts, or ADRs, which are listed on the New York Stock Exchange, or the NYSE, under the symbol “TSU”. The common shares and preferred shares are listed on the São Paulo Stock Exchange under the symbols “TCSL3” and “TCSL4”, respectively.

At a meeting held by the Board of Directors on April 16, 2009, the Company executed a Merger Agreement with Holdco Participações Ltda. (“Holdco”), having its controlling shareholder TIM Brasil Serviços e Participações S.A. (“TIM Brasil”), Intelig Telecomunicações Ltda. (“Intelig”), Docas Investimentos S.A. (“Docas”), JVCO Participações Ltda. (“JVCO”), , Botofoga Limited (“Botofoga”) and Leo Julian Simpson as intervening parties, for the purpose of acquiring indirect control of Intelig. This acquisition resulted in the merger into the Company, of Holdco, a subsidiary of JVCO, which would in turn hold 100% of the capital stock of Intelig upon conclusion of the merger process.

On December 30, 2009, the Extraordinary General Meeting held by the shareholders of TIM Participações approved the acquisition and merger of Holdco, a company that had 100% of the capital stock of Intelig, into TIM Participações.

Pursuant to an Extraordinary Shareholders Meeting held on May 30, 2007, our shareholders approved a reverse stock split of the totality of shares issued by us. As a result, the shares were amalgamated at the ratio of one thousand (1,000) existent shares per one (1) share of the respective type. The reverse split approved did not result in modification in the amount of the capital stock and the amalgamated shares granted to their holders the same rights previously established in our bylaws for the respective type of share. Since this Shareholder’s meeting, ADRs have represented ten (10) preferred shares each.

Market Share Data

Market share information is calculated by the Company based on information provided by the Agência Nacional de Telecomunicações, or Anatel. Penetration data is calculated by the Company based on information provided by the Instituto Brasileiro de Geografia e Estatística, or IBGE.

Presentation of Financial Information

Our consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil (“Brazilian GAAP”), which include accounting principles derived from Brazilian Corporations Law and accounting standards and supplementary procedures established by the Comissão de Valores Mobiliários or “CVM” and the Accounting Pronouncements Committee (Comitê de pronunciamentos Contábeis - CPC) of Brazil, and related rules applicable to telecommunications service operators.

See note 37 to our consolidated financial statements for a summary of the differences between Brazilian GAAP and generally accepted accounting principles in the United States, or U.S. GAAP, as well as a reconciliation to U.S. GAAP of our shareholders' equity as of December 31, 2009 and 2008 and net income for the years ended December 31, 2009, 2008 and 2007, as described below.

During 2009, TIM Participações S.A. completed the acquisition of the telecommunications company Intelig Telecomunicações Ltda. ("Intelig") from JVCO Participações Ltda. ("JVCO") (part of the group controlled by Mr. Nelson Tanure and which conducts business in the communications, real estate and harbor facilities industries) in exchange for participation in TIM Participações' capital stock.

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We account for the Holdco acquisition under Brazilian GAAP as a purchase at book value, generating no goodwill, pursuant to which TIM Participações consolidates the results of Holdco and, in form, Intelig with effect from December 1, 2009. Under Brazilian GAAP, the acquisition of Holdco was considered to have taken place as of November 30, 2009. Accordingly, the 2009 consolidated income statement includes one month operation of Intelig (whole subsidiary of Holdco, which become whole subsidiary of TIM Participações as a result of Holdco merger into TIM Participações).

The results of Holdco's and Intelig's operations have not been included in the 2009 consolidated financial statements under U.S. GAAP, given that Holdco acquisition date was considered to be December 30, 2009 (the date the acquisition was approved by TIM Participações shareholders).

For information purposes, we present in U.S. GAAP pro forma financial information reflecting the acquisition of Holdco by TIM Participações as if the acquisition had occurred on January 1, 2007 in the case of income statement information. See note 37 of our consolidated financial statements.

All references herein to the "real," "reais" or "R\$" are to the Brazilian real, the official currency of Brazil. All references to "U.S. dollars," "dollars" or "U.S.\$" are to United States Dollars.

Solely for the convenience of the reader, we have translated some amounts included in "Item 3A. Key Information—Selected Financial Data" and elsewhere in this annual report from reais into U.S. dollars using the commercial selling rate as reported by the Central Bank of Brazil (the "Central Bank") at December 31, 2009 of R\$1.7412 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or any other exchange rate. Such translations should not be construed as representations that the real amounts represent or have been or could be converted into U.S. dollars as of that or any other date. See "Item 3A. Key Information—Selected Financial Data—Exchange Rates" for information regarding exchange rates for the Brazilian currency.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

The "Technical Glossary" at the end of this annual report provides definitions of certain technical terms used in this annual report and in the documents incorporated in this annual report by reference.

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FORWARD LOOKING INFORMATION

This annual report contains statements in relation to our plans, forecasts, expectations regarding future events, strategies and projections, which are forward-looking statements and involve risks and uncertainties and are therefore, not guarantees of future results. Forward looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or revise any forward-looking statements after we file this annual report because of new information, future events and other factors. We, and our representatives, may also make forward-looking statements in press releases and oral statements. Statements that are not statements of historical fact, including statements about the beliefs and expectations of our management, are forward-looking statements. Words such as “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “intend,” “plan,” “predict,” “project” and “target” and similar intended to identify forward-looking statements, which necessarily involve known and unknown risks and uncertainties. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements. These statements appear in a number of places in this annual report, principally in “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects,” and include, but are not limited to, statements regarding our intent, belief or current expectations with respect to:

- Brazilian wireless industry conditions and trends;
- characteristics of competing networks’ products and services;
 - estimated demand forecasts;
- growing our subscriber base and especially our postpaid subscribers;
 - development of additional sources of revenue;
 - strategy for marketing and operational expansion;
 - achieving and maintaining customer satisfaction;
- development of higher profit margin activities, attaining higher margins, and controlling customer acquisition and other costs; and
 - capital expenditures forecasts.

Because forward-looking statements are subject to risks and uncertainties, our actual results and performance could differ significantly from those anticipated in such statements and the anticipated events or circumstances might not occur. The risks and uncertainties include, but are not limited to:

- general economic and business conditions, including the price we are able to charge for our services and prevailing foreign exchange rates;
- competition, including expected characteristics of competing networks, products and services and from increasing consolidation and services bundling in our industry;
- our ability to anticipate trends in the Brazilian telecommunications industry, including changes in market size, demand and industry price movements, and our ability to respond to the development of new technologies and competitor strategies;

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- our ability to expand our services and maintain the quality of the services we provide;
 - the rate of customer churn we experience;
- changes in official regulations and the Brazilian government's telecommunications policy;
 - political economic and social events in Brazil;
 - access to sources of financing and our level and cost of debt;
 - our ability to integrate acquisitions;

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- regulatory issues relating to acquisitions;
- the adverse determination of disputes under litigation;
- inflation, interest rate and exchange rate risks; and
- other factors identified or discussed under “Item 3D. Key Information—Risk Factors” and elsewhere in this annual report.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected financial data presented below should be read in conjunction with our consolidated financial statements, including the notes thereto. Our consolidated financial statements have been audited by Ernst & Young Auditores Independentes S.S. The report of Ernst & Young Auditores Independentes S.S. on the consolidated financial statements appears elsewhere in this annual report.

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Selected Financial Data

The following table represents a summary of our selected financial data for the five years ended December 31, 2009. The data are derived from our consolidated financial statements, audited by Ernst & Young Auditores Independentes S.S., and should be read in conjunction with our consolidated financial statements, related notes, and other financial information included herein.

	Year Ended December 31,						
	2009	2009	2008 (4)	2007 (3)	2006	2005 (2)	2005 (1)
	U.S.\$	(5) R\$	as adjusted R\$	as adjusted R\$	(2) (3) as adjusted R\$	as adjusted R\$	pro forma as adjusted R\$
	(millions of reais or U.S. dollars, unless otherwise indicated)						
Statement of Operations							
Data:							
Brazilian GAAP							
Net operating revenue	7,562.9	13,105.9	13,147.2	12,483.8	10,138.2	2,918.2	8,368.1
Cost of goods and services	(3,861.2)	(6,723.2)	(7,063.8)	(6,731.9)	(5,530.0)	(1,383.1)	(4,650.8)
Gross profit	3,701.6	6,382.7	6,083.4	5,751.9	4,608.2	1,535.1	3,717.3
Operating expenses:							
Selling expenses	(2,555.7)	(4,450.0)	(4,098.4)	(3,890.9)	(3,250.9)	(798.1)	(3,067.7)
General and administrative expenses	(614.8)	(1,070.5)	(1,127.4)	(1,032.8)	(954.9)	(185.9)	(795.2)
Other net operating expense	(221.2)	(385.2)	(366.7)	(311.6)	(202.3)	(25.3)	(255.5)
Operating income (loss) before financial income (expenses)	273.9	477.0	490.9	516.6	200.1	525.8	(401.1)
Net financial income (expense)	(147.4)	(256.6)	(375.0)	(281.5)	(264.0)	63.3	(350.1)
Operating income (loss)	126.5	220.4	115.9	235.1	(63.9)	589.1	(751.2)
Net non-operating income (expense)	-	-	-	-	-	(2.2)	(5.5)
Income (loss) before taxes and minority interests	126.5	220.4	115.9	235.1	(63.9)	586.9	(756.7)
Income and social contribution taxes	(3.2)	(5.5)	64.3	(166.8)	(203.1)	(140.5)	(176.1)
Minority interests	-	-	-	-	-	(21.5)	(21.5)
Net income (loss)	123.3	214.9	180.2	68.3	(267.0)	424.9	(954.3)
Net income (loss) per share in 2009 to 2007 and per 1,000 shares outstanding in 2006 to 2005 (reais)	0.05	0.09	0.08	0.03	(0.11)	0.48	n/a
Number of shares outstanding:							

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Common shares (in millions)	n/a	843	798	795	793,544	299,611	n/a
Preferred shares (in millions)	n/a	1,632	1,545	1,539	1,536,171	579,965	n/a
Dividends per share in 2009 to 2007 and per 1,000 shares in 2006 to 2005 – reais(6)	n/a	0.10	0.11	0.14	0.19	0.14	n/a
Dividends per share in 2009 to 2007 and per 1,000 shares in 2006 to 2005 – in U.S. dollars (7)	n/a	0.06	0.05	0.08	0.09	0.06	n/a
U.S. GAAP(8)							
Net operating revenues	7,497.4	13,054.4	13,150.0	12,536.1	10,165.4	8,329.9	-
Operating income (expense)	150.6	262.3	52.1	208.4	130.2	(510.4)	-
Net income (loss)	161.5	281.2	151.5	68.3	(217.9)	(929.2)	-
Balance Sheet Data:							
Brazilian GAAP							
Property, plant, equipment and software, net	4,238.3	7,379.7	6,971.4	7,021.8	7,185.9	1,872.7	7,815.9
Total assets	10,021.7	17,449.7	16,239.5	14,564.0	14,206.7	4,457.4	15,233.9
Loans, financing and debentures	2,349.0	4,090.1	3,497.7	2,097.4	2,156.3	129.0	1,819.6
Shareholders' equity	4,779.9	8,322.7	7,790.5	7,771.8	7,910.3	2,714.8	8,622.7
Capital stock	4,680.2	8,149.1	7,613.6	7,550.5	7,512.7	1,472.1	7,455.9
U.S. GAAP(8) (9)							
Property, plant, equipment and software, net	4,099.5	7,138.1	6,781.6	6,916.9	7,028.8	7,714.0	-
Total assets	10,246.2	17,840.7	16,339.9	14,667.6	14,271.9	15,417.2	-
Loans and financing	2,349.0	4,090.1	3,497.7	2,113.5	2,140.9	1,808.8	-
Shareholders' equity	4,995.5	8,698.1	7,876.6	7,886.6	8,154.9	8,665.5	-

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- (1) The pro forma information 2005 reflects the TIM Celular Acquisition as if it had occurred on January 1, 2005 for Statement of Operations information.
- (2) For consistency of presentation with 2008, amounts in 2007, 2006 and 2005 have been adjusted to reflect: reclassification of the amortization of the tax benefit related to the goodwill paid in the privatization from other net operating expense to income and social contribution taxes, reclassification of PIS/COFINS tax credit, previously recorded as other net operating expenses, to credit in deductions from revenues and credit net financial income, reclassification of income tax on remittance from net financial expense to cost of services and adjustment of income tax incentive (Adene) to the net income (loss), resulting from the change in accounting principles.
- (3) For consistency of presentation with 2008, amounts in 2007 and 2006 have been adjusted to reflect: reclassification of intangible assets intended for the Company's operations to a specific group called "intangible"; accounting of borrowing costs as a reduction of "loans and financing" and amortization of them over the contract period (up to December 31, 2007, these costs were amortized on a straight-line basis, over the duration of the loan); accounting of derivative instruments at fair value; new treatment for lapsed dividends (dividends not claimed by shareholders within the time limit determined by Brazilian law), earlier accounted for in profit and loss, now to be accounted for within shareholders' equity; reclassification of non operating income to other operating income. See note 3-c and e to our consolidated financial statements for further detail. The 2005 financial statements were not adjusted to reflect such effects.
- (4) For consistency of presentation with 2009, amounts in 2008 and 2007 have been adjusted to reflect the reclassification of "penalties for contract break" to service revenues, previously classified as other operating income. Please see note 3d to our consolidated financial statements.
- (5) The Brazilian GAAP amounts of TIM Participações reflect the December, 2009 results of Intelig.
- (6) Dividends per share have been computed as the sum of dividends and interest on shareholders' equity ("juros sobre capital próprio," according to Brazilian law), an alternative under Brazilian Corporations Law to the distribution of dividends to shareholders. The distribution of dividends and interest on shareholders' equity, in each year, proceeded according to the terms set forth by our common shareholders, at the relevant annual general meeting. Dividends per share have been determined as the sum of declared dividends and interest on shareholders' equity, divided by the total number of common shares and preferred shares outstanding as of the common shareholders' meeting date. See "Item 10E. Additional Information — Taxation — Brazilian Tax Considerations Distributions of Interest on Capital."
- (7) Amounts expressed in U.S. dollars, according to the exchange rate applicable at the date of the relevant shareholders' general meeting that approved the distribution of dividends and interest on shareholders' equity.
- (8) The U.S. GAAP amounts of TIM Participações S.A. in 2005 reflect the TIM Celular Acquisition as a business combination of entities under common control similar to a pooling-of-interest. Accordingly, such exchange of shares was accounted for at historical carrying values.
- (9) The US GAAP amounts of TIM Participações reflect the Holdco acquisition at the purchase method. The results of Intelig's operations have not been included in the 2009 consolidated financial statements since the acquisition date was considered to have taken place as of December 30, 2009. Therefore, only balance sheet amounts have been consolidated.
- (10)

In accordance with ASC 805 “Business Combination”, the non-controlling interest of R\$21.5 million in the year ended December 31, 2005 was included in the determination of net income. Such minority interest amount had previously been excluded from the year then ended income.

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Brazilian Economic Environment

Our business, prospects, financial condition and results of operations are dependent on general economic conditions in Brazil.

In 2006, the real appreciated 8.7% against the U.S. dollar between December 31, 2005 and 2006. Despite this appreciation, the country had a positive current account balance of US\$6.3 billion. For the fourth consecutive year, the Current Transactions/PIB ratio, an indicator of vulnerability to international financial crises, was positive, showing the country's lower exposure to risk. The average unemployment rate increased to 10.0% as of December 31, 2006 in the country's main metropolitan regions, in accordance with estimates disclosed by the IBGE. In 2006, the inflation rate, as measured by the National Extended Consumer Price Index (Índice Nacional de Preços ao Consumidor Ampio, or IPCA), was 3.1%, and the average Long Term Interest Rate (Taxa de Juros de Longo Prazo, or TJLP) was 6.8%. International reserves also reached record levels and the highest quality thus far, reducing the presence of short-term capital.

Macroeconomic results for 2007 indicate accelerated economic growth and monetary stability. An exchange rate depreciation of 17.2% over the year contributed to an even higher reduction in the inflation rate, as measured by the IPCA. The inflation rate for 2007 reached 4.6%, being within the target range established by the Comitê de Política Monetária (Brazilian Monetary Policy Committee), or COPOM. Externally, the accumulated trade surplus as of December 31, 2007, having reached US\$40 billion, was relatively lower than that recorded for both 2005 and 2006; however, the country's international reserves continued to increase. The average unemployment rate decreased to 7.4% as of December 31, 2007 in the country's main metropolitan regions, in accordance with estimates disclosed by the IBGE. Accelerated economic growth towards the end of 2006 continued throughout 2007. Among the factors contributing for a stronger economic growth in 2007 are the continuing reduction in the basic interest rate, which stabilized at 11.25% in September, and the evolution of the credit supply.

In 2008, the Brazilian economy performed well until the third quarter, growing by 6.38%, which was across all components of GDP and was fully driven by domestic demand. The net contribution of domestic demand to GDP growth in the first nine months of 2008 was 8.1 percentage points, while the foreign demand had a net negative impact of 2.5 p.p. on GDP. The new economic scenario that impacted the country's economy from October resulted in a slowdown in economic activity in the past quarter in a yearly comparison. Despite the adverse scenario that gripped the country in the last quarter of 2008, real economic growth in 2008 was more than 5% due to the strong economic growth in the first nine months. Before September 2008, the Federal Government maintained a restrictive monetary policy, due to inflationary pressures, increasing interest rates by 250 basis points between April and September 2008, and pushing the SELIC rate (the official interest rate published by the Central Bank), from 11.25% p.a. to 13.75% p.a. In September 2008, following the worsening of the international financial crisis and its adverse effects on the Brazilian economy, COPOM began to shift to an expansionist monetary policy cutting the SELIC rate by 100 basis points in to 12.75% p.a. in January, 2009.

The international financial crisis had an adverse impact on the Brazilian economy in 2009. However, economic indicators in Brazil were less affected than in other areas including the United States and Europe, partially due to a combination of the positive effects of prior adjustments and a prompt fiscal, monetary and economic response by the Federal Government. During this period, the SELIC basic interest rate reached a historical level of 8.75% p.a.

Low interest rates contributed to an increase of 82.6% in the Ibovespa during 2009. A strong inflow of foreign capital contributed to an approximately 25.4% appreciation of the Brazilian Real to the U.S. dollar.

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The table below sets forth data regarding GDP growth, inflation, interest and real/U.S. dollar exchange rates in the periods indicated:

	For the Year Ended December 31,		
	2007	2008	2009
GDP growth (1)	5.4%	5.1%	(0.2%)
Inflation (IGP-M) (2)	7.8%	9.8%	(1.72%)
Inflation (IPCA) (3)	4.6%	5.9%	4.3%
DI Rate (4)	11.8%	12.4%	8.65%
TJLP (5)	6.2%	6.2%	6.0%
Appreciation (devaluation) of the real against the U.S. dollar	17.2%	(32.0%)	25.4%
Exchange rate (closing)—R\$ per US\$1.00	R\$ 1.771	R\$ 2.337	1.7412
Average exchange rate—R\$ per US\$1.00 (6)	R\$ 1.948	R\$ 1.837	1.9935

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- (1) The Brazilian GDP for 2007, 2008 and 2009 was calculated using the new procedures adopted by the IBGE.
- (2) Inflation (IGP-M) is the general market price index as measured by FGV, and represents data accumulated over the 12 months in each year ended December 31, 2007, 2008 and 2009.
- (3) Inflation (IPCA) is a consumer price index measured by IBGE, and represents data accumulated over the 12 months in each year ended December 31, 2007, 2008 and 2009.
- (4) The DI rate is the average inter-bank deposit rate performed during the day in Brazil (accrued as of the last month of the period, annualized).
- (5) Represents the interest rate applied by BNDES in long-term financings (end of the period).
- (6) Average exchange rate on the last day of each year.

Sources: Banco Nacional de Desenvolvimento Econômico – BNDES, Central Bank, Fundação Getúlio Vargas – FGV, and IBGE.

Exchange Rates

We pay any cash dividends, interest on shareholders' equity and any other cash distributions with respect to our preferred shares in reais. Accordingly, exchange rate fluctuations will affect the U.S. dollar amounts received by the holders of ADSs on conversion by the Depositary of dividends and other distributions in Brazilian currency on our preferred shares represented by ADSs. Fluctuations in the exchange rate between Brazilian currency and the U.S. dollar will affect the U.S. dollar equivalent price of our preferred shares on the Brazilian stock exchanges. In addition, exchange rate fluctuations may also affect our dollar equivalent results of operations. See "Item 5. Operating and Financial Review and Prospects."

Prior to March 14, 2005, there were two principal legal foreign exchange markets in Brazil:

- the commercial rate exchange market; and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. These transactions included the purchase or sale of shares or payment of dividends or interest with respect to shares. Foreign currencies could only be purchased in the commercial exchange market through a Brazilian bank authorized to operate in these markets. In both markets, rates were freely negotiated and could be influenced by Central Bank intervention.

Resolution No. 3.265 by the National Monetary Council, dated March 4, 2005, consolidated the foreign exchange markets into one single foreign exchange market, effective as of March 14, 2005. All foreign exchange transactions are now carried out through institutions authorized to operate in the consolidated market and are subject to registration with the Central Bank's electronic registration system. Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention.

Since 1999, the Central Bank has allowed the real/U.S. dollar exchange rate to float freely, and during that period, the real/U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to

control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the real float freely or will intervene in the exchange rate market through a currency band system or otherwise. The real may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see “—D. Risk Factors—Risks Relating to Brazil.”

The following table shows the selling rate for U.S. dollars for the periods and dates indicated. The information in the “Average” column represents the annual average of the exchange rates during the periods presented.

Year	Reais per U.S. Dollar			Year End
	High	Low	Average	
2005	2.7621	2.1633	2.4341	2.3407
2006	2.3711	2.0586	2.1771	2.1380
2007	2.1520	1.7325	1.9483	1.7713
2008	2.5004	1.5593	1.8375	2.3370
2009	2.4218	1.7024	1.9935	1.7412

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Month	Reais per U.S. Dollar	
	High	Low
December 2009	1.7879	1.7096
January 2010	1.8748	1.7227
February 2010	1.8773	1.8046
March 2010	1.8231	1.7637
April 2010	1.7806	1.7306
May 2010	1.8810	1.7315
June 2010 (through June 25, 2010)	1.8658	1.7663

Source: Central Bank/Bloomberg

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or serious reasons to foresee such imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. For approximately six months in 1989, and early 1990, for example, the Federal Government froze all dividend and capital repatriations that were owed to foreign equity investors. These amounts were subsequently released in accordance with Federal Government directives. There can be no assurance that similar measures will not be taken by the Federal Government in the future.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Our business, results of operations or financial condition could be harmed if any of these risks materializes and, as a result, the trading price of our shares and our ADSs could decline.

Risks Relating to our Business

Our business will be adversely affected if we are unable to successfully implement our strategic objectives. Factors beyond our control may prevent us from successfully implementing our strategy.

On April 13, 2010, we set out our strategic priorities for the 2010-2012 period. Our strategy is aimed at improving revenues and selective growth, while maintaining financial discipline. To achieve this goal, we will focus on strengthening our position by leveraging mobile telephony to enable broadband growth and exploiting opportunities arising from fixed-line to mobile substitution. See "Item 4B. Information on the Company—Business Overview—Mobile Service Rates and Plans."

TIM's ability to implement and achieve these strategic objectives may be influenced by certain factors, including factors outside of its control, such as:

- regulatory decisions and changes in the regulatory environment in Brazil;
- increasing numbers of new competitors in the Brazilian telecommunications market which could reduce TIM's market share;
- increasing and stronger market competition in its principal markets with a consequent decline in the prices of services;
 - TIM's ability to strengthen its competitive position in Brazil for mobile telecommunications;
- TIM's ability to develop and introduce new technologies which are attractive to the market, to manage innovation, to supply value added services and to increase the use of its fixed and mobile service;

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- the success of “disruptive” new technologies which could cause significant reductions in revenues to fixed and mobile operators;
 - TIM’s ability to implement efficiency;
- TIM’s ability to refinance existing indebtedness when due under the current uncertain conditions in the capital and bank markets as credit markets worldwide have experienced a severe reduction in liquidity and term funding;
 - TIM’s ability to attract and retain highly qualified employees; and
 - the effect of exchange rate fluctuations.

As a result of these uncertainties there can be no assurance that the objectives identified by management can effectively be attained in the manner and within the timeframes described.

We face increasing competition, which may adversely affect our results of operations.

The opening of the Brazilian market to competition for telecommunications services has adversely affected the industry’s historical margins. Due to additional Personal Communication Services (“PCS”) providers that have commenced operations in recent years, we are facing increased competition throughout Brazil. We compete not only with companies that provide wireless services and trunking, but also with companies that provide fixed-line telecommunications and Internet access services, because of the trend toward the convergence and substitution of mobile services for these and other services and a trend of bundling PCS services with Internet and other services. As a result, the cost of maintaining our revenues share has increased and in the future we may incur higher advertising and other costs as we attempt to maintain or expand our presence in the market. Claro and Vivo received authorization to provide PCS in the same regions as TIM, completing their national coverage. Also Oi received authorization to provide PCS service in São Paulo State.

We also expect to face increased competition from other wireless telecommunications services, such as digital trunking, because these services are generally less expensive than cellular telecommunications services. In addition, technological changes in the telecommunications field, such as the development of Third Generation or “3G” and Voice over Internet Protocol or “VOIP,” are expected to introduce additional sources of competition.

This increasing competition may increase the rate of customer turnover and could continue to adversely affect our market share and margins. Our ability to compete successfully will depend on the effectiveness of our marketing and our ability to anticipate and respond to developments in the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. Additionally, we may face competitors with greater access to financial resources and capital markets than ours. We cannot predict which of many possible factors will be important in maintaining our competitive position or what expenditures will be required to develop and provide new technologies, products or services. If we are unable to compete successfully, our business, financial condition and results of operations will be materially adversely affected.

The Federal Government may revise the current regulatory framework for service exploration in an effort to reduce unfair competition between fixed incumbents and others in the industry. For example the merger between the two concessionaires Oi and Brasil Telecom would represent a step back from the liberalization architecture and would hamper competition if not counterbalanced by appropriate regulatory measures (such as Local Loop Unbundling obligations).

Anatel is expected to auction bandwidths in the 3.5 and 10.5 GHZ (WI-MAX) spectrum to provide broadband wireless and fixed telephony services. Anatel cancelled the auction scheduled to take place in 2006. New bidding terms have not yet been made public and according to information currently available from Anatel, the new auction will probably take place in the second half of 2011. While we intend to bid for these bandwidths, there is no assurance that our bids will be successful. Purchasers of these bandwidths may offer services that could compete with our services. TIM intends to bid for these bands.

Anatel published a Public Consult to auction Band H, in December 2009. The Public Consult concluded on February 22, 2010, and the auction will likely take place in the 3rd Quarter of 2010. If Nextel or a new player seeking to enter the market purchases Band H, we will face increased competition.

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We may be unable to respond to the recent trend towards consolidation in the Brazilian wireless telecommunications market.

The Brazilian telecommunication market has been consolidating and we believe such trend is likely to continue. Additional joint ventures, mergers and acquisitions among telecommunications service providers are possible in the future. If such consolidation occurs, it may result in increased competition within our market. We may be unable to adequately respond to pricing pressures resulting from consolidation in our market, adversely affecting our business, financial condition and results of operations.

We may not receive as much interconnection revenue as we receive today.

Beginning in July 2004, interconnection charges became freely negotiable by cellular telecommunications service providers in Brazil, pursuant to rules issued by Anatel. As a result, the interconnection fees we were able to charge in the past have decreased, after adjustment for inflation. The interconnection fees we charge may continue to decrease and as a result, we may receive less interconnection revenue than we presently do, which may have an adverse effect on our business, financial condition and results of operations.

We may face difficulties responding to new telecommunications technologies.

The Brazilian wireless telecommunications market is experiencing significant technological changes, as evidenced by, among other factors:

- the changing regulatory environment, such as the introduction of numbering portability;
- shorter time periods between the introduction of new telecommunication products and their required enhancements or replacements;
- ongoing improvements in the capacity and quality of digital technology available in Brazil;
- the anticipated auction of licenses for the operation of 3.5 GHz and 10.5 GHz (WI-MAX) with limited mobility.

Our business is dependent on our ability to expand our services and to maintain the quality of the services provided.

Our business, as a cellular telecommunications services provider, depends on our ability to maintain and expand our cellular telecommunications services network. We believe that our expected growth will require, among other things:

- continuous development of our operational and administrative systems;
- increasing marketing activities; and
- attracting, training and retaining qualified management, technical, customer relations, and sales personnel.

These activities are expected to place significant demand on our managerial, operational and financial resources. Failure to manage successfully our expected growth could reduce the quality of our services, with adverse effects on our business, financial condition and results of operations.

Our operations are dependent upon our ability to maintain and protect our network. Damage to our network and backup systems could result in service delays or interruptions and limit our ability to provide customers with reliable service over our network. The occurrence of any such events may adversely affect our business, financial condition or

operating results.

Our operations depend on our ability to maintain, upgrade and efficiently operate accounting, billing, customer service, information technology and management information systems.

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. There can be no assurance that we will be able to successfully operate and upgrade our accounting, information and processing systems or that they will continue to perform as expected. Any failure in our accounting, information and processing systems could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and operating results.

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We may experience a high rate of customer turnover which could increase our costs of operations and reduce our revenue.

Churn reflects the number of customers who have their service terminated during a period, expressed as a percentage of the simple average of customers at the beginning and end of the period. Our high churn rates are primarily a result of our competitors' aggressive subsidization of handset sales, adverse macroeconomic conditions in Brazil and our strict policy of terminating customers who do not continue to use our services or do not pay their bills. As indicated by our past rates of customer churn, we may experience a high rate of customer turnover which could increase our cost of operations and reduce our revenue.

Our controlling shareholder may exercise its control in a manner that differs from the interests of other shareholders.

Telecom Italia, through its indirect full ownership of TIM Brasil, our controlling shareholder, and TIM Brasil, each have the ability to determine actions that require shareholder approval, including the election of a majority of our directors and, subject to Brazilian law, the payment of dividends and other distributions. Telecom Italia or TIM Brasil may exercise this control in a manner that differs from the best interests of other shareholders.

Certain debt agreements of our subsidiaries contain financial covenants and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.

Certain of our subsidiaries' existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios and tests. The ability of our subsidiaries to meet these financial ratios and tests can be affected by events beyond our and their control, and we cannot assure that they will meet those tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements. As of December 31, 2009, our subsidiaries, had approximately R\$4.2 billion in consolidated outstanding indebtedness (post hedge). If we are unable to meet these debt service obligations, or comply with the debt covenants, we could be forced to restructure or refinance this indebtedness, seek additional equity capital or sell assets.

In addition, because of our net debt position in 2009 of R\$1.7 million (loans plus accrued interest and derivatives (liabilities), less cash and cash equivalents, derivatives (assets) and short term investments), we may need additional funding to meet our obligations and to conduct our activities and in the event public or private financial is unavailable, our financial condition and results and, consequently, the market price for our shares may be adversely affected.

We face risks associated with litigation.

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

The Secretariat for Economic Law (SDE) recommended on March 25, 2010 that the Brazilian antitrust authority (CADE) sanction TIM, Claro and Vivo in connection with anti-competitive practices in charging high MTR (Mobile Termination Rate) that allegedly aims to produce high costs for competitors while the public prices are lower than the MTR. No material adverse effect on the Company is expected.

This sanction resulted from an administrative procedure demanded by regional competitors GVT, Intelig, Transit do Brasil and Easyfone, after SDE concluded that the mobile interconnection fees charged by TIM, Claro, and Vivo were substantially lower than those charged to fixed operators – which could be characterized as cartelized conduct.

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Any modification or termination of our ability to use the “TIM” tradename may adversely affect our business and operating results.

Telecom Italia owns the property rights to the “TIM” tradename. Telecom Italia may stop us from using the TIM trade name any time. The loss of the use of the “TIM” trade name could have a material adverse effect on our business and operating results.

The shareholding structure of our parent company, Telecom Italia S.p.A, has undergone relevant changes.

On April 28, 2007, Assicurazioni Generali S.p.A, Intesa San Paolo S.p.A, Mediobanca S.p.A., Sintonia S.p.A and Telefónica S.A. entered into an agreement to acquire the entire share capital of Olimpia S.p.A., a company which, at the time, held approximately 18% of the voting capital of Telecom Itália S.p.A., our indirect parent company. This acquisition was made through Telco S.p.A. (“Telco”). With the conclusion of the transaction and the subsequent merger of Olimpia S.p.A. with and into Telco (December 2007), Telco came to hold 23.6% and it presently holds 24.5% of the voting capital of Telecom Italia S.p.A., the indirect parent company of TIM Participações.

The Brazilian telecommunications regulator, Anatel, approved the acquisition of Olimpia by Telco, and imposed certain restrictions to guarantee the total segregation of the business and operations of the two groups, Telefónica and TIM, in Brazil. Anatel already ratified the full compliance of TI and TIM, with the measures to be adopted immediately after the approval.

The additional measures required by Anatel in May 2008, which were timely submitted to Anatel by TIM, set forth that the companies of the TI group in Brazil shall present to Anatel copies of the minutes of the meetings of its shareholders when the subject matter concerns agreements with companies under the shareholding control of Telefónica in Brazil and information related to the execution of any agreements between companies under the shareholding control of Telefónica and TI in connection with telecom services to be rendered in Brazil.

On April 28, 2010, CADE, the Brazilian antitrust authority, approved the aforementioned transaction, conditioned upon the execution of a Performance Commitment Agreement (Termo de Compromisso de Desempenho – TCD), by the requesters and TIM Brasil Serviços e Participações S.A. (“TIM Brasil”).

The obligations set in the TCD corroborate the measures established by Anatel, implemented by TIM Brasil and its subsidiaries, and add restrictions established by CADE, currently has responsibility for inspecting and monitoring compliance with the TCD requirements.

The approval of the merger by CADE, in addition to the prior consent granted by Anatel, constitute the relevant regulatory authorizations required by the Brazilian law.

See “Item 4.A. Information on the Company—History and Development of the Company—Acquisition of Olimpia S.p.A.”

Risks Relating to the Brazilian Telecommunications Industry

We may be classified by Anatel as an economic group with significant market power, which will subject us to increased regulation.

In 2005, Anatel issued specific regulations regarding telecommunications service providers with significant market power. Anatel has indicated that it will establish more stringent regulation for economic groups with significant market power in order to ensure competition. We cannot give assurance that we will not be deemed to have significant market power, and thus be subject to increased regulatory requirements.

In July 2006, Anatel issued regulations regarding the remuneration of the mobile operators network and brought to the mobile industry the concept of significant market power. Under such regulation, the VU-M value is freely negotiated between operators, but in case of no successful negotiation by 2010, as an arbitration procedure, the Agency will determine, based on a fully allocated cost model, a reference value for a network usage fee (VU-M) of companies that are deemed to hold significant market power. In order to determine the companies that have a significant market power in the mobile interconnection market, Anatel will consider: market share in the mobile interconnection market and in the mobile services market, economies of scope and scale, dominance of infrastructure that is not economically viable to duplicate, existence of negotiation power to acquire equipments and services, existence of vertical integration, existence of barriers to entry, access to

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financing sources. For purposes of the mobile network remuneration rules until Anatel defines which groups have significant market power, all groups that include a SMP provider will be considered as having a significant market power in the offer of mobile interconnection in their respective services areas.

We are subject to various obligations in the performance of our activities with which we may be unable to comply.

In the performance of our telecommunications services, we are subject to compliance with various legal and regulatory obligations including, but not limited to, the obligations arising from the following:

- the rules set forth by Anatel, the primary telecommunications industry regulator in Brazil;
- the PCS authorizations under which we operate our cellular telecommunications business;
- the fixed authorizations (local, national long distance, international long distance under and multimedia service) under which we operate our telecommunications business;
- the Consumer Defense Code; and
- the General Telecommunications Law (Law No. 9,472/97, as amended).

We believe that we are currently in material compliance with our obligations arising out of each of the above referenced laws, regulations and authorizations. However, in light of the administrative proceedings for breach of quality standards brought since December 2004 by Anatel against TIM Celular and TIM Nordeste we cannot provide any assurance that we are in full compliance with our quality of service obligations under the PCS authorizations. In fact, there are some administrative proceedings regarding noncompliance with quality goals and regulatory obligations that resulted in fees applied by Anatel on TIM Celular and TIM Nordeste. For more information, see “Item 8A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings”. In addition, we cannot assure that we will be able to fully comply with each of the above referenced laws, regulations and authorizations or that we will be able to comply with future changes in the laws and regulations to which we are subject. These regulatory developments or our failure to comply with them could have a material adverse effect on our business, financial condition and results of operations.

Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition and changes in our cost structure.

Our business is subject to extensive government regulation, including any changes that may occur during the period of our concession to provide telecommunication services. Anatel, which is the main telecommunications industry regulator in Brazil, regulates, among others:

- industry policies and regulations;
- licensing;
- rates and tariffs for telecommunications services;
- competition;
- telecommunications resource allocation;

- service standards;
- technical standards;
- quality standards;
- interconnection and settlement arrangements; and
- universal service obligations.

This extensive regulation and the conditions imposed by our authorization to provide telecommunication services may limit our flexibility in responding to market conditions, competition and changes in our cost structure.

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Our authorizations may be terminated by the Brazilian government under certain circumstances or we may not receive renewals of our authorizations.

We operate our business under authorizations granted by the Brazilian government. As a result, we are obligated to maintain minimum quality and service standards, including targets for call completion rates, geographic coverage and voice channel traffic rates, user complaint rates and customer care call completion rates. Our ability to satisfy these standards, as well as others, may be affected by factors beyond our control. We cannot assure you that, going forward, we will be able to comply with all of the requirements imposed on us by Anatel or the Brazilian government. Our failure to comply with these requirements may result in the imposition of fines or other government actions, including, in an extreme situation, the termination of our authorizations in the event of material non-compliance.

Our radio frequency authorizations for the 800 MHz, 900 MHz and 1800 MHz bands that we use to provide PCS services started to expire in September 2007 (under the Term of Authorization for the State of Paraná except the Londrina and Tamarana municipalities) and are renewable for one additional 15-year period, requiring payment at every two-year period of the equivalent to 2% (two percent) of the prior year's revenue net of taxes, by way of investment under the Basic and Alternative Service Plans.

Our radio frequency authorizations for the 2100 MHz band that we use to provide data services will expire in April 2023 and are renewable for one additional 15-year period, requiring payment in two-year intervals of the equivalent to 2% (two percent) of the prior year's service revenue net of tax, including interconnection and excluding VAS revenues, by way of investment under the Basic and Alternative Service Plans, which have the goal of broadening telecommunications penetration in Brazil.

Any partial or total revocation of our authorizations or failure to receive renewal of such authorizations when they expire would have a material adverse effect on our financial condition and results of operations.

The telecommunications industry is subject to rapid technological changes and these changes could have a material adverse effect on our ability to provide competitive services.

The telecommunications industry is subject to rapid and significant technological changes. For example, the telecommunications industry has introduced the 3G mobile telephone services. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will be further developed.

The advent of new products and technologies could have a variety of consequences for us. New products and technologies may reduce the price of our services by providing lower-cost alternatives, or they may also be superior to, and render obsolete, the products and services we offer and the technologies we use, thus requiring investment in new technology. If such changes do transpire, our most significant competitors in the future may be new participants in the market without the burden of any installed base of older equipment. The cost of upgrading our products and technology to continue to compete effectively could be significant.

Due to the nature of our business we are exposed to numerous consumer claims and tax-related proceedings.

Our business exposes us to a variety of lawsuits brought by or on behalf of consumers that are inherent in the mobile telecommunications industry in Brazil. Currently, we are subject to a number of public civil actions and class actions that have been brought against mobile telecommunications providers in Brazil relating principally to the expiration of prepaid usage credits, minimum term clauses, subscription fees and the use of land to install our network sites. These suits include claims contesting certain aspects of the fee structure of our prepaid and postpaid plans which are commonplace in the Brazilian telecommunications industry.

In addition, federal and state tax authorities in Brazil have brought actions challenging the tax treatment of certain components of the service revenues earned by mobile telecommunications providers, such as the application of ICMS to activation fees and monthly subscription charges. As of December 31, 2009, we are subject to approximately 1,512 tax-related lawsuits and administrative proceedings with an aggregate value of approximately R\$2.5 billion. See “Item 8A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings.”

Although many of these consumer and tax claims relate to general business practices in the Brazilian mobile telecommunications industry, adverse determinations could have an adverse affect on our business practices and results of operations.

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The mobile industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. We cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns.

Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including us, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business, financial condition and results of operation. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services. On July 2, 2002, Anatel published Resolution No. 303 that limits emission and exposure for fields with frequencies between 9 kHz and 300 GHz. In addition, the Brazilian government is developing specific legislation for the deployment of radio frequency transmission stations that will supersede the existing state and municipal laws. The new laws may create additional transmission regulations which, in turn, could have an adverse effect on our business.

The new index applied for the remuneration for the use of SMP's network may not be adequate.

As of 2006, Anatel uses IST index (Índice de Serviços de Telecomunicações) to adjust STFC Concessionaries' rates, Industrial Exploration of Dedicated Lines ("Exploração Industrial de Linha Dedicada" or "EILD") and remuneration for the use of Personal Communication Service ("Serviço Móvel Pessoal" or "SMP"), which substitutes the General Price Index, or the IGP-DI (the Índice Geral de Preços Disponibilidade Interna), an inflation index developed by the Fundação Getulio Vargas, a private Brazilian foundation. Thus, the prices we may charge for our services may be indirectly impacted by this new index. Anatel begins to regulate the telecommunications industry based on a model that analyzes company costs based on a hypothetical company's costs and other factors. If this new adjustment mechanism, or any other mechanism chosen by Anatel in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations could be adversely affected.

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

Anatel issued new regulations on interconnection rules from 1997 to 2005, some of which could have an adverse effect on our results. The rules that may adversely affect our results are (1) Anatel had defined clearly that same SMP provider with different authorization areas receive only one instead of two interconnection charges (VU-M) for long distance calls originated and terminated in their networks, and (2) if the free-market negotiation of prices for VU-M does not reach success, Anatel can, from April 2010 on, apply the Full Allocated Cost model (allocation of various costs of service to get to a basic price). These regulations can have an adverse effect on our results of operations because (1) our interconnection charges would drop significantly, thereby reducing our revenues, and (2) Anatel may allow more favorable prices for economic groups without significant market power. However, the consolidation of authorization terms in Regions I and II, in 2009, produced a less than expected effect in network remuneration since the negotiated MTR values were slightly higher than expected - we had a small loss in MTR revenues, due to only one MTR payment in calls inside the consolidated areas, as explained in point (1) above.

Anatel's new regulation on number portability could have an adverse effect on our results.

Anatel issued in March 2007 regulations regarding the implementation of number portability in Brazil for fixed telephony and mobile services providers (SMP). Portability is limited to migration between providers of the same

telecommunications services. For SMP providers, portability can take place when customers change service providers within the same Registration Area (the areas into which we divide our coverage) as well as when customers change their service plan of the same service provider. We expect number portability to increase competition among services providers as customers can move freely among providers without losing their telephone numbers. We view this as an opportunity to increase our customer base due to the quality of our service. However, if we are unable to maintain our quality or attract and retain customers, number portability could have an adverse effect on our results of operations as clients can more easily transfer to other services.

In February 2010, a system of automatic authorization for portability requests came into effect. Under this system, if the donor operator does not respond to the request within 1 day, the portability request will be approved automatically, and the transfer process commences. Furthermore, after March 2010 the portability

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completion period was reduced from 5 to 3 working days, increasing the challenge for the operators. Failure to respond to these requests in a timely manner could cause us to lose additional customers and could have a material and adverse effect on our results of operations.

The introduction of MVNOs (Mobile Virtual Network Operators) in the Brazilian market could have an adverse effect on our results.

On December 22, 2009 Anatel announced a public enquiry to establish criteria and procedures for the exploration of virtual network services and standards for regulation, which was completed on March 22, 2010. The beginning of Anatel's project is due to July, 2010.

MVNOs provide low-cost mobile phone services by relying on business arrangements with traditional mobile operators to purchase minutes of use (MOU) for sale to their own customers rather than their own licensed frequency allocation or operational infrastructure.

Increased competition from MVNOs could reduce the profitability of the mobile telecommunications industry, reducing the capacity for investment and innovation. Such increased competition could have a material adverse effect on our results of operations.

The effects of the recent global economic crisis could reduce purchases of our products and services and adversely affect our results of operations, cash flows and financial condition.

Although the global economy recently has been showing signs of improvement, uncertainty about the sustainability of any recovery remains. Unemployment levels continue to be high by historic standards, and consumers and businesses may postpone spending in response to tighter credit, negative financial news or declines in income or asset values, all of which could have a material negative effect on the demand for our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our growth targets.

Risks Relating to Brazil

The Brazilian government has exerted significant influence over the Brazilian economy and continues to do so. This involvement, like local political and economic conditions, may have an adverse effect on our activities, our business, or the market prices of our shares and ADSs.

The Brazilian government has frequently intervened in the Brazilian economy and occasionally made drastic changes in economic policy. To influence the course of Brazil's economy, control inflation and implement other policies, the Brazilian government has taken various measures, including the use of wage and price controls, currency devaluations, capital controls and limits on imports and freezing bank accounts. We have no control over, and cannot predict what measures or policies the Brazilian government may take or adopt in the future. Our business, financial condition, revenues, results of operations, prospects and the trading price of our units may be adversely affected by changes in government policies and regulations, as well as other factors, such as:

- fluctuating exchange rates;
 - inflation;
 - interest rates;
 - monetary policy;
 - changes in tax regimes;
- liquidity in domestic capital and credit markets;

- fiscal policy;
- political instability;
- reductions in salaries or income levels;
- rising unemployment rates;
- tax policies (including those currently under consideration by the Brazilian Congress);
 - exchange controls and restrictions on remittances abroad; and
- other political, diplomatic, social or economic developments in or affecting Brazil.

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In the past, the performance of the Brazilian economy was affected by its political situation. Historically, political crises and scandals have affected the confidence of investors and the public in general, and have adversely affected the development of the economy and the market price of securities issued by Brazilian companies. We cannot predict what policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance. Uncertainties regarding the Brazilian government are particularly pronounced during political campaigns such as that currently underway in relation to the presidential election scheduled to take place on October 3, 2010. We cannot predict whether the Brazilian government will intervene in the Brazilian economy in the future. Governmental actions may adversely affect our business by reducing demand for our services, increasing our costs, or limiting our ability to provide services. In addition, political uncertainties and scandals, social instability and other political or economic developments may have an adverse effect on us.

Tax reforms may affect our prices.

The Brazilian government has proposed tax reforms that are currently being considered by the Brazilian Congress. If we experience a higher tax burden as a result of the tax reform, we may have to pass the cost of that tax increase to our customers. This increase may have a material negative impact on the dividends paid by our subsidiaries to us and on our revenues and operating results.

In 2009, the Brazilian government expanded the IOF (“Imposto sobre Operações Financeiras”) to tax foreign investors who invest in Brazil fixed income and stocks other than IPOs. Prior to this expansion only fixed income was taxed. The purpose of this tax was to decrease speculation on Brazilian markets and to reduce the volatility of appreciation of the real. Other institutional changes may be used to control the appreciation of the real, which could have the effect of discouraging foreign investment by increasing transaction costs.

Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, our business and operations and the market prices of our shares or the ADSs.

Historically, Brazil has experienced high rates of inflation. Inflation and some of the Brazilian government’s measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to contain inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian securities market.

Since the introduction of the real in 1994, Brazil’s inflation rate has been substantially lower than in previous periods. According to the General Market Price Index (Índice Geral de Preços do Mercado, or IGP-M), a general price inflation index developed by Fundação Getulio Vargas, a private Brazilian foundation, the inflation rates in Brazil were 12.4% in 2004, 1.2% in 2005, 3.8% in 2006, 7.8% in 2007, 9.8% in 2008 and negative 1.72% in 2009. In addition, according to the National Extended Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA), published by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, or IBGE), the Brazilian price inflation rates were 9.3% in 2003, 7.6% in 2004, 5.7% in 2005, 3.1% in 2006, 4.6% in 2007, 5.9% in 2008 and 4.3% in 2009. The Brazilian government’s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Inflation may increase in Brazil in the future. Periods of higher inflation may decrease the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, higher inflation generally leads to higher

domestic interest rates, and, as a result, the costs of servicing our debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets. Any decline in our net sales or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our shares and the ADSs.

Exchange rate movements may adversely affect our financial condition and results of operations.

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to

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time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the real depreciated against the U.S. dollar by 15.7% in 2001, 34.3% in 2002 and 32% in 2008. Notwithstanding the fact that the real has appreciated 11.5%, 8.7%, 17.2%, , and 25.4% in 2005, 2006, 2007 and 2009, respectively, there can be no guarantees as to whether the real will depreciate or appreciate against the U.S. dollar in the future.

Continuing appreciation of the real against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments, as well as to a dampening of export-driven growth. Any such appreciation could reduce the competitiveness of our exports and adversely affect our net sales and our cash flows from exports. Devaluation of the real relative to the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products which may result in the adoption of deflationary government policies. The sharp depreciation of the real in relation to the U.S. dollar may generate inflation and governmental measures to fight possible inflationary outbreaks, including the increase in interest rates. Devaluations of the real would reduce the U.S. dollar value of distributions and dividends on our preferred shares and ADSs and may also reduce the market value of such securities. Any such macroeconomic effects could adversely affect our net operating revenues and our overall financial performance.

We acquire our equipment and handsets from global suppliers, the prices of which are denominated in U.S. dollars. Depreciation of the real against the U.S. dollar may result in a relative increase in the price of our equipment and handsets. Thus, we are exposed to foreign exchange risk arising from our need to make substantial dollar-denominated expenditures, particularly for imported components, equipment and handsets, that we have limited capacity to hedge.

Fluctuations in interest rates may have an adverse effect on our business and the market prices of our shares or the ADSs.

The Central Bank establishes the basic interest rate target for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. From February to July 17, 2002, the Central Bank reduced the basic interest rate from 19% to 18%. From October 2002 to February 2003, the Central Bank increased the basic interest rate by 8.5 percentage points, to 26.5% on February 19, 2003. The basic interest rate continued to increase until June 2003 when the Central Bank started to decrease it. Subsequently, the basic interest rate suffered further fluctuations, and, in December 2009, the basic interest rate was 8.75%.

On December 31, 2009, all of our indebtedness was either denominated in reais and subject to Brazilian floating interest rates or subject to currency swaps that are tied to Brazilian floating interest rates, such as the Long-Term Interest Rate (Taxa de Juros de Longo Prazo, or TJLP), the interest rate used in our financing agreements with Brazilian National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social – BNDES, or BNDES), and the Interbank Deposit Certificate Rate (Certificado de Depositário Interbancário, or CDI rate), an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other real-denominated indebtedness. On December 31, 2009, R\$4,243 million, post-hedge, of our total consolidated indebtedness was subject to floating interest rates. Any increase in the CDI rate or the TJLP rate may have an adverse impact on our financial expenses and our results of operations.

Brazilian government exchange control policies could adversely affect our ability to make payments on foreign currency-denominated debt.

The purchase and sale of foreign currency in Brazil is subject to governmental control. In the past, the Central Bank has centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute a more restrictive exchange control policy, including, without limitation, the extent of Brazilian foreign currency reserves, the availability of sufficient foreign exchange, the size of Brazil's debt service

burden relative to the economy as a whole, Brazil's policy towards the International Monetary Fund, or IMF, and political constraints to which Brazil may be subject. A more restrictive policy could affect the ability of Brazilian debtors (including us) to make payments outside of Brazil to meet foreign currency-denominated obligations.

Adverse changes in Brazilian economic conditions could cause an increase in customer defaults on their outstanding obligations to us, which could materially reduce our earnings.

Our operations are significantly dependent on our customers' ability to make payments on their accounts. If the Brazilian economy worsens because of, among other factors, the level of economic activity, devaluation of the real, inflation or an increase in domestic interest rates, a greater portion of our customers may not be able to

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make timely payments for services, which would increase our past due accounts and could materially reduce our net earnings. In addition, the growth of our postpaid base makes us more vulnerable to any increases in customer defaults.

Events in other countries may have a negative impact on the Brazilian economy and the market value of our units.

Economic conditions and markets in other countries, including United States, Latin American and other emerging market countries, may affect the Brazilian economy and the market for securities issued by Brazilian companies. Although economic conditions in these countries may differ significantly from those in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries could dampen investor enthusiasm for securities of Brazilian issuers, including ours, which could adversely affect the market price of our shares and ADSs.

In addition, the Brazilian economy is affected by international economic and market conditions generally, especially economic conditions in the United States. Share prices on Bolsa de Valores, Mercadorias e Futuras or BM&FBOVESPA, the São Paulo Stock Exchange, for example, have historically been sensitive to fluctuations in U.S. interest rates and the behavior of the major U.S. stock indexes. An increase in the interest rates in other countries, especially the United States, may reduce global liquidity and investors' interest in the Brazilian capital markets, adversely impacting the price of our shares and ADSs.

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

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

In an attempt to increase liquidity in the financial markets and prevent the failure of the financial system, various governments have intervened on an unprecedented scale. Although the global economy has recently been showing signs of recovery there is no assurance that such recovery will continue once the effects of various government stimulus efforts have worn off. In the long term, as a consequence, global investor confidence will likely remain low and credit will likely remain relatively lacking. Hence, additional volatility in the global financial markets may occur.

However, additional volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on acceptable financial terms, and consequently on our operations. Furthermore, an economic downturn could negatively affect the financial stability of our customers, which could result in a general reduction in business activity and a consequent loss of income for us.

Risks Relating to Our ADSs

Holders of our preferred shares, including preferred shares in the form of ADSs, have no voting rights except under limited circumstances.

Of our two classes of capital stock outstanding, only our common shares have full voting rights. Except in certain limited circumstances, our preferred shares will be entitled to vote only in the event that we fail to pay minimum dividends for a period of three consecutive years, and retain those voting rights until the minimum dividends are paid. Holders of our preferred shares generally will not be able to influence any corporate decision requiring a shareholder vote, including the declaration of dividends.

Because we did not pay minimum dividends for the years ended December 31, 2007, 2008 and 2009, the holders of preferred shares are able to exercise voting rights from the 2010 general shareholders' meeting, until we pay the minimum dividends. However, this has no significant impact, since our controlling shareholders own more than 50% of our total capital. Once we pay the minimum dividends, those voting rights will cease.

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Holders of our preferred shares or ADSs may not receive any dividends.

According to Brazilian Corporations Law and our bylaws, we must generally pay dividends to all shareholders of at least 25% of our annual net income, as determined and adjusted under the Brazilian Corporations Law. These adjustments to net income for purposes of calculating the basis for dividends include allocations to various reserves that effectively reduce the amount available for the payment of dividends. However, we are not required and may be unable to pay minimum dividends if we have losses.

Since we are a holding company, our income consists of distributions from our subsidiaries in the form of dividends or other advances and payments. We do not generate our own operating revenues, and we are dependent on dividends and other advances and payments for our cash flow, including to make any dividend payments or to make payments on our indebtedness.

Holders of our ADSs are not entitled to attend shareholders' meetings and may only vote through the Depositary.

Under Brazilian law, only shareholders registered as such in our corporate books may attend shareholders' meetings. All preferred shares underlying our ADSs are registered in the name of the depositary. A holder of ADSs, accordingly, is not entitled to attend shareholders' meetings. Holders of our ADSs may exercise their limited voting rights with respect to our preferred shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders' general meetings in certain newspapers in Brazil. Holders of our shares can exercise their right to vote at a shareholders' general meeting by attending the meeting in person or voting by proxy. By contrast, holders of our ADSs will receive notice of a shareholders' general meeting by mail from the ADR depositary following our notice to the ADR depositary requesting the ADR depositary to do so. To exercise their voting rights, ADS holders must instruct the ADR depositary on a timely basis. This noticed voting process will take longer for ADS holders than for direct holders of our shares. If it fails to receive timely voting instructions from a holder for the related ADSs, the ADR depositary will assume that such holder is instructing it to give a discretionary proxy to a person designated by us to vote your ADSs, except in limited circumstances.

We cannot assure you that holders will receive the voting materials in time to ensure that such holders can instruct the depositary to vote the shares underlying their respective ADSs. In addition, the depositary and its agents are not responsible for failing to carry out holder's voting instructions or for the manner of carrying out your voting instructions. This means that holders may not be able to exercise their right to vote and may have no recourse if our shares held by such holders are not voted as requested.

The value of our ADSs or shares may depreciate if our control is changed.

In the event there is a change of our control, our minority common shareholders are entitled to tag-along rights whereby they may choose to also sell their shares to the new controlling shareholder for at least 80% of the price paid by the new controlling shareholders for the shares of our former controlling shareholder. Accordingly, if such change of control happens, the market value of our common shares may appreciate while the market value of our preferred shares may depreciate.

Holders of our ADSs or preferred shares in the United States may not be entitled to participate in future preemptive rights offerings.

Under Brazilian law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage.

Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our ADSs or preferred shares in the United States to exercise any preemptive rights in any future capital increase unless we file a registration statement with the SEC with respect to that future issuance of shares or the offering qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether to file such a registration statement. We cannot assure holders of our ADSs or preferred shares in the United States that we will file a registration statement with the SEC to allow them to participate in a preemptive rights offering. As a result, the equity interest of those holders in us may be diluted proportionately.

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Enforcement of rights in Brazil may be difficult.

We and our directors and officers reside in outside the United States, and a substantial portion of the assets of these persons and our assets are located in Brazil. As a result, it may not be possible to effect service of process upon these persons within the United States or other jurisdictions outside of Brazil. Brazilian law provides that a final decision obtained against us in a foreign jurisdiction may be enforceable in Brazil without reconsideration of the merits upon confirmation of that judgment by the Superior Court of Justice, upon the fulfillment of some conditions. However, there can be no assurance that these conditions will be met and, consequently, that it will be possible to enforce judgments of non-Brazilian courts in Brazil, including judgments predicated on civil liability under the U.S. securities laws against us or our directors and officers.

Restrictions on the movement of capital out of Brazil may adversely affect our ability to remit dividends and distributions on, or the proceeds of any sale of, our shares and the ADSs.

Brazilian law permits the Brazilian government to impose temporary restrictions on conversions of Brazilian currency into foreign currencies and on remittances to foreign investors of proceeds from their investments in Brazil, whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to expect a pending serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. In the event that the Brazilian government determines that the Brazilian foreign currency reserves need to be maintained, it may impose temporary charges on any overseas remittance of up to 50% of the value of the remittance. We cannot assure you that the Brazilian government will not take any such measures in the future.

Any imposition of restrictions on conversions and remittances could hinder or prevent holders of our shares or the ADSs from converting into U.S. dollars or other foreign currencies and remitting abroad dividends, distributions or the proceeds from any sale in Brazil of our shares. Exchange controls could also prevent us from making payments on our U.S. dollar-denominated debt obligations and hinder our ability to access the international capital markets. As a result, exchange controls restrictions could reduce the market prices of our shares and the ADSs.

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

Holders of ADSs will not be direct shareholders of our company and will be unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporations Law.

Our corporate affairs are governed by our by-laws and the Brazilian Corporations Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the state of Delaware or New York, or elsewhere outside Brazil. Even if a holder of ADSs surrenders its ADSs and becomes a direct shareholder, its rights as a holder of our shares under the Brazilian Corporations Law to protect its interests relative to actions by our Board of Directors or executive officers may be fewer and less well-defined than under the laws of those other jurisdictions.

Judgments seeking to enforce our obligations in respect of our shares or ADSs in Brazil will be payable only in reais.

If proceedings are brought in the courts of Brazil seeking to enforce our obligations with respect to our shares or ADSs, we will not be required to discharge our obligations in a currency other than reais. Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than reais may only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then prevailing exchange may not afford non-Brazilian investors with full compensation for any

claim arising out of or related to our obligations under our shares or the ADSs.

Volatility and lack of liquidity in the Brazilian stock market may substantially limit investors' ability to sell shares at the price and time desired.

Investment in securities traded in emerging markets such as Brazil often involves more risk than other world markets, given the track record of economical instability and constant changes. The Brazilian stock market is significantly smaller, less liquid and more concentrated, compared to the world's major stock market. On December 31, 2009, BM&FBOVESPA's market capitalization was approximately R\$2.3 trillion (US\$1.3 trillion),

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and the average daily trading volume for the year ended December 31, 2009 was R\$5.3 billion (US\$2.7 billion). The Brazilian capital market shows significant concentration. The top ten shares in terms of trading volume accounted for approximately 50.4% of all shares traded on the BM&FBOVESPA in the year ended December 31, 2009. These characteristics of the Brazilian capital market may substantially limit the ability of investors to sell shares at the desired price and time, which may materially and adversely affect share prices.

Shares eligible for future sale may adversely affect the market value of our shares and ADSs.

Certain of our shareholders have the ability, subject to applicable Brazilian laws and regulations and applicable securities laws in the relevant jurisdictions, to sell our shares and ADSs. We cannot predict what effect, if any, future sales of our shares or ADSs may have on the market price of our shares or ADSs. Future sales of substantial amounts of such shares or ADSs, or the perception that such sales could occur, could adversely affect the market prices of our shares or ADSs.

Holders of ADSs or preferred shares could be subject to Brazilian income tax on capital gains from sales of ADSs or preferred shares.

According to Article 26 of Law No. 10,833 of December 29, 2003, which came into force on February 1, 2004, capital gains realized on the disposition of assets located in Brazil by non-Brazilian residents, whether or not to other non-residents and whether made outside or within Brazil, are subject to taxation in Brazil at a rate of 15%, or 25% if realized by investors resident in a “tax haven” jurisdiction (i.e., a country that does not impose any income tax or that imposes tax at a maximum rate of less than 20%). Although we believe that the ADSs will not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, considering the general and unclear scope of Law 10,833 and the absence of any judicial guidance in respect thereof, we are unable to predict whether such interpretation will ultimately prevail in the Brazilian courts. Resolution 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Accordingly, the proceeds from the sale of ADSs by holders of American Depositary Receipts outside Brazil are free of Brazilian foreign investment controls and holders of ADSs who are not resident in a tax haven jurisdiction will be entitled to favorable tax treatment. See “Item 10E. Taxation—Brazilian Tax Considerations.”

Gains realized by non-Brazilian holders on dispositions of preferred shares in Brazil or in transactions with Brazilian residents may be exempt from Brazilian income tax, or taxed at a rate of 15% or 25%, depending on the circumstances. Gains realized through transactions on Brazilian stock exchanges, if carried out in accordance with Resolution 2,689, of January 26, 2000 (“Resolution CMN 2,689”) of the National Monetary Council, or Conselho Monetário Nacional (“CMN”), as described below in “Item 10E. Additional Information—Taxation—Brazilian Tax Considerations—Taxation of Gains,” are exempt from the Brazilian income tax. Gains realized through transactions on Brazilian stock exchanges not in accordance with Resolution CMN 2,689 are subject to tax at a rate of 15% and also to withholding income tax at a rate of 0.005% (to offset the tax due on eventual capital gain). Gains realized through transactions with Brazilian residents or through transactions in Brazil not on the Brazilian stock exchanges not in accordance with Resolution CMN 2,689 are subject to tax at a rate of 15%, or 25% if realized by investors resident in a tax haven jurisdiction.

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

The ADSs benefit from the certificate of foreign capital registration, which permits JP Morgan Chase Bank, as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary’s certificate of foreign capital registration for five business days from the date of exchange.

Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain their own certificate of foreign capital registration, or unless they qualify under Resolution CMN 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration.

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

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If we raise additional capital through an offering of shares, investors' holdings may be diluted.

We may need to raise additional funds through a capital increase, public or private debt financings, or a new share issuance in connection with our business. Any additional capital raised through the issuance of shares or securities convertible into shares conducted on stock exchanges or through public offerings may be made, according to Brazilian law, without preemptive rights for the holders of our shares, which may result in the dilution of our holdings in our share capital.

The market price of our shares or ADSs may be adversely affected if we, our controlling shareholders, directors or officers decide to issue or sell a substantial number of our shares, or if there is a perception of the possibility of such events.

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Item 4. Information on the Company

A. History and Development of the Company

Basic Information

TIM Participações S.A. is a corporation (sociedade anônima) organized under the laws of the Federative Republic of Brazil. The Company was incorporated on May 22, 1998 under the name Tele Celular Sul Participações S.A., which was later changed to TIM Participações S.A. on August 30, 2004.

Our headquarters are located at Avenida das Américas, 3434-7th floor, 22640-102 Rio de Janeiro, Brazil and our telephone number is +55 (21) 4009-3742 and our fax number is +55 (21) 4009-3314.

Our agent for service of process in the United States is CT Corporation located at 111 Eighth Avenue, New York, NY 10011.

Historical Background

Telecom Italia began operating in Brazil in 1998 and is today one of the leading wireless operators in the country. Telecom Italia considers its operations in Brazil to be extremely important. In the 2001 auctions held by Anatel for Bands D and E, Telecom Italia was the only company to be awarded licenses covering the entirety of the Brazilian territory, becoming as a result the sole operator to offer services on a nationwide level under the same brand. In 2002, Telecom Italia (then Telecom Italia Mobile) formed TIM Brasil, the holding company of Telecom Italia's operating companies in Brazil.

Prior to the incorporation of Telebrás in 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás, as a regulated monopoly, acquired almost all the telephone companies operating in Brazil. Beginning in 1995, the Brazilian federal government undertook a comprehensive reform of Brazil's telecommunications regulatory system. In 1996 and 1997, the Brazilian government passed bills allowing for the privatization of Telebrás by auctioning authorizations and concessions to privately-owned telecommunications service providers, while establishing Anatel as an independent regulatory agency.

The new regulatory framework established the structure of the Brazilian mobile telecommunications industry in place today. Anatel established ten wireless areas and the cellular operations of Telebrás and another state-owned company were spun off into new holding companies. When these holding companies were privatized their operating subsidiaries became the legacy monopoly providers in each of the ten wireless areas, servicing essentially all the mobile customers then in the area. To introduce competition, additional bandwidths were auctioned off. As a result, seven of such ten areas now have four mobile service providers, and the remaining areas have three such providers.

In May 1998, following the breakup of Telebrás, 12 new holding companies (the "New Holding Companies") were formed. The restructuring was conducted by means of a procedure under Brazilian Corporations Law called *cisão* or split up. Virtually all of the assets and liabilities of Telebrás, including the shares held by Telebrás in the operating companies of the Telebrás System, were allocated to the New Holding Companies. The split-up of the Telebrás System into the New Holding Companies is referred to in this respect as the "Breakup" or the "Breakup of Telebrás."

The New Holding Companies, together with their respective subsidiaries, consisted of:

- eight cellular telecommunications service providers, each operating in one of ten regions (each a "Cellular Region");

- three fixed-line telecommunications service providers, each providing local service and intraregional long distance service in one of three regions (each a “Fixed-Line Region”); and
- Embratel Participações S.A. — Embratel (“Embratel”), which provides domestic long distance telecommunications service (including intraregional and interregional), as well as international telecommunications service throughout Brazil.

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Upon the Breakup of the Telebrás System, the Brazilian territory was initially divided by Anatel into ten separate cellular service regions (“Band A Regions”), each serviced by one of the New Holding Companies operating in the cellular telecommunications business. In addition, under the General Telecommunications Law, the Federal Government granted authorizations to new companies to provide cellular telecommunications service within a 25 MHz sub-band within the band of 800 to 850 MHz, which is referred to as Band B (“Band B”). Companies operating under the Band B are distributed throughout ten different regions, which generally overlap with the Band A Regions.

The rules set forth by Anatel prevented the controlling shareholders of Band A and Band B cellular service providers from holding more than one license, either in the form of an authorization or a concession, in a single PCS region. Accordingly, a company controlling a Band A or Band B cellular service provider that acquired control of a PCS authorization resulting in a geographical overlap of its licenses had two alternatives:

- it could have sold its controlling shares in either the Band A or the Band B cellular service provider within six months of purchasing the PCS authorization; or
- it could have waived the right to operate under the PCS authorization in the areas where overlapping Band A and Band B services existed.

As a result, some companies controlled by Telecom Italia waived their rights to provide PCS services in certain areas. Specifically, in 2001, TIM Brasil’s subsidiaries Portale Rio Norte and TIM Centro Sul waived their rights to operate under PCS authorizations in areas currently served by TIM Maxitel, TIM Sul and TIM Nordeste Telecomunicações, because of geographical overlaps in the PCS authorizations awarded to Portale Rio Norte and TIM Centro Sul and the concessions held at that time by Maxitel and us.

On December 31, 2002, TIM Celular Centro Sul and Portale Rio Norte merged into Portale São Paulo S.A. On January 22, 2003, Portale São Paulo S.A. changed its name to TIM Celular.

TSU and TND, the two companies that merged to form TIM in 2004, were each one of the New Holding Companies. In the Breakup of Telebrás, TSU and TND were each allocated all of the share capital held by Telebrás in the operating subsidiaries of the Telebrás System that provided cellular telecommunications services in their respective regions. The New Holding Company providing fixed-line telecommunications service in the Southern Region, in which TIM Sul operates, is Brasil Telecom, S/A (“Brasil Telecom”) and the New Holding Company providing fixed-line telecommunications service in the Northeastern Region, in which TIM Nordeste Telecomunicações operates, is Tele Norte Leste Participações S.A. (together with its subsidiaries, “Telemar”).

In July 1998, the Federal Government sold substantially all its shares of the New Holding Companies, including its shares of TSU and TND, to private investors. Shares of TSU and TND previously owned by the Federal Government were sold to a consortium comprised of UGB Participações Ltda. (“UGB”) and Bitel, both companies organized according to the laws of the Federative Republic of Brazil. In March 1999, UGB sold its ownership interest in TSU and TND to Bitel, effective upon approval by Anatel and the Brazilian antitrust agency (“CADE”). In September 2003, TIM Brasil merged into Bitel, and its corporate name was changed to TIM Brasil. TIM Brasil is wholly owned, indirectly, by Telecom Italia, a corporation organized under the laws of Italy.

In December 2002, TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel converted their respective concessions to operate under Cellular Mobile Service (“SMC”) regulations into authorizations to operate under PCS regulations. Each of SMC and PCS are subject to specific regulations that differ from each other. As part of this conversion process, in July 2003, TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel also received from Anatel a national long distance and an international authorization, which were returned to Anatel in January 2005.

In July 2003, TSU subsidiaries Telesc Celular and CTMR Celular merged into Telepar Celular, which had its name changed to TIM Sul. In January 2004, TND's subsidiaries Telpa Celular, Telern Celular, Teleceará Telular, Telepisa Celular and Telasa Celular merged into Telpa Celular, which had its name changed to TIM Nordeste Telecomunicações.

In August 2004, TND merged with and into TSU and the latter was renamed TIM Participações ("TIM"), in order to integrate the two companies' operations, reduce administrative costs, improve access to capital and achieve greater market liquidity. TIM Nordeste Telecomunicações, formerly an operating subsidiary of TND, became an operating subsidiary of TIM, along with TIM Sul. For accounting purposes, the merger was treated as if it had occurred on January 1, 2004.

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On May 30, 2005, we acquired all outstanding minority interests in our subsidiaries TIM Sul and TIM Nordeste Telecomunicações.

On March 16, 2006, we acquired all of the share capital of TIM Celular, a wholly-owned subsidiary of our controlling shareholder, TIM Brasil, in order to integrate the two companies' operations, seeking to optimize the group's financial structure and management, creating one of the largest Brazilian wireless companies in terms of market capitalization presenting an attractive investment for shareholders. As a result, TIM Celular and its operating subsidiary TIM Maxitel became our subsidiaries. The acquisition became effective following approval in the respective Extraordinary Shareholders' Meetings of our shareholders and the shareholders of TIM Celular, respectively, on March 16, 2006.

On June 30, 2006, TIM Celular, Maxitel, TIM Nordeste Telecomunicações and TIM Sul approved the merger of TIM Nordeste Telecomunicações into Maxitel and of TIM Sul into TIM Celular. On the same date, Maxitel's name changed to TIM Nordeste.

On October 30, 2009, the Board of Directors of TIM Participações approved the proposed corporate reorganization of its subsidiaries, whereby TIM Nordeste S.A. would be merged into TIM Celular. This proposal was approved by Anatel through Decision No. 7.477, dated December 17, 2009, and by the Extraordinary General Meetings of TIM Nordeste S.A. and of TIM Celular S.A. at December 31, 2009, and was based on accounting balances using the book value method of valuation.

The purpose of this reorganization was to optimize the companies' organization structure, by further consolidating and rationalizing their businesses and operations by leveraging tax and financial synergies and cutting costs associated with having separate legal entities.

With the addition of 23.3 million new lines during 2009, Brazil has reached a mobile subscriber's base of 173.9 million customers by December, 2009, a teledensity of 90.6% compared to 78.1% in December 2008. As of December, 2009, Rio Grande do Sul became the fifth Brazilian state after Rio de Janeiro, São Paulo, Mato Grosso do Sul, and The Federal District to reach a teledensity of above 100%. At least one more State, Mato Grosso, with teledensity of 97.3% in December, 2009, is expected to reach that milestone during 2010.

Our controlling shareholder, TIM Brasil, is a wholly-owned Brazilian subsidiary of Telecom Italia International N.V., which in turn is a wholly-owned Dutch subsidiary of Telecom Italia.

Telecom Italia is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. and its subsidiaries (the "Telecom Italia Group") operate mainly in Europe, the Mediterranean Basin and South America.

The Telecom Italia Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products sector.

In particular, at December 31, 2009 retail accesses in Italy were approximately 16.1 million (a decrease of 1.3 million from December 31, 2008). The wholesale customer portfolio grew to approximately 6.2 million accesses (an increase of 1.2 million from the amount in December 31, 2008). The total access market was substantially stable compared to December 2008. Furthermore, in Italy, the BroadBand portfolio reached 8.7 million accesses at December 31, 2009 (of which 7.0 million retail accesses and 1.7 million wholesale accesses) with an increase of 0.6 million accesses compared to December 31, 2008.

In addition, at December 31, 2009 the Telecom Italia Group had approximately 30.8 million mobile telephone lines (34.8 million at December 31, 2008).

Acquisition of Olimpia S.p.A.

On April 28, 2007, Assicurazioni Generali S.p.A, Intesa San Paolo S.p.A, Mediobanca S.p.A., Sintonia S.p.A and Telefónica S.A. entered into an agreement to acquire the entire share capital of Olimpia S.p.A., a company which, at the time, held approximately 18% of the voting capital of Telecom Itália S.p.A., our indirect parent company. This acquisition was made through Telco S.p.A. (“Telco”). With the conclusion of the transaction, and the subsequent merger of Olimpia S.p.A. with and into Telco (December 2007), Telco came to hold 23.6% of the voting capital of Telecom Italia S.p.A., the indirect parent company of TIM Participações. Telco currently holds 24.5% of Telecom Italia S.p.A voting capital.

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Interests in Telco are held by the Generali group (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%).

In accordance with Telco Shareholders' Agreement, the Investors have agreed that Telecom Italia group and Telefónica group will be managed autonomously and independently. In particular, the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at the Board of Directors' meetings at which resolutions will be discussed and proposed relating to the policies, management and operations of companies directly or indirectly controlled by Telecom Italia providing services in Brazil and other countries where regulatory and legal restrictions or limitations for the exercise of voting rights by Telefónica are in force.

Agreements between the TIM operators controlled by TIM Participações and Telefónica's operators in Brazil, in force as of December 31, 2007, refer solely to services related to co-carrier relationships, covering such subjects as interconnection, roaming, site sharing, co-billing procedures, and CSP (carrier access codes) arrangements, and were entered into at arm's length prices and terms, in accordance with applicable laws and regulations. See "Item 3D. Key Information—Risk Factors—Risks Relating to our Business—The shareholding structure of our parent company, Telecom Italia S.p.A, has undergone relevant changes."

Anatel approved the acquisition of Olimpia by Telco, but imposed certain restrictions to guarantee the total segregation of the business and operations of the two groups, Telefónica and TIM, in Brazil (Act number 68.276/2007, published in the Brazilian Federal Gazette (DOU) on November 5, 2007). In compliance with the requirements of that Act, on November 22, 2007, TIM Brasil, TIM Celular and TIM Nordeste submitted to Anatel the corporate instruments, including those received from Telco, required to implement the measures and procedures imposed by the Anatel Act and that assure the segregation of Telecom Italia's activities in Brazil from any potential influence of Telefónica. Therefore, TIM continues to operate in the Brazilian market independently and autonomously just as before Telco's acquisition of Olimpia.

Additionally, as required by the Anatel Act, on May 2, 2008, TIM Brasil, TIM Celular and TIM Nordeste submitted to Anatel a list of additional measures aimed to assure continued total segregation between TIM's Brazilian mobile operators and Vivo, a Brazilian mobile operator in which Telefónica holds a large equity stake. These measures must be approved by Anatel and, following such approval, will need to be implemented within an additional six-month period.

On July 31, 2008, Anatel approved the corporate instruments filed on November 22, 2007 after finding full compliance with the restrictions imposed by the applicable Anatel ruling.

On April 28, 2010, the board of the Brazilian Antitrust Commission (CADE) unanimously approved the acquisition by Telco of an indirect participation in Telecom Italia in 2007, subject to the simultaneous signing of an agreement (Termo de Compromisso and Desempenho—TCD), by and between all the Telco shareholders—Mediobanca, Generali, Intesa Sanpaolo and Telefónica and CADE. Tim Brasil executed such agreement on behalf of the Telco shareholders, since the Telecom Italia Group is not formally a party of the antitrust proceedings.

Such agreement, aimed at assuring the effective segregation between the Telefónica and Telecom Italia Groups in relation to their respective operations in Brazil, provides for the parties to the agreement to comply with certain restrictions on their activities, including those already imposed by the telecommunication Agency Anatel in its decision of November 2007 on the Telco transaction, plus some additional commitments.

Moreover, on December 2, 2008 the Board of Directors of Telecom Italia adopted an internal procedure that

formalizes the already existing separation between the activities of the Telecom Italia Group and the Telefónica Group in the Argentine telecommunications market.

Recent Developments

Acquisition of Intelig

During 2009, TIM Participações S.A. completed the acquisition of Holdco Participações Ltda. (“Holdco”), which held 100% of the ownership of the telecommunications company Intelig Telecomunicações Ltda. (“Intelig”) from JVCO Participações Ltda. (“JVCO”) (part of the group controlled by Mr. Nelson Tanure and which conducts business in the communications, real estate and harbor facilities industries) in exchange for participation on TIM Participações’ capital stock.

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At a meeting held by the Board of Directors on April 16, 2009, the Company executed a Merger Agreement with Holdco, having its controlling shareholder TIM Brasil, Intelig, Docas, JVCO, Botofoga and Leo Julian Simpson as intervening parties, for the purpose of acquiring indirect control of Intelig. This acquisition resulted in the merger into the Company, of Holdco, a subsidiary of JVCO, with the result that the Company would hold 100% of the capital stock of Intelig upon conclusion of the merger process.

By means of Decision No. 4634, of August 11, 2009, published in the Official Gazette on August 14, 2009, Anatel approved this merger and further decided that the geographical overlapping of licenses held by TIM Celular and Intelig for Fixed Switched Telephone Services (STFC) should be eliminated in a period of 18 (eighteen) months, considering their associate relationship deriving from the merger.

The agreement further stated that, by virtue of the absorption of the net assets of Holdco, and the consequent capital increase of TIM Participações, JVCO would be attributed a percentage of up to 6.15% of the total common shares, and up to 6.15% of the total preferred shares issued by TIM Participações at the time of the transaction. This shareholding interest might undergo changes by virtue of variations in the capital stock of TIM Participações and/or the need for adjustments due to the amount of Intelig's net debt existing at the time of consummation of the transaction. The completion of the merger was subject to verification and confirmation of the applicable exchange ratio by an economic-financial valuation report to be prepared by a first-rank financial institution for purposes of completing the transaction.

An addendum to the agreement was signed on November 30, 2009. This adjustment led to change in the swap ratio of shares issued by TIM PART attributable to JVCO Participações Ltda. in connection with the merger. Such ratio, formerly up to 6.15% of total common shares and up to 6.15% of total preferred shares, had been turned to 5.14% of total common shares and up to 5.14% of total preferred shares issued by TIM Participações. This change was made once TIM accepted to absorb a portion of Intelig's financial debt (nearly US\$ 70 million), not regarded in the first agreement.

On December 30, 2009, TIM Participações concluded the acquisition of 100% of the outstanding shares and voting interest of Holdco Participações Ltda, which held 100% of the outstanding shares of Intelig Telecomunicações Ltda. As a result of this acquisition, the Company aims to expand its long distance and fixed line services in Brazil. The Company expects to achieve significant synergies and cost reductions by eliminating redundant processes and facilities.

Capital Expenditures

Our capital expenditure priorities in 2009 are related primarily to the expansion of the capacity and quality of our global system for mobile communications technology, or GSM network, as well as the development of information technology systems. Capital expenditures, including accounts payable, during 2007, 2008 and 2009 were R\$1,932.9 million, R\$3,272.1 million and R\$2,143.1 million, respectively.

The following table shows our capital expenditures in each individual category for each of the three years ended December 31, 2009, 2008 and 2007:

Capital expenditures	Year ended December 31,		
	2009	2008	2007
Network	R\$ 1,250.6	R\$ 1,089.5	R\$ 1,106.9
Radiofrequencies	-	1,239.0	29.0
Information technology	493.2	545.3	506.2
Handsets provided to corporate customers (comodato)	351.9	358.2	234.6

Others	47.4	40.1	56.2
Total capital expenditures	2,143.1	R\$ 3,272.1	R\$ 1,932.9

Our Board of Directors has approved our budget for capital expenditures from 2010 to 2012 in the total amount of approximately R\$7.0 billion in 2009 and approximately 16% of net revenues for 2012, for expenditures relating to our subsidiaries TIM Celular and Intelig. Most of the capital expenditures we budgeted for 2010 to 2012 relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure. The method of financing for these capital expenditures will be external bank loans.

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Our capital expenditures are based on commercial, technical and economic factors such as service rates, service demand, price and availability of equipment. There is no assurance that our estimates of such commercial, technical and economic factors will prove to be correct, or that we will actually spend our planned capital expenditures in the period from 2010 to 2012.

B. Business Overview

Market Characteristics

The Brazilian mobile telecommunications market has in recent years been characterized by the expansion of the number of subscribers, investment in network infrastructure and subsidies to attract and retain customers. These expenditures have resulted in a significant increase in mobile penetration, revenue generation and competition for customers. As of December 31, 2009, there were approximately 174 million mobile lines, representing approximately 91% of the population. Although the industry has benefited from the increased purchasing power of Brazil's less affluent population, its focus remains on the more affluent cities clustered in the south and southeast of the country.

As is the case throughout most of Latin America, the Brazilian mobile telecommunications market is characterized by a large number of prepaid customers. According to Anatel, at the end of 2008 and 2009, in Brazil approximately 81.5% and 82.6%, respectively, of mobile lines were prepaid and 18.5% and 17.4%, respectively, were postpaid notwithstanding a 23.3 million increase in the number of subscribers during 2009. The average monthly revenue per mobile customer in Brazil was approximately R\$26.9 for the year ended December 31, 2008 and R\$24.5 for the year ended December 31, 2009.

Our Business

We primarily use the GSM to provide mobile telecommunications services throughout Brazil. In four of our areas we still offer time-division multiple access technology, or TDMA, in addition to GSM. Since the introduction of GSM technology in the fourth quarter of 2002, the percentage of our customers using GSM technology has rapidly increased, reaching approximately 99.9% as of December 31, 2009. In those areas where we still offer TDMA technology, we will continue to try to migrate our remaining TDMA customers to GSM. We offer value-added services, including short message services or text messaging, multimedia messaging services, push-mail, Blackberry service (the first provider in Brazil to do so), video call, turbo mail, wireless application protocol or WAP downloads, web browsing, business data solutions, songs, games, TV access, voice mail, conference calling, chats and other content and services. We provide interconnection services to fixed line and mobile service providers as well.

In 2008, after obtaining the authorization to use 3G technology nationwide, the Company has been able to offer its customers third generation services, such as broad band internet access and TV. This technology is already made available in the principal Brazilian cities, covering approximately 38% of our client base, and is soon to be offered in other locations. With the implementation of fixed telephony services in September 2008, the Company has become a comprehensive telecom services provider – the only one in the wireless industry. We believe that such technological integration is essential for a Company that wants to become the industry leader.

Through the recently acquired subsidiary Intelig, we provide the Brazilian market with fixed telecommunications services, for data, local, long distance, and international modalities. Intelig also offers products that are specifically tailored for the corporate segment.

Since 2000, Intelig invested R\$2.8 billion in the development of a 100% digital nationwide network. Intelig owns a 16,000-kilometer optic fiber network from north to south Brazil, supported by telephone exchange facilities, satellite stations, connections to international networks, and capacity acquired in major submarine cable networks. Intelig has

two national operations centers, located in the states of Rio de Janeiro and São Paulo.

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Regional Overview

Operations under TIM's trademark

We cover an area containing over 169 million of Brazil's 191 million inhabitants. Our mobile operating subsidiaries have approximately 41.1 million customers located in each of the Brazilian states and in the Federal District. On December 31, 2009, our combined penetration reached approximately 90.2% and our combined market share totaled approximately 23.6%. The map below shows an overview of the Brazilian mobile telecommunications market based on the wireless areas established by Anatel.

Through our subsidiaries, we provide mobile telecommunications services using digital technologies to the ten wireless areas of Brazil shown in the above map, as set forth below.

Operating Subsidiary	Customers (As of December 31) (in thousands)	Areas Covered	Technology
TIM Celular		Areas 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 shown above.	GSM, 3G and TDMA
2009	41,102	States of Alagoas, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Piauí, Bahia, Minas Gerais, Sergipe, Acre,	
2008	36,402	Amapá, Amazonas, Espírito Santo, Goiás, Maranhão, Mato Grosso, Mato Grosso do Sul, Pará, Rondônia, Roraima, Tocantins, Federal District, Rio de Janeiro, São Paulo, Paraná, Santa Catarina and Rio Grande do Sul.	

The following table shows combined information regarding the Brazilian mobile telecommunications market and our customer base, coverage and related matters, at the dates indicated. Except as otherwise indicated, the amounts presented in the following table are our estimates.

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	On December 31,		
	2009	2008	2007
	(in millions, except percentages)		
Brazilian population(1)	191.5	191	190
Total penetration(2)(3)	91%	78%	64%
Brazilian subscribers	174.0	150.7	121.0
National percentage subscriber growth	15.5%	24.5%	21.1%
Population we cover(1)	169	165	162
Percentage of urban population we cover(4)	94%	93%	93%
Total number of our subscribers	41.1	36.4	31.3
Our percentage growth in subscribers	12.9%	16.5%	23.0%
Our percentage of postpaid customers	15.7%	18.1%	21.7%
Our ARPU(5)	R\$ 27.0	R\$ 29.7	R\$ 34.4

(1) According to latest information from IBGE (2009). The large change of population as of December 31, 2008 represents an adjustment made by IBGE.

(2) Percentage of the total population of Brazil using mobile services, equating one mobile line to one subscriber.

(3) Based on information published by Anatel and IBGE.

(4) Number of people able to access our mobile network, based on Anatel's coverage criteria.

(5) Average monthly revenue earned per TIM subscriber.

Mobile Service Rates and Plans

In Brazil, as in most of Latin America, mobile telecommunications service is offered on a "calling party pays" basis, under which the customer generally pays only for outgoing calls. Additional charges apply when a customer receives or places calls while outside of the customer's "registration area," which are the areas into which we divide our coverage areas.

Under our current authorizations, we are allowed to set prices for our service plans, provided that such amounts do not exceed a specified inflation adjusted cap. Anatel must ratify our basic and other service plans, but its focus is on compliance with the relevant regulatory rules rather than the prices charged. See "—Regulation of the Brazilian Telecommunications Industry—Rate Regulation." We charge different rates for our services, which vary according to the customer's service plan. Per minute prices decrease as customer commit to purchasing more minutes per month. Prices can also vary depending on the time of the day, the type of call (for fixed lines, for other operators or on net calls – inside TIM network) or the location of the parties on a call.

Anatel regulations require mobile telecommunications providers to offer service to all individuals regardless of income level. We recommend service plans that are suitable to each potential customer's needs and credit history, such as our prepaid service plans described below. If a customer fails to make timely payment, services can be interrupted. See "—Billing and Collection."

We offer mobile services under a variety of rate plans to meet the needs of different customer segments, including our corporate customers. The rate plans are either "postpaid," where the customer is billed monthly for the previous month, or prepaid, where the customer pays in advance for a specified volume of use over a specified period.

Our postpaid plans include the following charges:

• monthly subscription charges, which usually include a number of minutes of use that are included in the monthly service charge;

• usage charges, for usage in excess of the specified number of minutes included in the monthly subscription charge; and

- additional charges, including charges for value-added services and information.

Certain plans include the cost of national roaming and long distance in the price per minute so that all calls within Brazil cost the same amount per minute. Some postpaid plans are designed for high and moderate usage subscribers, who are typically willing to pay higher monthly fees in exchange for minutes included in the monthly service charge and lower per minute usage charges under a single contract while other plans are

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designed to satisfy the more limited needs of low-usage postpaid subscribers. We also offer customized services to our corporate clients which may include local call rates between employees wherever located in Brazil.

For mobile clients, we also offer several prepaid plans, none of which include monthly charges. Prepaid customers can purchase a prepaid credits plan that provides a specific amount of usage time and may receive additional services such as voicemail and caller identification. In 2009 we expanded our prepaid recharge stations by 12.3%. There are already over 365,543 recharge stations nationwide, offering two recharge options: physical (cards) and electronic (online and PIN System). We have agreements with large national retail stores chains, in addition to partnerships with regional retail stores chains, to offer online recharge. Customers with debit cards that use Banco 24Horas (ATMs), as well as customers using Visa, MasterCard or Diners credit cards are already able to recharge their prepaid phones straight from their mobile handsets.

Despite the highly competitive environment, TIM has maintained its focus on the mobile market's value segment, developing communication solutions that encourage clients to use our data and voice services more often. "TIM Web" and "TIM Mais Completo", were an example of the evolution in our marketing activities. "TIM Web" is a postpaid plan for internet access from laptops or desktops without the need of a provider, while "TIM Mais Completo" combines mobile and residential telephony with internet access. The two products are part of TIM's strategy of offering increasingly convergent services and thus, in addition to competitive prices, mobility and internet portability, without the need for an access provider.

In 2008, TIM changed the terms of its sales promotions and focused on its high-quality clients to recover profitability in the second semester. TIM also reinforced its policy for granting subsidies for handset purchases in order to retain and attract new post-paid clients. In addition, in 2008 TIM took important steps in its convergence strategy by launching mobile broadband and wireline services. These efforts translated into the launch of innovative products such as the first Brazilian Notebook fully connected to wireless broadband, and the offer of fixed telecom services at competitive rates.

Each customer segment has options specially tailored for pre-paid, post-paid, and fixed clients. New 3G technology has allowed the Company to broaden convergence of its services, offering a new portfolio of options to meet a greater number of market needs, such as 3G mobile broadband, launch of iPhone, and TIM TV (ability to watch a selection of TV channels through handsets).

During 2009, the Company has taken concrete steps to advance its strategy of full convergence through the completion of the acquisition of Intelig on December 30, 2009. With respect to our Brand re-positioning strategy, we promoted the 'Mundo Azul' campaign, focusing on TIM's network coverage, quality of services and innovative offers. This campaign was present throughout all of our marketing campaigns in 2009.

For the post-paid segment, the Company promoted the Infinity and Liberty offers and also introduced the 'TIM Chip Avulso' offering, which consists of an alternative way for new and existing customers to choose either a discount in their monthly fee (from 20% and valid for 18 months) or a discount in the purchase of a new handset. This new approach has been successful, with more than 50% of total post-paid gross additions made through the 'TIM Chip Avulso' offer.

With respect to the pre-paid segment, TIM promoted the Infinity plan with a segmented approach in each region. For example, in Rio de Janeiro, TIM launched a special promotional campaign in order to stimulate the use of the Infinity plan, by reducing the price of calls to R\$0.25 until the Rio Olympic Games in 2016.

In the Business Segment, TIM launched the 'Liberty Empresa', a plan that allows clients to use unlimited on-net calls with a community of more than 40 million of TIM's users throughout Brazil: LD and local calls at no charge, and free

roaming nationwide for a monthly fee of R\$39.

We also had some specific campaigns, including a special offer for International Long Distance service following the Holiday's season. This promotion reduced the per minute tariff up to 34% for international calls, such as: U.S. (to R\$0.49/min) and major countries in Latin America and Europe (to R\$0.99/min).

With respect to the data service, TIM continued to encourage clients' data usage through microbrowsing plans. In the quarter, the Company introduced the lowest limited data plan price in the market for only R\$9.90. The new plan allows clients to use up to 100MB of data traffic with a speed of up to 300Kbps. TIM complemented its internet access portfolio in December, launching the 'TIM Wi-Fi' service, exclusively available to TIM's post-paid clients. The new offer consists of internet Wi-Fi access in public places through partnership (i.e. Vex). There are three limited packages valid from the first connection: Wi-Fi Day (24 hour access), Wi-Fi Week (7 days of access) and Wi-Fi Month (30 days of access). Also, we offered an unlimited package with a monthly fee of R\$23.90.

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For handsets, TIM continued to improve its portfolio by focusing on innovative and exclusive devices. During the quarter, the Company launched the new 'Windows Phone' in an exclusive partnership with Microsoft, becoming the first mobile operator to launch the new model in Brazil with Microsoft's software. It is important to highlight that although TIM is moving toward the Chip Avulso strategy and consequently reducing handset intermediation, Company will maintain its unique handset portfolio for post-paid users that prefer handset subsidies instead of discount in services following the "Chip Avulso" program.

Sources of Revenue

Our total gross revenue by category of activity for each of the last three years are set forth below.

Category of Activity	Year ended December 31,		
	2009	2008 As adjusted	2007 As adjusted
Gross mobile telephone services	16,395.0	16,554.5	15,420.3
Gross sales of handsets and accessories	1,761.6	1,766.4	1,838.1
Total	18,156.6	18,320.9	17,258.4

Revenue from mobile telephone services includes revenue from:

- monthly subscription charges;
- network usage charges for local mobile calls;
 - roaming fees;
 - interconnection charges;
- national and international long distance calls; and
- value-added services, including charges for short message services or text messaging, multimedia messaging services, push-mail, Blackberry service, video call, turbo mail, WAP downloads, web browsing, business data solutions, songs, games, TV access, voicemail, conference calling, chats and other content and services.

We also earn revenues from sales of mobile handsets and accessories.

Monthly Subscription Charges

We receive a monthly subscription fee under our postpaid mobile plans which varies based on the usage limits under the plan.

Network Usage Charges

We divide our coverage areas into certain areas defined as "home registration areas". Calls within the same home registration area are considered local calls. Each of our customers is registered as a user of one of our home registration areas.

As determined by Anatel, our usage rate categories for local mobile services on a prepaid or postpaid basis are as follows:

- VC1. The VC1 rate is our base rate per minute and applies to mobile / fixed calls made by a customer located in the customer's home registration area to a person registered in the same home registration area.
- VC. The VC rate is our base rate per minute and applies to mobile / mobile calls made by a customer located in the customer's home registration area to a person registered in the same home registration area.

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- AD. AD is a per-call surcharge applicable to all outgoing calls or incoming calls made or received by a customer while outside such customer's home registration area.
- VU-M. VU-M is the fee another telecommunications service provider pays us for the use of our network by such provider's customers, in this case for local calls. (See "—Interconnection Charges.").

As described above under "—Mobile Service Rates and Plans," we are allowed to set the rates we charge within these rate categories. Usage charges are for minutes in excess of those included as part of the monthly subscription charge under the relevant postpaid plan.

We have new promotions that will soon allow Intelig customers to receive the same benefits given to TIM customers, including unlimited calls to other TIM subscribers.

Roaming Fees

We receive revenue pursuant to roaming agreements we have entered into with other mobile telecommunications service providers. When a call is made from within our coverage area by a client of another mobile service provider, that service provider is charged a roaming fee for the service utilized, be it voice, text messaging or data, at our applicable rates. Similarly, when one of our clients makes a mobile call when that customer is outside of our coverage area using the network of another service provider, we must pay the charges associated with that call to the mobile service provider in whose coverage area the call originates at the applicable rate of such mobile service provider.

Automatic national roaming permits our customers to use their mobile telephones on the networks of other mobile service providers while traveling or "roaming" in the limited areas of Brazil that are outside of our network, complementing our current mobile coverage. Similarly, we provide mobile telecommunications service to customers of other mobile service providers when those customers place or receive calls while in our network. Mobile service providers party to roaming agreements must provide service to roaming customers on the same basis that such providers provide service to their own clients. All such providers carry out a monthly reconciliation of roaming charges. Our roaming agreements have a one-year term and automatically renew for additional one-year terms.

Interconnection Charges

Interconnection charges represent a significant part of our revenues. We receive interconnection revenues in connection with any call originating from another service provider's network, mobile or fixed line, which is received by any mobile customer, of ours or of another provider's, while using our network. We charge the service provider from whose network the call originates an interconnection fee for every minute our network is used in connection with the call. The interconnection fees we charge other service providers became freely negotiable in 2005.

We have entered into interconnection agreements with all the telecommunications service providers operating in Brazil, which include provisions specifying the number of interconnection points, the method by which signals must be received and transmitted, and the costs and fees for interconnection services. Nevertheless, even in the absence of approval by Anatel, the parties to these interconnection agreements are obligated to offer interconnection services to each other. See "—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation." The interconnection fees we were permitted to charge other mobile telecommunications providers, and which other mobile telecommunications providers charge us, has in the past frequently been adjusted by inflation.

In 2005, two agreements relating to interconnection fees were entered into: (i) among the fixed telephony incumbents (with the exception of Embratel) and the mobile service providers, pursuant to which our interconnection fee paid by other operators when their users access our network to communicate with our users was increased by 4.5%, for calls

completed by a number registered within that customer's home registration area (VC-1 calls) and (ii) among the fixed telephony incumbents (with the exception of Embratel) and the mobile service providers relating to the interconnection fees paid by the fixed telephony incumbents to the mobile service operators in the case of long distance calls, that is VC-2 and VC-3 calls, whereby such fees were increased by 7.99%.

In 2007, an additional agreement relating to interconnection fees entered into among the fixed telephony incumbents (with the exception of Embratel) and the mobile service providers established an average VU-M increase of 2%. The same parties also executed an additional agreement, which was homologated by Anatel, contemplating a 68.5% increase in the VU-M fee over the VC-1 adjustment for 2008. Accordingly, in 2008, the mobile received also an average VU-M increase of 2%.

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In March, 2009, there was an agreement between TIM and Embratel (because Embratel did not participate in the previous agreements) to establish the same conditions agreed between TIM and the other incumbents, with the applicable adjustments in terms of financial agreements. In 2010 there could be new negotiations concerning the VU-M agreements.

In December, 2009, Anatel defined that TIM must have only three VU-Ms, accordingly to the three authorization areas (PGA regions).

Long Distance

Telecommunications customers in Brazil are able to select long distance carriers on a per-call basis under the Carrier Selection, or the CSP program, introduced in July 2003, by punching in a two-digit code prior to dialing long distance. This regulation also increased the size of home registration areas, calls within which are local calls and, as a result, reduced the number of home registration areas.

For mobile customers, we offer long distance services to our customers throughout Brazil through our wholly-owned subsidiary TIM Celular. This service allows our mobile customers the option of continuing to use our service for long distance calls, which we believe strengthens our relationship with and the loyalty of our customers, and enhances the perception of our brand as a comprehensive mobile telecommunications service. Mobile customers of other service providers can also choose to use our long distance service.

Under this structure, a customer is charged the VC1 or VC rates directly by us only for calls made by and completed to a number registered within that customer's home registration area. Long distance calls, however, are charged to a customer by the chosen long distance carrier. Other long distance carriers, in turn, pay us a VU-M fee for any use of our network for a long distance call.

As determined by Anatel, our long distance usage rate categories are as follows:

- VC2. The VC2 rate applies to calls placed by a customer located in one of our home registration areas selecting us as the long distance carrier, on a per-call basis, to place a call to a person registered in another home registration area within the same wireless area recognized by Anatel;
- VC3. The VC3 rate applies to calls placed by a customer located in one of our home registration areas selecting us as the long distance carrier, on a per-call basis, to place a call to a person registered outside the same wireless area recognized by Anatel; and
- VU-M. VU-M is the fee another telecommunications service provider pays us for the use of our network by such provider's customers, in this case for long distance calls. (See "—Interconnection Charges.")

Intelig customers enjoy a 100% digital network covering international and domestic markets through long distance telecom services using the 23 operator's code. Due to the acquisition date of Intelig's have happened on December 30, 2009, the effect of its revenue will only be perceived during 2010.

Value-Added Services

We offer, directly or through agreements entered into with third parties, value-added services, including short message services or text messaging, multimedia messaging services, push-mail, video call, turbo mail, WAP downloads, web browsing, business data solutions, songs, games, TV access, voicemail, conference calling, chats and other content to our postpaid and prepaid customers. It is important to mention that we were the first mobile service provider in Brazil

to offer subscriptions for Blackberry service. Under various postpaid mobile plans some value-added services are included in the monthly subscription charge at a specified level of usage.

Value-added services represented 12.0% of our gross service revenues in 2009, 9.7% in 2008 and 7.9% in 2007. Accordingly, the 2009 consolidated income statement includes one month operation of Intelig (whole subsidiary of Holdco, which become a wholly-owned subsidiary of TIM Participações as a result of Holdco merger into TIM Participações). However, we experienced a significant growth in usage of these services in 2009, as illustrated by revenue growth from value-added services of 18.7% compared to 2008. We work with

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Telecom Italia, which makes substantial investment in developing new products, new technology and platforms, to evaluate the value-added services most prized by customers and to reduce implementation problems.

Short Message Services (SMS) or Text Messaging. Since December 2001, through agreements with other providers, we have offered two-way short (or text) message services, allowing our subscribers to send and receive short messages to and from users of networks of other carriers. In 2008, SMS represented approximately 36% of the revenue we derived from value-added services. Notwithstanding the expectation that other value-added services will begin to generate more revenue, we expect the proportionate contribution of SMS to remain at similar levels, since we believe SMS usage can continue to increase based on the lower usage rates in Brazil compared to Europe and the United States.

Multimedia Messaging Service (MMS). As an enhanced version of SMS, MMS allows customers the capability to send, in a single message, multiple color images, sounds and different size text to another mobile phone or e-mail account.

Downloads. We offer personalized ring tones, true tones, screen savers, business data solutions, games and video clips for downloading.

Web browsing. Wireless application protocol, or WAP is a global standard designed to make Internet services available to mobile telephone users. WAP allows a micro “browser” in a mobile phone to link into a gateway service in our network enabling users to browse through different pages of information on the Internet. We currently offer e-mail, data and information services and electronic commerce transactions, to our prepaid and postpaid users.

Data transmission. We also offer general packet radio services (GPRS) to our postpaid and prepaid subscribers through our GSM network. GPRS is a non-voice value-added service that allows information to be sent and received across a mobile network. GPRS radio resources are used only when users are actually sending or receiving data. Rather than dedicating a radio channel to a mobile data user for a fixed period of time, the available radio resource can be concurrently shared between several users. As a result, large numbers of GPRS users can share the same bandwidth and be served from a single cell. The number of users supported depends on the application being used and how much data is being transferred. Because of the spectrum efficiency of GPRS, there is less need to build in idle capacity that is only used during peak hours. GPRS therefore allows us to maximize the use of our network resources. Our network allows customers with enabled devices to use EDGE technology, which is an evolution of GPRS allowing higher data transmission and a better using experience. During 2008 we launched 3G services, which is a brand new technology that enhances the portfolio of value-added services (such as TV channels and speed of downloads). We believe that 3G is an important milestone in our path towards achieving market leadership.

Sales of Mobile Handsets and BlackBerry

We offer a diverse portfolio of approximately 74 handset models and BlackBerry from several manufacturers, including Nokia, Samsung, Motorola, Sony, Ericsson and BlackBerry, for sale through our dealer network, which includes our own stores, exclusive franchises, authorized dealers and department stores. We are focused on offering an array of handsets and BlackBerry with enhanced functionality for value-added services, including equipment that make 3G, GPRS, EDGE, MMS, MP3, tri-band, infra-red, Bluetooth, browsers, internet, e-mail and Java available, while reducing reliance on the subsidies for handsets that have characterized the Brazilian market. Our mobile handsets and BlackBerry can be used in conjunction with either our prepaid or postpaid service plans. At present, we believe that supplies of mobile handsets and BlackBerry are sufficient to satisfy demand. See “—Our Network.”

Co-Billing Services

Co-billing occurs when we bill our customers on behalf of another long distance service provider for services rendered to our customer by that carrier. Beginning July 2003, we started providing co-billing services to other telecommunication service providers operating in Brazil. The rates of such services are being negotiated under the supervision of Anatel.

Sales and Marketing

We commenced marketing our mobile telecommunications services under the brand “TIM” in March 1999. We divide our market into three main categories: large business customers (businesses with four or more mobile lines), medium business customers (businesses with fewer than four mobile lines), and individual customers.

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These categories are divided further according to level of usage, distinguishing, for example, high-volume users from other categories of usage. We take these categories into account when developing service plans, sales strategies, customer service strategies and new products, as well as for billing and collection purposes. We also use market research reports and focus group studies to analyze our customer base. We refer to this analytical approach to our customer base as “customer segmentation.” Our strategy has been focused on the acquisition and retention of highly valued clients in all segments and on the pursuit of operating efficiency in supporting the expansion of our client base. We currently intend to reduce our level of promotions and subsidies for handsets and certain prepaid services, and to focus our sales and marketing efforts on postpaid customers, high quality prepaid customers and service plans. In addition, although there can be no assurance, if we achieve and maintain a clear lead in customer satisfaction, we believe we will be well placed and benefit from number portability, recently introduced in Brazil.

As of December 31, 2009, our services were marketed through the largest distribution network in Brazil with over 8,957 points of sale (9,450 in 2008), of which approximately 60 were our own stores. In addition, we had over 365,543 recharging points for prepaid service. We market our services through a network of stores, including general retail stores that sell our mobile telecommunications services and related goods on a non-exclusive basis, and dedicated outlets that sell our services and goods exclusively. We, however, intend to focus on sales through our exclusive stores and franchises as opposed to general retail stores where subsidies often generate losses. Sales of our products and services are offered by our sales personnel and also by authorized dealers, who are not our employees. We select our authorized dealers based on a number of factors including the suitability of the premises in which our services and ancillary merchandise will be offered. Our personnel and authorized dealers receive ongoing training and marketing support.

Our Network

Our wireless networks use only digital technologies, primarily GSM, and cover approximately 93% of the urban Brazilian population based to Anatel’s coverage criteria. In four areas, in addition to GSM we offer TDMA, a technology that divides radio spectrum into assigned time slots to transmit signals. As of December 31, 2009, approximately 99.9% of our subscribers used GSM technology and we expect our remaining TDMA customers to migrate to GSM within the next few years. During 2008 we implemented 3G services within our network, which enable users to experience a higher level of connectivity through broadband internet access and TV high speed downloads. As of December 31, 2009, we had 2,142 sites ready to operate under 3G. With our acquisition of TIM Celular, we hold authorizations from Anatel to provide our mobile services in each of the ten wireless areas of Brazil over various frequency spectrums. We are also monitoring the status of the possible auction of new bandwidth authorizations by Anatel. We view the purchase of any frequency made available by Anatel for the provision of mobile services as a priority since having available frequency is at the core of our business.

Our wireless network principally includes transport and computer equipment, as well as exchange and transmission equipment consisting primarily of switches and 10,040 radio base stations in our GSM network and 912 radio base stations in our TDMA network as of December 31, 2009. The network is connected primarily by a fiber-optic transmission system leased mainly from Intelig, Telemar, Embratel, Brasil Telecom and Telefônica. Nokia, Ericsson and Siemens are our main suppliers of GSM network equipment. Our GSM radio bases are equipped to receive the new 3G technology equipments, which have been installed in 2,142 sites in seventeen Brazilian states.

In light of the widespread geographic coverage we have already achieved, we are focusing the further expansion and improvement of our GSM network on areas where it is important to increase the quality of our coverage, such as in tunnels, along major roadways, inside buildings in metropolitan areas and in frequented areas, such as tourist destinations, which typically experience high mobile use. We also will continue to ensure our network has the capacity to absorb high call volume where relevant.

Upon completion of the acquisition of Intelig on December 30, 2009, the Company acquired approximately 16,200 kilometers in fiber optic cable networks, spanning the length of Brazil, with capacity of over 160 Gbps. Intelig's IP network uses Cisco and Juniper equipment, and its state-of-the-art backbone with 40 Gbps capacity has MPLS (multiprotocol label switch) technology, granting superior security to information traffic. The switching exchanges and the Intelligent Network platform enable the company to offer flexible, high quality, voice services, at extremely competitive prices. The satellite network covers distant areas of the country and is being expanded and renewed to provide high capacity private lines to Carriers and Corporate customers. The Company also acquired capacity in major top submarine cable systems, such as AmericasII, Globenet and Atlantis2.

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Site-Sharing Agreements

With the objective of avoiding unnecessary duplication of networks and infrastructures, Anatel permits telecommunications service providers to use other providers' networks as secondary support in providing telecommunications services. Therefore, we have allowed other telecommunications service providers to use our infrastructure, and we have used others' infrastructure, pursuant to site-sharing agreements we have entered into with such providers.

Customer Service

TIM's business vision is the quest for customer satisfaction through continuous improvements of processes and systems that facilitate the relationship between the company and its customers regardless of the channel of communication. Thus, it monitors and analyzes information from its system of relations (CRM) and local record of customer interactions with the company through a customer driven organization, offering unique and innovative service in all points of contact.

In this daily pursuit of customer satisfaction TIM endeavors to train its relationship consultants, reviewing processes and procedures of care, improving and optimizing systems and thus ensuring that the daily relationship with their clients is the best possible and that the customer is satisfied.

On December 1, 2008, when Ordinance 6.523 (Decreto Lei 6.523) which regulates phone customer service, entered into force, TIM improved its service to its customers by adjusting its systems and processes.

For example, TIM invested in an automated process which provides protocols through interactive voice response ("IVR"), enabling client identification and manual selection of options, and recording and reporting through a unique sequential protocol. Additionally, TIM offers a cancellation and complaint option on its main menu to facilitate access by the client.

With respect to call transfers, TIM invested in its CRM tool, adding new functions that do not require the client to repeat a request if the client is transferred to a second operator. These improvements of the CTI and CRM systems ensure the transfer of customer data at the time of the call, minimizing the number of calls transferred improperly.

For hearing impaired clients, TIM offers a preferential service through text messages, with storage of historical data service, which can be retrieved for later delivery. Furthermore, TIM invested in a tool that allows a client's customer care service history to be retrieved and sent to the client on demand. This service is available for communications via regular mail, e-mail, fax and text messages.

Finally, adjustments to the quality of customer service were made in order to minimize waiting time.

Billing and Collection

Our company-wide, integrated billing and collection systems are provided by a third-party vendor. These systems have four main functions:

- customer registration;
- customer information management;
- accounts receivable management; and

- billing and collection.

These billing systems give us significant flexibility in developing service plans and billing options. Certain aspects of billing customers in Brazil are regulated by Anatel. For mobile telephones, currently if a customer's payment is more than 15 days overdue, we can suspend the customer's ability to make outgoing calls, and if the payment is 45 days overdue, we can suspend the customer's ability to receive incoming calls. After 90 days from the customer's payment due date, we generally discontinue service entirely, although discontinuation of service is sometimes delayed between 120 and 180 days after the due date for valued customers. For fixed telephones, if a customer's payment is more than 30 days overdue, we can suspend the customer's ability to make outgoing calls, and if the payment is 60 days overdue, we can suspend the customer's ability to receive incoming calls. The rules of discontinuation of fixed service are the same as applied for the mobile service.

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Pursuant to Anatel regulations, we and other telephone service providers periodically reconcile the interconnection and roaming charges owed among them and settle on a net basis. See “—Sources of Revenue—Interconnection Charges” and “—Sources of Revenue—Roaming Fees.” Currently, the roaming reconciliation process is largely managed by industry sponsored groups, including Verisign Clearing House for domestic roaming TDMA and MACH for domestic and international GSM, while the interconnection reconciliation process is primarily managed directly by us.

Fraud Detection and Prevention

“Subscription fraud,” which consists of using identification documents of another individual to obtain mobile services, and “cloning fraud,” which consists of duplicating the mobile signal of a mobile subscriber and thereby allowing the perpetrator to make calls using the subscriber’s signal, are the two principal types of fraud relating to mobile, fixed and long distance service. Since a substantial majority of our customers use GSM, an entirely digital technology, we experience a low level of “cloning fraud” which is fairly common in parts of Brazil for users of TDMA, CDMA and other technologies that use analog technology either entirely or in connection with some roaming services.

We have implemented cloning fraud-prevention measures, including restrictions on the level of international calls, and cloning fraud-detection measures, including review of call records to detect abnormal usage patterns, in an effort to detect fraud as quickly as possible and thereby reduce the associated costs. We use a nationwide fraud detection system licensed from Hewlett Packard. This system analyzes various aspects of mobile, fixed and long distance service usage including simultaneous usage by a single customer, call frequency and unusually high usage patterns.

As part of our commitment to excellent customer service, in the limited instances in which our customers experience cloning fraud, the customer’s number, mobile telephone or fixed telephone, or both, are changed free of charge. If subscription fraud has occurred, both the applicable number and the mobile telephone line are terminated. If part of a fraudulent call is carried by the network of another service provider, we are generally obligated to pay that service provider the applicable interconnection fee, regardless of whether we ever collect the receivable associated with the call.

Most of TIM’s efforts in 2008 were focused on implementing fraud prevention measures in point of sales, including digital authentication for our sales front end system and strong training program as well as monitoring and identification of points of sale. Customers’ credit history is also being checked during the application process.

Competition

Mobile Competitors

In addition to TIM, there are three other major participants in the Brazilian mobile market that also offer nationwide coverage, Vivo, Claro and Oi.

TIM is the brand name under which we market our mobile telecommunications services. We offer GSM, including 3G, EDGE, and TDMA technology. Currently, our subsidiaries, hold mobile licenses for each of the ten wireless areas of Brazil recognized by Anatel, making us the only mobile operator in Brazil offering nationwide coverage. In two of our ten areas we are the Telebrás legacy provider. Our network covers approximately 94% of the country’s population based on Anatel’s coverage criteria.

We have two major competitors in Brazil:

- Vivo, which is jointly controlled by Portugal Telecom and Spain’s Telefónica Móviles, until 2007 was operating in eight wireless areas of Brazil recognized by Anatel, using TDMA and CDMA, and in 2007 started to use GSM

technology in 800 MHz and 1900 MHz and in 2008 started the UMTS in 2100 MHz; and

- Claro, which is controlled by America Móvil, until 2008 was operating in nine wireless areas of Brazil recognized by Anatel, using GSM and TDMA technology (Claro started to operate in area 8).

In addition, we also compete with “Oi” (the new Telemar brand), in all areas.

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The Brazilian mobile telecommunications industry is highly competitive. Any adverse effects on our results and market share from competitive pressures will depend on a variety of factors that cannot be assessed with precision and that are beyond our control. Among such factors are our competitors' size, experience, business strategies and capabilities, the prevailing market conditions and the applicable regulations.

Other Competition

We also compete with fixed line telephone service providers. The fixed line incumbent providers in Brazil (Oi, Brasil Telecom, Telefonica and Embratel) offer packages of services including voice (both fixed line and mobile), broadband and other services, an approach called "bundling." Fixed line providers are, however, required to offer their services to unaffiliated mobile providers on the same basis they are offered to affiliated mobile providers. Our acquisition of Intelig has broadened our participation in the fixed telecommunication sector.

On April 27, 2000, Anatel issued Resolution No. 221/00, later superseded by Regulation No. 404 of May 5, 2005, regulating Specialized Mobile Service, or trunking, which is based on push-to-talk technology, with rules similar to the ones applicable to the mobile telecommunications services. Trunking service providers are not permitted to offer their services to individuals, and, therefore, will be competing with us exclusively in the corporate segment of our market. Nextel has provided trunking services in Brazil since 2001.

Seasonality

We have experienced a trend of generating a significantly higher number of new clients and handset sales in the fourth quarter of each year as compared to the other three fiscal quarters. A number of factors contribute to this trend, including the increased use of retail distribution in which sales volume increases significantly during the year-end holiday shopping season, the timing of new product and service announcements and introductions, aggressive marketing and promotions in the fourth quarter of each year.

Our Operational Contractual Obligations

For more information on our material contractual obligations, see "Item 10C. Additional Information—Material Contracts."

Interconnection Agreements

We have entered into interconnection agreements with most telecommunications service providers operating in Brazil. The terms of our interconnection agreements include provisions specifying the number of interconnection points, the method by which signals must be received and transmitted, and the costs and fees for interconnection services. Due to our migration to PCS, we have adapted our interconnection to conform to the new PCS rules and submitted these revised contracts to Anatel. Nevertheless, even in the absence of approval by Anatel, the parties to these interconnection agreements are obligated to offer interconnection services to each other. See "—Regulation of the Brazilian Telecommunications Industry—Interconnection Regulation."

Roaming Agreements

We have entered into roaming agreements for automatic roaming with other cellular service providers operating outside our Regions. Automatic roaming permits our clients to use their mobile telephones on the networks of other cellular service providers while traveling or "roaming" in Brazil outside our Regions. Similarly, we provide cellular telecommunications service to customers of other cellular service providers when those customers place or receive calls while visiting our Regions. The cellular service providers party to these agreements must provide service to

roaming clients on the same basis that they provide service to their own clients and to carry out a monthly reconciliation of roaming charges.

Through TIM Brasil, we are a member of the Roaming Management Committee (now named ABR – Associação Brasileira de Recursos em Telecomunicações), a group comprised of all cellular and fixed telecommunications service providers operating in Brazil. The Roaming Management Committee was created to independently control the activities related to TDMA & CDMA roaming services in Brazil and some international roaming agreements entered into by Brazilian companies with telecommunications service providers operating in the member countries of Mercosul.

The GSM national and international roaming services is supported by individual agreements with the companies partners.

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International Roaming Agreements

We have roaming agreements with other GSM telecommunications service providers operating in 185 countries with 400 contracts.

Site-Sharing Agreement

With the objective of avoiding unnecessary duplication networks and infrastructures, Anatel permits telecommunications service providers to use other providers' networks as secondary support in providing telecommunications services. Therefore, we have allowed other telecommunications service providers in our region to use our infrastructure, and we have used others' infrastructure, pursuant to site-sharing agreements we have entered into with them.

Co-billing

Co-billing occurs when we bill one of our customers on behalf of a long distance service provider for services rendered to our customers by that carrier. We provide co-billing services to all long distance operators on terms that are freely negotiated in accordance with Anatel regulations.

Taxes on Telecommunications Goods and Services

The costs of telecommunications goods and services to clients are subject to a variety of federal, state and local taxes (in addition to taxes on income), the most significant of which are ICMS, ISS, COFINS, PIS, FUST Tax, FUNTTEL Tax, FISTEL Tax and Income Tax, which are described below.

- **ICMS.** The principal tax applicable to telecommunications goods and services is a state value-added tax, the Imposto sobre Circulação de Mercadorias e Serviços, or ICMS, which the Brazilian States levy at varying rates on certain revenues arising out of the sale of goods and services, including certain telecommunications services. The ICMS tax rate for domestic telecommunications services is levied at rates between 25% and 35%. The ICMS tax rate levied on the sale of mobile handsets averages 17% throughout the Regions, to the exception of certain handsets whose manufacturers are granted certain local tax benefits, thereby reducing the rate to as much as 7%. In 2005, certain of the states in Brazil started to charge ICMS on the sale of mobile handsets under a "tax replacement" system, under which the taxpayer that manufactures the goods is required to anticipate and pay ICMS amounts that would otherwise only become due in later steps of the distribution chain. In May 2005, the States decided, with the exception of the state of Alagoas and the Federal District, that as from January 2006, the sellers should issue invoices of communications services (Model 22) corresponding to the value of tax due on the sale of calling cards to dealers or final customers. The amount of ICMS tax due in such transactions is passed on to the dealers or final consumers.
- **ISS.** The Imposto Sobre Serviços, or ISS, taxes on certain services listed in the List of Services prescribed by Complementary Law No. 116/03 ("LC116/03"). This list also includes certain services that have the purpose of providing goods. Municipalities impose this tax at varying rates, but in the majority of large cities, the ISS rate is the highest rate allowed (5%). The tax basis of the ISS is the price of the service, minus certain exceptions (such as construction services). As provided by Constitutional Amendment No. 20, dated June 12, 2002, municipalities must charge a minimum rate of 2% and they must not directly or indirectly grant tax benefits that may result in an effective rate below 2%. In August 2003, the LC 116/03, established a new framework for the ISS, which pressed Municipalities to adapt their respective ISS legislation in order to comply with the rules set forth by LC 116/03. Such new federal rules are effective as from January 1, 2004.

- **COFINS.** The Contribuição Social para o Financiamento da Seguridade Social, or COFINS, is a social contribution levied on gross revenues (which may include financial revenue, depending on the systematics applicable to each business). On November 27, 1998, the Brazilian government increased the COFINS rate from 2% to 3% but permitted taxpayers to offset up to one-third of the amount of COFINS paid against the amount owed as Contribuição Sobre Lucro Líquido (“CSLL”), a social contribution tax assessed on net income. The ability to offset COFINS against CSLL was subsequently revoked for periods after January 1, 2000. On January 1, 2000, we began to pay the COFINS tax over our bills at a rate of 3%. In December 2003, through the Law no 10.833, the COFINS legislation was further amended, making this tax noncumulative, raising its rate to 7.6% to certain transactions, except in connection with telecommunications services, for which the rate continues to be 3%.

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- PIS. The Programa de Integração Social, or PIS is another social contribution, levied, prior to December 2002, at a rate of 0.65%, on gross revenues from certain telecommunications service activities (both operating and financial) and handset sales. In December 2002, Law n° 10.637 was enacted, making such contribution non-cumulative and increasing the rate to 1.65% on gross revenues from sales of handsets, except in connection with telecommunications services, for which the rate continues to be 0.65%.
- FUST. On August 17, 2000, the Brazilian government created the Fundo de Universalização dos Serviços de Telecomunicações, or FUST, a fund that is supported by a interference with the economic order contribution tax applicable to all telecommunications services, or FUST Tax. The purpose of the FUST is to reimburse a portion of the costs incurred by telecommunications service providers to meet the universal service targets required by Anatel (such as targets for rural and impoverished areas, schools, libraries and hospitals), in case these costs are not entirely recovered through the collection of telecommunications service fees and charges. The FUST Tax is imposed at a rate of 1% on gross operating revenues, net of ICMS, PIS and COFINS, and its cost may not be passed on to clients. Telecommunications companies can draw from the FUST to meet the universal service targets required by Anatel.

On December 15, 2005, Anatel enacted Precedent No. 7/05 requiring that FUST be paid on revenues arising from interconnection charges since the effectiveness of the FUST. A notice was issued deciding that the company must adjust values on FUST statements to calculate the tax due related to the FUST assessment on interconnection charges, or those values would be enrolled under the federal overdue tax liability and charged with penalties and interests. A writ of mandamus was filed for relief from the FUST assessment under the interconnection charges under the terms of Precedent No. 7/05 and was decided favorably to the company. Although such first level decision may still be challenged in the near future (i.e. is still subject to appeal and does not constitute res judicata), it is now in full force and effect.

- FUNTTEL. On November 28, 2000, the Brazilian government created the Fundo para Desenvolvimento Tecnológico das Telecomunicações, or FUNTTEL, a fund that is supported by a social contribution tax applicable to all telecommunications services, or the FUNTTEL Tax. The FUNTTEL is a fund managed by BNDES and FINEP, a government research and development agency. The purpose of the FUNTTEL is to promote the development of telecommunications technology in Brazil and to improve competition in the industry by financing research and development in the area of telecommunications technology. The FUNTTEL Tax is imposed at a rate of 0.5% on gross operating revenues, net of ICMS, PIS and COFINS, and its cost may not be passed on to clients.
- FISTEL. The Fundo de Fiscalização das Telecomunicações, or FISTEL, a fund supported by a tax applicable to telecommunications services, or the FISTEL Tax, was established in 1966 to provide financial resources to the Brazilian government for its regulation and inspection of the sector. The FISTEL Tax consists of two types of fees: an installation inspection fee assessed on telecommunications stations upon the issuance of their authorization certificates, as well as every time we activate a new mobile number, and an annual operations inspection fee that is based on the number of authorized stations in operation as well as the total basis of mobile number at the end of the previous calendar year. The amount of the installation inspection fee is a fixed value, depending upon the kind of equipment installed in the authorized telecommunications station. Effective April 2001, the installation and inspection fee has been assessed based on net activations of mobile numbers (i.e., the number of new cellular activations reduced by the number of cancelled subscriptions), as well as based on the net additions of radio base stations. The operations inspection fee equals 50% of the total amount of installation inspection fees that would have been paid with respect to existing equipment.
- Income tax. Income tax expense is made up of two components, a federal income tax and a social contribution tax on taxable profits, which is known as the “social contribution tax.” The federal income tax also includes two components: a federal income tax and an additional income tax. The federal income tax is payable at the rate of

15%. Additional income tax of 10% will be levied on the share of taxable profits exceeding R\$0.02 million accrued monthly. The social contribution tax is currently assessed at a rate of 9.0% of adjusted net income.

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. As a result, profits, capital gains and other income obtained abroad by Brazilian entities are

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added to their net profits for tax purposes. In addition, profits, capital gains and other income obtained by foreign branches or income obtained from subsidiaries or foreign corporations controlled by a Brazilian entity are computed in the calculation of an entity's profits, in proportion to its participation in such foreign companies' capital. In principle the Brazilian entity is allowed to deduct income tax paid abroad, up to the amount of Brazilian income taxes imposed on such income (reciprocity of treatment between Brazil and the country from which the income or gain comes from is required in order for this rule to apply). Effective January 1, 2002, profits (including retained profits from previous years) realized by a Brazilian entity from controlled or affiliated companies are taxed as of the date of the Brazilian entity's year-end balance sheet, unless the Brazilian entity is liquidated before the date of its year-end balance sheet, in which case the profits are taxed at the time of its liquidation.

Prior to January 1, 2002, profits realized by an entity in Brazil from a branch or agency were taxed as of the date of the Brazilian entity's year-end balance sheet, and profits from a controlled or affiliated company were taxed as of the date such amounts were paid or made available to the Brazilian company as dividends or otherwise.

Dividends are not subject to withholding income tax when paid. However, as the payment of dividends is not tax deductible for the company distributing them, there is an alternative regime for stockholder compensation called "interest on equity," which allows companies to deduct any interest paid to stockholders from net profits for tax purposes.

These distributions may be paid in cash. The interest is calculated in accordance with daily pro rata variation of the Brazilian government's long-term interest rate - TJLP, as determined by the Central Bank from time to time, and cannot exceed the greater of: (i) 50% of the net income (before taxes and already considering the deduction of the own interest amount attributable to stockholders) related to the period in respect of which the payment is made; or (ii) 50% of the sum retained profits and profits reserves as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest to stockholders is subject to withholding income tax at the rate of 15% or 25% in the case of a stockholder who is domiciled in a tax haven. These payments may be qualified, at their net value, as part of any mandatory dividend.

Losses carried forward are available for offset during any year up to 30.0% of annual taxable income. No time limit is currently imposed on the application of net operating losses on a given tax year to offset future taxable income within the same tax year.

Regulation of the Brazilian Telecommunications Industry

General

Our business is subject to comprehensive regulation under the General Telecommunications Law, and a comprehensive regulatory framework for the provision of telecommunications services promulgated by Anatel.

Anatel is the regulatory agency for telecommunications under the General Telecommunications Law and the October 1997 Regulamento da Agência Nacional de Telecomunicações (the "Anatel Decree"). Anatel is administratively independent and financially autonomous. Anatel maintains a close relationship with the Ministry of Communications and is required to report its activities to the Ministry of Communications. It has authority to propose and to issue regulations that are legally binding on telecommunications service providers. Any proposed regulation or action by Anatel is subject to a period of public comment, which may include public hearings, and may be challenged in Brazilian courts.

Authorizations and Concessions

With the privatization of the Telebrás system and pursuant to the Lei Mínima (the “Minimum Law”), Band A and Band B service providers were granted concessions under SMC regulations. Each concession was a specific grant of authority to supply cellular telecommunications services in a defined geographical area, subject to certain requirements contained in the applicable list of obligations appended to each concession.

Through resolutions enacted in September 2000 and January 2001, Anatel launched the PCS regime, and began encouraging cellular service providers operating under SMC regulations to convert their concessions into

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authorizations under PCS regulations. According to the rules issued by Anatel, SMC providers would not be able to renew their concessions to provide SMC services, and were compelled to convert to the PCS regime in order to continue their operations. The permission from Anatel to transfer the control of these companies were also conditioned on rules that compelled SMC providers to migrate its SMC concessions to PCS authorizations, and to operate under the PCS regulations.

In 1997 and 1998, TIM Sul's, TIM Nordeste Telecomunicações' and TIM Maxitel's predecessors were granted SMC concessions and in December 2002, TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel's converted their SMC concessions into PCS authorizations, with an option to renew the authorizations for an additional 15 years following the original expiration dates of the concessions. TIM Celular acquired PCS authorizations in conjunction with auctions of bandwidth by Anatel in 2001, and subsequently acquired additional authorizations and operations under the PCS regulations as well.

The following table shows the expiration date of the initial period of each of TIM Celular's PCS authorizations:

Territory	Expiration date	
	Authorization 800 MHz, 900 MHz and 1,800 MHz	Radiofrequencies 3G
State of Paraná (except for cities of Londrina and Tamarana)	September 3, 2022	April 30, 2023
State of Santa Catarina	September 30, 2023	April 30, 2023
Cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu (State of Rio Grande do Sul)	April 14, 2024	April 30, 2023
State of Rio Grande do Sul (except the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu)	March 12, 2016	April 30, 2023
City of São Paulo (State of São Paulo)	March 12, 2016	April 30, 2023
State of São Paulo (except the city of São Paulo)	March 12, 2016	April 30, 2023
States of Rio de Janeiro and Espírito Santo	March 29, 2016	April 30, 2023
States of Maranhão, Pará, Amapá, Amazonas and Roraima	March 29, 2016	April 30, 2023
States of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás and the Federal District	March 12, 2016	April 30, 2023
Cities of Londrina and Tamarana (State of Paraná)	March 12, 2016	April 30, 2023
State of Pernambuco	May 15, 2024	April 30, 2023
State of Ceara	November 28, 2023	April 30, 2023
State of Paraíba	December 31, 2023	April 30, 2023
State of Rio Grande do Norte	December 31, 2023	April 30, 2023
State of Alagoas	December 15, 2023	April 30, 2023
State of Piauí	March 27, 2024	April 30, 2023
State of Minas Gerais (except for the "Triângulo Mineiro" (*) municipalities for Radio-frequencies 3G)	April 7, 2013	April 30, 2023
States of Bahia and Sergipe	August 6, 2012	April 30, 2023

According to the General Telecommunications Law and regulations issued by Anatel thereunder, licenses to provide telecommunications services are granted either under the public regime, by means of a concession or a permission, or under the private regime, by means of an authorization. Only certain fixed-line service providers are currently operating under the public regime. All the other telecommunications services providers in Brazil are currently operating under the private regime, including all the PCS services providers.

Telecommunications services providers under the private regime are classified as either providing a service of collective interest or restricted interest. Collective interest private regime services are subject to requirements imposed by Anatel under their authorizations and the General Telecommunications Law. Restricted interest private regime services are subject to fewer requirements than public regime or collective interest private regime services. According to the General Telecommunications Law and the regulation thereunder, all the PCS services providers in Brazil operate under the collective interest private regime.

Obligations of Telecommunications Companies

In November 1999, Anatel and the Brazilian mobile service providers jointly adopted a “Protocol for Mobile Cellular Service Providers” (the “Protocol”). The Protocol established additional quality of service targets and rates, which SMC operators were required to achieve by June 2001. Although the General Telecommunications Law does not specify any penalties for failing to meet the targets required by the Protocol, Anatel was required to examine the performance of the Brazilian telecommunications companies under the Protocol’s standards. Despite migration to PCS in December 2002, from January to June 2003, we reported to

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Anatel regarding, and had complied with, all quality of service indicators applicable to SMC operators. The Protocol ceased to be applicable to TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel after July 2003.

Beginning in September 2003, we became subject to the PCS quality of service indicators. Our quality of service obligations under our PCS authorizations differ substantially from those under the previous SMC concessions. See “—PCS Regulation.” Since December 2003, we have achieved the majority, but not all of the service of quality requirements applicable to the PCS service operators. Some of our PCS quality of service indicators are currently difficult to achieve due to, for example, our dependence on the performance of third parties and the continuing clarification of some of the quality of service measurements under the PCS rules. As a result since 2004 Anatel has been filing administrative proceedings against TIM Celular and TIM Nordeste for non-compliance with certain of our quality of service obligations. In some of these proceedings, Anatel applied a fee that did not cause a material adverse effect on our business, financial condition and results of operations. We will continue to strive to meet all of our quality of service obligations under the PCS authorizations, but we can provide no assurance that we will be able to do so. For information about administrative proceedings instituted, see “Item 8A. Financial Information—Consolidated Statements and Others Financial Information —Legal Proceedings.”

PCS Regulation

In September 2000, Anatel promulgated regulations regarding PCS wireless telecommunications services that are significantly different from the ones applicable to cellular companies operating under Band A and Band B. The new rules allow companies to provide wireless telecommunications services under PCS authorizations. The PCS authorizations allow new entrants in the Brazilian telecommunications market to compete with existing telecommunications service providers.

According to rules issued by Anatel, renewal of a concession to provide cellular services, as well as permission from Anatel to transfer control of cellular companies, are conditioned on agreement by such cellular service provider to operate under the PCS rules. TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel converted their cellular concessions into PCS authorizations in December 2002, and later transferred them to TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel, which are now TIM Celular and TIM Nordeste subject to obligations under the PCS regulations. See “—Authorizations and Concessions.”

In connection with the PCS authorization auctions in 2001 and 2002, Anatel divided the Brazilian territory into three separate regions, each of which is equal to the regions applicable to the public regime fixed-line telephone service providers. PCS services may only be provided under Bands C, D and E licenses which initially 1800 MHz band (after words encompass also the 900 MHz band) and were auctioned by Anatel in 2001 and 2002. TIM acquired the D band in regions II and III and the E band in region I, filling the national coverage, considering the TIM Sul, TIM Nordeste and Maxitel coverage.

In December 2007, TIM Celular acquired new authorization for 1800 MHz in São Paulo and Rio de Janeiro States in order to improve its radio frequency capacity in these regions.

In the same auction, Claro and Vivo acquired authorization to provide PCS services in regions where TIM provides services but where Claro and Vivo previously did not provide such services by using 1800 MHz and 1900 MHz bands, therefore now competing with TIM in these regions. In the same auction, Oi received authorization to provide PCS services in the state of São Paulo by using 1800 MHz (band M in the whole state and band E in the state’s countryside).

Anatel has initiated administrative proceedings against TIM Celular and TIM Nordeste for noncompliance with certain quality standards and noncompliance with the rules and the authorization terms. We have been fined by Anatel

in several proceedings and are still discussing the penalty imposed in appeals before the agency. As a result of these proceedings, Anatel applied some fines that did not cause a material adverse effect on our business, financial condition and results of operations. In the year ended December 31, 2009, the total amount of these fines was R\$72.4 million,. However, only R\$14.1 million were classified as “probable loss” by our legal advisors. We cannot give assurance that we will be able to fully comply with our obligations under the PCS regime or with future changes in the regulations to which we are subject. See “—Obligations of Telecommunications Companies”, “Item 3D. Key Information—Risk Factors—Risks Relating to our Business” and “Item 8A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings.”

According to the new PCS regulations, we are required to adjust our operating processes and agreements to such new rules, including our interconnection agreements, as well as agreements with our customers. By April 2005, substantially all of our interconnection arrangements were covered by agreements that had been amended to reflect the PCS regulations.

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In August 2007, Anatel issued a new resolution n° 477 establishing new obligations regarding PCS, in particular in connection with users' rights towards their mobile services providers. The new resolution came into effect in February 2008. The main PCS new regulatory obligations include the following:

- Creating at least one customer service department for each municipality division;
 - Increasing prepaid card terms (from 90 days to at least 180 days);
 - Reimbursing prepaid credits;
- Supplying a protocol number for each communication with a customer;
 - Sending such protocol number by SMS;
- Cancelling service in every customer's service channel of the Company;
 - Cancelling service in 24 hours;
 - Sending free prepaid card detailed report of service use;
 - Changing rules for scheduled billing of postpaid customers;
- Ceasing to impose fines on customers based on breach of loyalty plans; and
 - Taking measures to prevent SMS spamming.

Interconnection Regulation

Telecommunications service providers are required to provide interconnection according to the "General Interconnection Rules," adopted by Anatel through Resolução 410/05, which replaced Resolução 40/98. The terms and conditions of interconnection are to be negotiated by the parties, within certain guidelines established by Anatel, which indicate that the Agency will not allow anti-competitive practices, especially the exercise of subsidies or artificial decreases in price, the unauthorized use of competitors information, the omission of relevant technical and commercial information, prevent abusive demands to enter into interconnection agreements, intentional delay in negotiation, coercion in order to enter into an interconnection agreement, and imposition of conditions that lead to the inefficient use of the network or equipment. Even though the rule is that interconnection prices will be freely negotiated by the operators, Anatel has discretionary authority to set the price for the interconnection (based on a Fully Allocated Cost model) if the operators are unable to reach a consensus or if the prices agreed upon are damaging to competition. Interconnection agreements must be approved by Anatel before they become effective.

Telecommunications service providers must make available public interconnection offers with all information relevant for the establishment of an interconnection (applicable regulation is vague as to the scope of information that must be included in the public interconnection offer), ensuring non-discriminatory treatment of service providers interest in such interconnection.

In March 2005, Anatel issued a Regulation of Account Allocation and Segregation applicable to incumbents and economic groups holding significant market power in the fixed telephony or PCS interconnection networks in the leased lines market. See "—Significant Market Power."

In July 2006, Anatel, through Rule 438, terminated the partial bill and keep system – by means of which one mobile operator paid another one when the proportion between their outbound and inbound traffic was in excess of the 45% to 55% range. As a result, mobile operators began to pay and receive integrally costs and revenues, respectively, for network use based on total traffic. The same rule established that the interconnection fee (VUM) will continue to be freely negotiated between operators and set forth a discount for off-peak calls – depending on the time of the day when the call is made – for mobile operators in originated and such long distance calls (VC-2 and VC-3). Further, under the new regulation, the interconnection fee (VU-M) remains freely negotiable but Anatel will more strictly regulate operators with significant market power in the future. See “Item 3D. Key Information—Risk Factors—Risks Relating to the Brazilian Telecommunications Industry.”

In 2006, two agreements relating to interconnection fees were entered into: (i) among the fixed telephony incumbents (with the exception of Embratel) and the mobile service providers, pursuant to which our

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interconnection fee paid by other operators when their users access our network to communicate with our users was increased by 4.5%, for calls completed by a number registered within that customer's home registration area (VC-1 calls) and (ii) among the fixed telephony incumbents (with the exception of Embratel) and the mobile service providers relating to the interconnection fees paid by the fixed telephony incumbents to the mobile service operators in the case of long distance calls, that is VC-2 and VC-3 calls, whereby such fees were increased by 7.99%.

On March 27, 2006, Anatel approved an increase of 7.99% in VC-2 and VC-3 (national long distance fixed to mobile calls) to the local incumbent fixed operators. Concurrently, Anatel approved provisory contracts entered into among the incumbents and the mobile operators providing for an increase of 4.5% to the VU-M (interconnection fee due to mobile operators). An arbitration procedure before Anatel more recently confirmed such VU-M increase.

In 2007, an additional agreement relating to interconnection fees entered into among the fixed telephony incumbents (with the exception of Embratel) and the mobile service providers established an average VU-M increase of 2%. The same parties also executed an additional agreement, which was homologated by Anatel, contemplating a 68.5% increase in the VU-M fee over the VC-1 adjustment for 2008. Accordingly, in 2008, the mobile received also an average VU-M increase of 2%.

Significant Market Power

In 2005, Anatel issued specific regulations regarding telecommunications service providers with significant market power. Anatel has indicated that it will establish more stringent regulations for economic groups with significant market power in order to ensure market competition. In July 2006, Anatel issued a regulation regarding the remuneration of mobile operators network and brought to the mobile industry the concept of significant market power. Under such regulation, as from a future date to be established by Anatel, the Agency would determine, based on a fully allocated cost model, a reference value for a network usage fee (VU-M) of companies that are deemed to hold significant market power. Such value will be reassessed every 3 years. In order to determine the companies that have a significant market power in the mobile interconnection market, Anatel indicated that it will consider: market share in the mobile interconnection market and in the mobile services market, economies of scope and scale, dominance of infrastructure that is not economically viable to duplicate, existence of negotiation power to acquire equipments and services, existence of vertical integration, existence of barriers to entry, access to financing sources.

Until Anatel defines which groups have significant market power for purposes of the mobile network remuneration rules, all groups that include a SMP provider will be considered as having significant market power in the mobile interconnection sector in their respective services areas.

Rate Regulation

Under our PCS authorizations, we are allowed to set prices for our service plans, subject to approval by Anatel, provided that such amounts do not exceed a specified inflation adjusted cap. Anatel currently uses the IST (Índice de Serviços de Telecomunicações), a general price inflation index developed by Fundação Getulio Vargas, a private Brazilian foundation, in evaluating prices and determining the relevant cap for prices charged in the telecommunications industry. Beginning in 2010, we expect Anatel to begin to evaluate prices in the telecommunications industry based on a model that takes into account the costs of a hypothetical company costs, along with other factors. In connection with the introduction of this model, Anatel is using a different inflation index, the Índice de Serviços de Telecomunicações, or IST, which takes into account the average fluctuation of a number of prices of goods and services in a given period, as well as existing adjustment rates in our industry. We expect that the adjustment of our prices will follow the trend of the market, and that the adjustment will be below the annual inflation rate based on the IST. If this new inflation adjustment mechanism, or any other mechanism chosen by the Brazilian government in the future, does not adequately reflect the true effect of inflation on our prices, our results of operations

could be adversely affected.

Number Portability

In March 2007 Anatel issued a new regulation regarding number portability in Brazil for fixed telephony and mobile services providers (SMP). Portability is limited to migration between providers of the same telecommunications services. For SMP providers, portability can take place when customer changes services provider within the same Registration Area as well as when customer changes the service plan of the same area. Anatel finished the nationwide NP implementation schedule in March 2009.

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Value-Added Services and Internet Regulation

Value-added services are not considered under Brazilian telecommunications regulations to be telecommunications services, but rather an activity that adds features to a telecommunications service supported by such value-added services. Regulations require all telecommunications service providers to grant network access to any party interested in providing value-added services, on a non-discriminatory basis, unless technically impossible. Telecommunications service providers also are allowed to render value-added services through their own networks. Internet access is considered by Brazilian legislation to be a value-added service, and its providers are not considered to be telecommunications companies. Current regulations allow us or any other interested party to offer Internet connection services through our network.

The new 3G environment

- On December 18, 2007, Anatel auctioned 4 bands - J (10MHz+ 10 MHz); F (15MHz +15 MHz); G (10MHz + 10MHz) and I (10MHz+ 10 MHz) - at 2.100 MHz to operate 3G Wireless Services nationwide;
- Anatel split the Brazilian territory into 11 sub regions. The city and state of São Paulo have been grouped with the North and Northeast sub regions, which have the lowest GDP per capita in Brazil and the smallest wireless coverage;
- We have successfully participated in the 3G spectrum auction, winning band F in the city of São Paulo and North region, as well as bands G and I in the other areas, except area VII (Uberlândia and surrounding area in the State of Minas Gerais). We do not believe that our absence in the 3G spectrum in area VII will have a material impact on us because we plan to develop 3G in the 800 MHz band, that is expected to successfully enable us to covering that area with 3G technology.. UMTS technology works in both 800 MHz and 2100 MHz frequencies. We intend to develop our networks using 2100 MHz frequency in some regions and both the 2100 MHz and 800 MHz frequencies for other areas (areas that we originally covered using A and B bands), except for Uberlandia (area VII), where we will use the 850 MHz frequency. The licenses were issued by Anatel in April, 2008.
- We paid R\$1,324.7 million for these radio frequencies, which represented a premium of R\$680.3 million, or 95%, over the minimum price. Anatel's auction as a whole has resulted in an average of 86.7% premium paid over the minimum bid prices. The main telecom players have acquired 3G bands practically for all areas within Brazil. Claro has acquired nine radiofrequency bundles, followed by, Vivo (seven), OI (five), CBTC (three) and BRT (two).
 - In the near future, Anatel will have a new auction for the band H with 10MHz + 10 MHz at 2.100MHz.

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C. Organizational Structure

Substantially all assets held by TIM Participações consist of the shares of its wholly-owned subsidiaries TIM Celular (headquarters located in the State of São Paulo), and Intelig (headquarters located in the State of Rio de Janeiro).

The following chart illustrates our current ownership structure:

*“CS” refers to our common shares.

**“PS” refers to our preferred shares, which are non-voting.

***The total is based on our total share capital represented by ordinary shares and preferred shares.

D. Property, Plants and Equipment

Our principal properties consist of transmission equipment, switching equipment, which connect calls to and from customers, and radio base stations, which comprise certain signal transmission and reception equipment covering a defined area. At our radio base stations we have also installed antennas and certain equipment to connect these antennas with our switching equipment. As of December 31, 2009, we had 95 mobile switches and 10,775 radio base stations. We generally lease or buy the sites where our mobile telecommunications network equipment is installed. On December 31, 2009, we owned approximately 110,225 square meters and leased approximately 1,032,607 square meters of real property, all of which were available for installation of our equipment. We also lease approximately 127,039 square meters and own approximately 107,981 square meters of office space. There are no encumbrances that may affect our utilization of our property or equipment. The Company plans to invest up to R\$7 billion in capex, according its strategic plan for the years 2010-2012.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our consolidated financial statements and accompanying notes and other financial information included elsewhere in this annual report, and in conjunction with the financial information included under “Item 3A. Key Information—Selected Financial Data.”

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Merger of TIM Nordeste S.A. into TIM Celular

On October 30, 2009, the Board of Directors of TIM Participações approved the corporate reorganization of its subsidiaries, whereby TIM Nordeste S.A. would be merged into TIM Celular. On December 17, 2009 Anatel granted its approval of this proposal through Decision No. 7.477, and on December 31, 2009, the shareholders of TIM Nordeste S.A. and of TIM Celular S.A. approved the reorganization at their respective Extraordinary General Meetings..

The purpose of this reorganization was to optimize the companies' organization structure by further consolidating and rationalizing their businesses and operations by leveraging tax and financial synergies and cutting costs associated with having separate legal entities. No impact on TIM Participações's previous financial statements is expected.

Acquisition of Holdco/Intelig

At a meeting of the Board of Directors on April 16, 2009, the Company executed a Merger Agreement with Holdco, a subsidiary of JVCO, pursuant to which through a merger of Holdco into the Company, the Company would acquire indirect control of Intelig.

Antel approved the merger on August 11, 2009 in Decision No. 4634, and decided to eliminate the overlapping geographic licenses held by TIM Celular and Intelig for Fixed Switched Telephone Services (STFC) within 18 months.

On December 30, 2009, the shareholders of TIM Participações approved the merger of Holdco into TIM Participações. As a result of this operation, the Company issued 127,288,023 shares (43,356,672 common and 83,931,352 preferred) for a book value of R\$516,725, to JVCO. Holdco's assets and liabilities acquired are, respectively, R\$517,128 and R\$403 on November 30, 2009.

This operation was recorded at book value (R\$516,725) under Holdco Participações Ltda.'s net equity as of November 30, 2009, at which point the Company began consolidating the results of Holdco Participações Ltda. and its wholly-owned subsidiary Intelig in accordance with Brazilian GAAP.

As a result of the merger, TIM Participações has become the controlling shareholder of Intelig, a company holding authorizations to provide landline telecommunication services under a private system throughout Brazil, operating primarily in the local, national and international long distance calls and data transmission services. The net equity of Intelig as of November 30, 2009, the date on which the Company became its controlling shareholder, was R\$517,128.

The merger with Holdco Participações Ltda. and acquisition of control of Intelig have strategic and operational significance to the Company. Intelig's strong network of optical fibers in Brazil's major metropolitan areas and extensive long-distance network will enable the Company to enhance its capabilities in the corporate and data transmission segments, reduce costs and promote the development of the 3G network.

Merger of TIM Nordeste Telecomunicações into Maxitel and of TIM Sul into TIM Celular

On May 4, 2006, the Board of Directors of TIM Participações authorized the merger of TIM Nordeste Telecomunicações into Maxitel and the merger of TIM Sul into TIM Celular, each a wholly owned subsidiary of TIM Participações.

On June 30, 2006, the mergers of TIM Nordeste Telecomunicações into Maxitel and TIM Sul into TIM Celular were approved at the General Shareholders' Meetings of TIM Celular, Maxitel, TIM Nordeste Telecomunicações and TIM

Sul. On the same date, Maxitel was renamed TIM Nordeste S.A.

Acquisition of TIM Celular by TIM Participações

On March 16, 2006, we acquired all of the share capital of TIM Celular, a wholly-owned subsidiary of our controlling shareholder, TIM Brasil, pursuant to a transaction in which TIM Brasil received shares issued by TIM. As a result, TIM Celular and its operating subsidiary, TIM Maxitel, became our subsidiaries. The acquisition became effective following approval in the respective Extraordinary Shareholders' Meetings of our shareholders and the shareholders of TIM Celular on March 16, 2006.

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We accounted for the acquisition under Brazilian GAAP as a purchase at book value, generating no goodwill, pursuant to which the results of TIM and TIM Celular were combined with effect from January 1, 2006. For more information regarding the acquisition of TIM Celular by TIM, see “Presentation of Information.”

Due to the TIM Celular Acquisition, our 2007 consolidated financial statements are not comparable with our historical financial statements. In addition, we are unable to distinguish clearly between internal growth in 2007 and growth due to the TIM Celular Acquisition. In order to address this situation and to facilitate an understanding of how our business evolved in 2007, we have provided supplemental 2006 and 2005 pro forma information throughout this annual report. The pro forma information reflects the TIM Celular Acquisition as if it had occurred on January 1, 2004.

Ownership Restructuring of the Companies controlled by TIM Participações

On May 30, 2005, we acquired all outstanding minority interests in our subsidiaries TIM Sul and TIM Nordeste Telecomunicações. The primary purpose of the transaction was to increase the liquidity of the publicly traded stock of the companies involved.

Minority shareholders of TIM Sul and TIM Nordeste Telecomunicações who did not exercise withdrawal rights received shares of TIM Participações. The minority shareholders that exercised the withdrawal right represented 0.001% of the voting capital of TIM Participações and 0.001% of the total capital of TIM Nordeste Telecomunicações (or R\$417.03 and R\$454.73, respectively). Common shares of TIM Sul and TIM Nordeste Telecomunicações were exchanged for common shares of TIM Participações and preferred shares of TIM Sul and TIM Nordeste Telecomunicações were exchanged for preferred shares of TIM Participações. As a result of the transaction, TIM Participações owns all of the common and preferred shares of TIM Sul and TIM Nordeste Telecomunicações, both of which are now wholly-owned subsidiaries of TIM Participações. The transaction described above has had no impact on the operational activities of TIM Nordeste Telecomunicações or TIM Sul.

On May 30, 2005, the corporate capital of TIM Participações was increased by R\$415.1 million with the issuance of 160,311,357,056 shares that were subscribed by the minority shareholders of TIM Sul and TIM Nordeste Telecomunicações. The total capital of TIM Participações after the capital increase was R\$1,472.1 million.

Merger of Tele Nordeste Celular Participações into Tele Celular Sul Participações

On August 30, 2004, TND merged with and into TSU (the “TSU/TND Merger”), which was subsequently renamed TIM Participações. Under applicable Brazilian accounting principles, the merger was accounted for as a purchase of TND at book value, generating no goodwill. We accounted for the merged companies’ combined operations as if the merger had occurred on January 1, 2004.

Critical Accounting Policies

Critical accounting policies are those that are important to the presentation of our financial condition and results of operations and require management’s most subjective, complex judgments, often requiring management to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more complex. We base our estimates and assumptions on historical experience, industry trends or other factors that we believe to be reasonable under the circumstances. Actual results may vary from what we anticipate, and different assumptions or estimates about the future could change our reported financial results. In order to provide an understanding about how our management has estimated the potential impact of certain uncertainties, including the variables and assumptions underlying the estimates, we have identified the critical accounting policies discussed below. We describe our

significant accounting policies, including the ones discussed below, in note 4 to our consolidated financial statements.

Depreciation and Impairment of Long-Lived Assets

Property, plant and equipment is stated at cost of acquisition or construction. Depreciation is calculated using the straight-line method based on the estimated useful lives of the underlying assets. See notes 4.g and 10 to our consolidated financial statements. We currently depreciate automatic switching, transmission and other equipment based on an estimated useful life of seven years. The assets related to TDMA technology were subjected to accelerated depreciation and were depreciated 100% in 2008. Free handsets for corporate customers (comodato) are depreciated over two years.

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We review our long-lived assets, such as goodwill, for impairment whenever events or circumstances indicate the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. However, asset impairment evaluations are, by nature, highly subjective. If our projections are not met, we may have to record impairment charges not previously recognized. In analyzing potential impairments, we use projections based on our view of growth rates for our business, anticipated future economic, regulatory and political conditions and changes in technology. Such projections are subject to change, including as a result of technological developments that may render long-lived assets obsolete sooner than anticipated. See note 4.h and 11 to our consolidated financial statements.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. We revise our estimated percentage of losses on a regular basis, taking into account our most recent experience with non-payments (i.e. average percentage of receivables historically written-off, economic conditions and the length of time the receivables are past due). The provision for doubtful accounts for 2009 was based on the following estimates of percentages of receivables, classified by the number of days such receivables are overdue, that it projected to be uncollectible. These estimates were based on historical experience of write-offs and future expectations of conditions that might impact the collectibility of accounts. See notes 4.d and 7 to our consolidated financial statements. The amount of the loss, if any, that we actually experience with respect to these accounts may differ from the amount of the allowance maintained in connection with them.

	Percentage estimated to be uncollectible
Days overdue	
Current*	2.75% - 3.5%
Receivables overdue 1 to 90 days*	5.5% - 7%
Receivables overdue 91 to 120 days	50%
Receivables overdue 121 to 150 days	56%
Receivables overdue 151 to 180 days	90%
Receivables overdue more than 180 days	100%
* Percentage varies based on area and customer composition	

Deferred Income Tax and Social Contribution

We compute and pay income taxes based on results of operations under Brazilian GAAP. Under Brazilian GAAP and U.S. GAAP, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

We regularly review deferred tax assets for recoverability. If, based on historical taxable income, projected future taxable income and expected timing of reversals we determine that it is more likely than not that the deferred tax assets will not be realized, we establish a valuation allowance. When performing such reviews, we are required to make significant estimates and assumptions about future taxable income.

In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors such as economic conditions, industry trends, interest rates, shifts in our business strategy and changes in the type of services we offer. The use of different assumptions and estimates could significantly change our financial statements. A change in assumptions and estimates with respect to our expected future taxable income could result in the recognition of a valuation allowance on deferred income tax assets, which would decrease our results of operations and shareholders' equity.

If we operate at a loss or are unable to generate sufficient future taxable income, if there is a material change in the actual effective tax rates, if the time period within which the underlying temporary differences become taxable or deductible, or if there is any change in our future projections, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets, resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Asset Retirement Obligations

Our subsidiaries are contractually obligated to dismantle their cellular towers from various sites they lease. We must record as asset retirement obligations the present value of the estimated costs to be incurred for dismantling and removing cellular towers and equipment from leased sites. The offset to this provision is recorded as property, plant and equipment, and the depreciation is calculated based on the useful lives of the corresponding assets.

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Contingent Liabilities

The accrual for a contingency involves considerable judgment on the part of management. As prescribed by ASC 450, "Contingencies" (former SFAS 5, "Accounting for Contingencies"), a contingency is "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur."

We are subject to various claims, including regulatory, legal and labor proceedings covering a wide range of matters that arise in the ordinary course of business. We adopted a policy of analyzing each such proceeding and making a judgment as to whether a loss is probable, possible or remote. We make accruals for proceedings that we are party to when we determine that losses are probable and can be reasonably estimated. Our judgment is always based on the opinion of our legal advisors. Accrual balances are adjusted to account for changes in circumstances for ongoing matters and the establishment of additional accruals for new matters. While we believe that the current level of accruals is adequate, changes in the future could impact these determinations.

Revenue Recognition and Customer Incentive Programs

Revenues are recorded when services are rendered. As a result of our billing cycle cut-off times, we are required to make estimates for services revenue earned but not yet billed. These estimates, which are based primarily upon unbilled minutes of use, could differ from our actual experience. See note 4 to our consolidated financial statements.

Brazilian GAAP and U.S. GAAP

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain material respects from U.S. GAAP. See note 37 to our consolidated financial statements for a summary of the differences between the Brazilian Corporations Law accounting method and U.S. GAAP, as well as a reconciliation of our shareholders' equity as of December 31, 2009 and 2008, and net income for the years ended December 31, 2009, 2008 and 2007 to U.S. GAAP. Net income for 2009 is R\$281.2 million under U.S. GAAP, compared with net income of R\$214.9 million under Brazilian GAAP. Shareholders' equity at December 31, 2009 was R\$8,698.1 million under U.S. GAAP, compared to R\$8,322.7 million under Brazilian GAAP.

The differences between Brazilian GAAP and U.S. GAAP that have the most significant effects on net income in 2009 are capitalized interest, the allocation of fair value due to the TND/TSU merger and the acquisition of the minority interests in TIM Nordeste Telecomunicações and TIM Sul along with reversal of pre operating expenses capitalized, reversal of amortization of interest and exchange variation, and reversal of Intelig's results in the month of December, 2009. The differences between Brazilian GAAP and U.S. GAAP that have the most significant effects on shareholders' equity in 2009 are the differences in the rules regarding depreciation and amortization, allocation of fair value due to the merger with TND, goodwill that resulted from the acquisition of Holdco/Intelig and the deferred tax effect on the differences between Brazilian GAAP and U.S. GAAP, along with the reversal of pre operating expenses capitalized and reversal of amortization of interest and exchange variation.

The portion of the merger under common control was accounted for in a manner similar to a pooling-of-interest based on the historical carrying values of the assets and liabilities of TND and others. Additionally, the financial statements of the companies under common control are presented on a combined basis for all periods they are under common control.

In March 16, 2006 we acquired TIM Celular and its wholly-owned subsidiaries. For Brazilian GAAP purposes, in the year of acquisition, the results of operations of the TIM Celular were included in our results of operations for the entire year, as required by the merger agreement. For U.S. GAAP purposes, as both the Company and TIM Celular

are majority owned by TIM Brasil, a common controlling shareholder, the exchange of shares for the purpose of the merger of TIM Celular with and into the Company is considered a business combination of companies under common control and was accounted for in a manner similar to a pooling-of-interest. Accordingly, such exchange of shares was accounted for at historical carrying values. The merger was reflected from 2000, the year TIM Brasil formed TIM Celular and, consequently, had control of both the Company and TIM Celular. Therefore, for all periods presented, the Company's and TIM Celular's financial statements have been combined.

On December 30, 2009, TIM Participações, acquired 100% of the outstanding shares and voting interest of Holdco Participações Ltda, which held 100% of the outstanding shares of Intelig. As the acquisition date was December 30, only the balance sheet but not the results of operations for Intelig, have been consolidated. The

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merger was conducted at the purchase method, according to ASC 805 (Business Combinations). The acquisition-date fair value of consideration transferred totaled R\$739,729, and the difference between the estimated fair value of the net assets acquired and purchase price was fully allocated to property, plant and equipment. For Brazilian GAAP purposes, the acquisition was recorded at book value, while under US GAAP it was recorded at based on the fair value.

Accounting Practice Change

The Company and its subsidiaries aim to continuously improve the presentation of their financial statements while maintaining compliance with generally accepted accounting principles. The adoption of new accounting principles and the application of preferred account classifications, under Brazilian GAAP, resulted in the adjustment of income from “penalties for breach of contract,” previously classified in 2008 and 2007 as other operating income, which were reclassified as gross operating revenue. The gross amounts that were so reclassified were R\$68,718 in the fiscal year ended December 31, 2008 and R\$43,733 in the fiscal year ended December 31, 2007. See note 3d to our consolidated financial statements.

Political, Economic, Regulatory and Competitive Factors

The following discussion should be read in conjunction with “Item 4. Information on the Company.” As set forth in greater detail below, our financial condition and results of operations are significantly affected by Brazilian telecommunications regulation, including the regulation of rates. See “Item 4B. Information on the Company—Business Overview—Regulation of the Brazilian Telecommunications Industry—Rate Regulation.” Our financial condition and results of operations have also been, and are expected to continue to be, affected by the political and economic environment in Brazil. See “Item 3D. Key Information—Risk Factors—Risks Relating to Brazil.” In particular, our financial performance will be affected by:

- general economic and business conditions, including the price we are able to charge for our services and prevailing foreign exchange rates;
 - our ability to generate free cash flow in the coming years;
- competition, including expected characteristics of network, offers, customer care and from increasing consolidation in our industry and nationwide presence of Claro, Vivo and Oi;
- our ability to secure and maintain telecommunications infrastructure licenses, rights-of-way and other regulatory approvals;
- our ability to anticipate trends in the Brazilian telecommunications industry, including changes in market size, demand and industry price movements, and our ability to respond to the development of new technologies and competitor strategies;
 - our ability to expand and maintain the quality of the services we provide;
 - the rate of customer churn we experience;
- changes in official regulations and the Brazilian government’s telecommunications policy;
 - political economic and social events in Brazil;

- access to sources of financing and our level and cost of debt;
 - our ability to integrate acquisitions;
 - regulatory issues relating to acquisitions;
- the adverse determination of disputes under litigation; and
 - inflation, interest rate and exchange rate risks.

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Overview

The international financial crisis had an adverse impact on the Brazilian economy in 2009. However, economic indicators in Brazil were less affected than in other areas including the United States and Europe, partially due to a combination of the positive effects of prior adjustments and a prompt fiscal, monetary and economic response by the Federal Government. During this period, the SELIC basic interest rate reached a historical level of 8.75% p.a. Low interest rates contributed to an increase of 82.6% in the Ibovespa during 2009. A strong inflow of foreign capital contributed to an approximately 25.4% appreciation of the Brazilian Real to the U.S. dollar.

The Brazilian mobile market reached 174 million lines nationwide at the end of December 2009, corresponding to a penetration ratio of 90.6% (compared to 78.1% in 2008) and an annual growth rate of 15.5% (compared to 24.5% in 2008). Brazil is the fifth largest mobile telephony market in the world, and telephony is currently the most common means of communication in Brazilian households among all social classes. According to Anatel (Brazil's National Telecommunications Agency), mobile market net adds reached 23.3 million in 2009 which represents a 21.4% upturn from 2008. The prepaid mix continues to represent the greatest part of total subscriber base, 82.6%.

TIM's subscriber base ended the year with 41.1 million clients, 12.9% up from 2008, corresponding to a market share of 23.6%, while the service revenues share, our primary focus, stood at 27% in 2008. The pre-paid segment reached 34.6 million (16.2% up from 2008) while the post-paid stood at 6.4 million users in the year (1.8% down from 2008) due to rigid disconnection policy, fiercer competitive environment and less than expected acquisition in this segment. As for the client mix, post-paid accounted for 15.7% of the total subscriber base, compared to 18.1% from a year ago, largely impacted by the increase of pre-paid base and the aforementioned performance from post-paid.

In 2009, TIM added 4.7 million customers, down from 5.1 million in 2008. The drop reflects TIM's conservative criteria in subsidy policy and rigid disconnection rule. Thus, TIM continues to maintain the highest ARPU (average revenue per user) among peers, registering R\$27.0 in 2009. On a yearly basis, ARPU dropped 11.3% which is partially attributed to an increase of 16% in the pre-paid segment (where the market growth is concentrated), and a lower incoming MOU.

ARPU is a key performance indicator which is calculated by the ratio between total net service revenue per average customer base per month. In 2009, our average customer base, calculated as the simple mean of monthly averages, increased 12.1% to 38.0 million, compared to 33.9 million customers in 2008.

The following table shows the total average number of customers during 2009 and 2008.

	Year ended December 31,	
	2009	2008
Average number of customers using post-paid plans(1)	6,285,455	6,798,430
Average number of customers using pre-paid plans(1)	31,708,947	27,106,282
Total number of customers(1)	37,994,402	33,904,713

(1) Average numbers are based on the number of customers at the end of each month during the relevant year.

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A. Operating Results

The following table shows certain components of our statement of operations for each year in the three-year period ended December 31, 2009, as well as the percentage change from year to year.

Statement of Operations:

Brazilian GAAP	Year ended December 31,			Percent change	
	2009	2008 As adjusted	2007 As adjusted	2009-2008	2008-2007
	(in millions of reais)				
Net operating revenue	13,105.9	13,147.2	12,483.8	-0.3%	5.3%
Cost of services and goods	(6,723.2)	(7,063.8)	(6,731.8)	-4.8%	4.9%
Gross profit	6,382.7	6,083.4	5,751.9	4.9%	5.8%
Operating expenses:					
Selling expenses	(4,450.0)	(4,098.4)	(3,890.9)	8.6%	5.3%
General and administrative expenses	(1,070.5)	(1,127.4)	(1,032.8)	-5.1%	9.2%
Other operating expense	(385.2)	(366.7)	(311.6)	5.0%	17.7%
Total operating expenses	(5,905.7)	(5,592.5)	(5,235.3)	5.6%	6.8%
Operating income (loss) before interest	477.0	490.9	516.6	-2.8%	-5.0%
Net financial income (expense)	(256.6)	(375.0)	(281.5)	-31.6%	33.2%
Operating income (expense)	220.4	115.9	235.1	90.2%	-50.7%
Income and social contribution tax benefit (expense)	(5.5)	64.3	(166.8)	-108.6%	-138.5%
Net income (loss)	214.9	180.2	68.3	19.3%	163.8%

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Operating revenues

Our operating revenues consisted of:

- monthly subscription charges;
- usage charges, which include roaming charges;
 - interconnection charges;
 - long distance charges;
 - value-added services;
- other service revenues; and
- proceeds from the sale of handsets and accessories.

The composition of our operating revenues by category of service is presented in note 22 to our consolidated financial statements and discussed below. We do not determine net operating revenues or allocate cost by category of service.

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The following table shows certain components of our operating revenues, as well as the percentage change of each component from the prior year, for 2009 and 2008:

Statement of Operations Data: Brazilian GAAP	Year ended December 31, 2008 as adjusted 2009		Percentage change 2009-2008
	(in millions of reais)		
Monthly subscription charges	300.2	378.9	-20.8%
Usage charges	7,768.0	7,954.7	-2.3%
Fixed services	177.1	7.9	2,141.8%
Interconnection charges	4,042.6	4,458.2	-9.3%
Long distance charges	1,943.1	1,986.7	-2.2%
Value added services	1,897.2	1,598.3	18.7%
Other service revenues	266.8	169.8	57.1%
Gross operating revenues from services	16,395.0	16,554.5	-1.0%
Value-added and other taxes relating to services	(3,697.7)	(3,661.6)	1.0%
Discounts on services	(557.9)	(729.9)	-23.6%
Net operating revenues from services	12,139.4		