

TIM PARTICIPACOES SA
Form 20-F
May 14, 2012

As filed with the Securities and Exchange Commission on May 14, 2012

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, 2011

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	THE FEDERATIVE REPUBLIC OF BRAZIL
(Translation of Registrant's name into English)	(Jurisdiction of incorporation or organization)

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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:

Title of each class	Name of each exchange on which registered
Common Shares, without par value*	New York Stock Exchange
American Depositary Shares, as evidenced by American Depositary Receipts, each representing five Common 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.

Title of Class	Number of Shares Outstanding
Common Shares, without par value	2,417,632,647

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

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

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

Indicate by check mark whether the registrant 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). Yes No

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

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

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

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes

No

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PRESENTATION OF INFORMATION

In this annual report, TIM Participações S.A., a publicly-held company (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”), Intelig Telecomunicações Ltda. (“Intelig”), TIM Fiber SP Ltda. (“TIM Fiber SP”) and TIM Fiber RJ S.A. (“TIM Fiber RJ” and together with TIB Fiber SP, “TIM Fiber”), 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 “common shares” are to the common shares of TIM. References to the “American Depositary Shares” or “ADSs” are to TIM’s American Depositary Shares, each representing five common 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.”

Prior to August 2, 2011 we had common shares and preferred shares listed on the BM&FBOVESPA under the symbols “TCSL3” and “TCSL4,” respectively, and our ADSs each represented ten preferred shares. As part of our migration to the Novo Mercado listing segment of the BM&FBOVESPA, our preferred shares ceased to trade on August 2, 2011. On August 4, 2011, our ADSs representing preferred shares ceased to trade on the NYSE. From August 3, 2011, we only had common shares traded on the Novo Mercado listing segment of BM&FBOVESPA, under the symbol “TIMP3” and as from August 5, 2011, our ADSs representing five common shares instead of ten preferred shares commenced trading on the NYSE.

Market Share Data

Market share information is calculated by us based on information provided by Brazil’s National Telecommunications Agency (Agência Nacional de Telecomunicações, or “Anatel”). Penetration data is calculated by us based on information provided by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, or “IBGE”).

Presentation of Financial Information

We maintain our books and records in reais. We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The selected financial information for the Company included in “Item 3A. Key Information—Selected Financial Data” should be read in conjunction with, and is qualified in its entirety by, the IFRS financial statements of the Company and “Item 5. Operating and Financial Review and Prospects” appearing elsewhere in this annual report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 to our consolidated financial statements.

On December 30, 2009, TIM Participações S.A. acquired Holdco Participações Ltda. (“Holdco”), which held 100% of the ownership of the telecommunications company Intelig, from JVCO Participações Ltda. (“JVCO”) in exchange for a 5.14% participation in TIM Participações’ capital stock. We have included Intelig in our results of operations since November 30, 2009. Because Intelig is included in all 12 months of our 2010 results but only one month of 2009, our

results of operations in 2010 are not fully comparable with our results of operations in 2009.

On October 31, 2011 we completed the acquisition of all of AES Elpa S.A.'s equity interests in Eletropaulo Telecomunicações Ltda. and 98.3% of the interest of AES Communications Rio de Janeiro S.A. We have included the results of operations of Eletropaulo Telecomunicações Ltda. and AES Communications Rio de Janeiro S.A. in our consolidated results of operations from November 1, 2011. The inclusion of these companies in our results of operations for the final two months of the year ended December 31, 2011 affects the comparability of our results of

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operations with the year ended December 31, 2010 and will affect the comparability of our results of operations in future periods. See “Item 5. Operating and Financial Review and Prospects—Factors Affecting the Comparability of our Results of Operations—Acquisition of AES Atimus.”

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 exchange rate as reported by the Banco Central do Brasil or Central Bank of Brazil (the “Central Bank”) at December 31, 2011 of R\$1.8758 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 at 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 3. Key Information—A. 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.

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, size 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

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- capital expenditures forecasts, funding needs and financing resources.

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:

- government policy and changes in the regulatory environment in Brazil;
- an increase in the number of competitors in the telecommunications industry that could affect our market share;
 - increased competition in our principal markets that could affect the prices we charge for our services;
 - our ability to strengthen our competitive position in the Brazilian mobile telecommunications market;
- our ability to develop and introduce new and innovative technologies that are received favorably by the market, and to provide value-added services to encourage the use of our network;
- the introduction of transformative technologies that could cause a significant decrease in revenues for all mobile telephone carriers;
 - our ability to integrate acquired businesses and implement operational efficiency;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of uncertainties in credit and capital markets;
 - our ability to attract and retain qualified personnel;
 - our ability to integrate companies and assets that we acquire;
 - the effect of exchange rate fluctuations; and
- other factors identified or discussed under “Item 3. Key Information—D. 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 included herein as of and for the years ended December 31, 2011, 2010 and 2009 have been audited by PricewaterhouseCoopers Auditores Independentes. The report of PricewaterhouseCoopers Auditores Independentes on the consolidated financial statements appears elsewhere in this annual report.

Our first financial statements prepared in accordance with IFRS were those as of and for the year ended December 31, 2010, which contain comparative amounts related to the year ended December 31, 2009, also prepared under IFRS. These financial statements were filed with the CVM and made publicly available in Brazil.

Until December 31, 2009, our consolidated financial statements were prepared in accordance with Brazilian GAAP. Brazilian GAAP is based on the Brazilian corporate law No. 6,404 of December 15, 1976, as amended, and included the provisions of Law No. 11,638/07 and Law No. 11,941/09; the accounting standards issued by the CFC; the accounting standards issued by the CPC; and the rules and regulations issued by the CVM. After the adoption of CPCs No. 15 to 43, Brazilian GAAP does not differ from IFRS as regards the preparation of consolidated financial statements. The comparative figures with respect to 2009 have been restated to reflect adjustments made as a result of the adoption of IFRS.

Our summary financial data prepared in accordance with IFRS is not comparable with our summary financial data prepared in accordance Brazilian GAAP presented below as of and for the years ended December 31, 2008 and 2007 and in previous annual reports on Form 20-F. The following table presents a summary of our historical consolidated financial and operating data for each of the periods indicated. Solely for the convenience of the reader, real amounts as of and for the year ended December 31, 2011 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2011 (as reported by the Central Bank of R\$1.8758 to U.S.\$1.00). See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for information regarding exchange rates for the Brazilian real. You should read the following information together with our consolidated financial statements and the notes thereto included elsewhere in this annual report and with “Item 5. Operating and Financial Review and Prospects.”

	As of and for the Year Ended December 31,			
	2011	2011	2010	2009
	U.S.\$	R\$	R\$	R\$
	(thousands of reais or U.S. dollars, unless otherwise indicated)			
Income Statement Data:				
Net operating revenue	9,108,634	17,085,976	14,457,450	13,158,134

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Cost of service provided and goods sold	(4,564,150)	(8,561,433)	(7,305,767)	(6,672,369)
Gross profit	4,544,484	8,524,544	7,151,683	6,485,765
Operating revenue (expenses):				
Selling expenses	(2,583,278)	(4,845,712)	(4,494,608)	(4,436,751)
General and administrative expenses	(513,591)	(963,394)	(1,008,694)	(1,033,438)
Other revenue (expenses), net	(345,450)	(647,996)	(448,247)	(462,114)
Operating profit before financial income (expense)	1,102,165	2,067,442	1,200,134	553,462

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	As of and for the Year Ended December 31,			
	2011	2011	2010	2009
	U.S.\$	R\$	R\$	R\$
	(thousands of reais or U.S. dollars, unless otherwise indicated)			
Financial income (expenses)	(127,337)	(238,858)	(245,457)	(245,115)
Income before income tax and social tax contribution	974,829	1,828,584	954,677	308,347
Income tax and social contribution	(291,799)	(547,356)	1,257,038	33,026
Net income for the year	683,030	1,281,228	2,211,715	341,373
Net income per share	0.3017	0.5660	0.8955	0.1379
Diluted net income per share	0.3016	0.5657	0.8955	0.1379
Number of shares outstanding:				
Common shares (in millions)	2,418	2,418	843	843
Preferred shares (in millions)	0	0	1,632	1,632
Dividends per share	0.0671	0.1259	0.2006	0.1251
Balance Sheet Data:				
Property, plant, equipment and intangibles, net	6,609,637	12,398,357	10,399,571	9,741,375
Total assets	12,495,053	23,438,221	19,370,852	16,109,896
Loans and financing	1,951,478	3,660,583	3,234,670	3,549,219
Shareholders' equity	6,907,313	12,956,737	10,300,809	7,695,618
Capital stock	5,245,639	9,839,770	8,149,096	7,613,610
Cash Flow Data:				
Operating Activities:				
Net cash provided by operations	2,201,430	4,129,443	3,972,332	3,035,559
Investing Activities				
Net cash used in investing activities	(2,289,432)	(4,294,516)	(2,544,335)	(2,544,848)
Financing Activities:				
Net cash provided (used) in financing activities	560,665	1,051,696	(1,464,789)	390,770
Increase (decrease) in cash and cash equivalents	472,664	886,623	(36,792)	881,481
Cash and cash equivalents at beginning of year	1,266,783	2,376,232	2,413,024	1,531,543
Cash and cash equivalents at end of year	1,739,447	3,262,855	2,376,232	2,413,024

The following table sets forth financial information as of and for the years ended December 31, 2008 and 2007 and has been prepared in accordance with Brazilian GAAP, which was the basis for the preparation of our consolidated financial statements prior to December 31, 2009. See "Presentation of Financial and Other Information." Our first financial statements prepared in accordance with IFRS were those as of and for the year ended December 31, 2010, which contain comparative amounts related to the year ended December 31, 2009, also prepared under IFRS. The financial information as of and for the years as of ended December 31, 2008 and 2007 presented below is not comparable to the financing information as of and for the years ended December 31, 2011, 2010 and 2009. Certain information below is presented in accordance with US GAAP.

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	As of and for the Year Ended December 31, 2007(1)(2)	
	2008(1) as adjusted (millions of reais, unless otherwise indicated)	as adjusted (millions of reais, unless otherwise indicated)
Statement of Operations Data:		
Brazilian GAAP		
Net operating revenue	13,147.2	12,483.8
Cost of goods and services	(7,063.8)	(6,731.9)
Gross profit	6,083.4	5,751.9
Operating expenses:		
Selling expenses	(4,098.4)	(3,890.9)
General and administrative expenses	(1,127.4)	(1,032.8)
Other net operating expense	(366.7)	(311.6)
Operating income (loss) before financial income (expenses)	490.9	516.6
Net financial income (expense)	(375.0)	(281.5)
Operating income (loss)	115.9	235.1
Net non-operating income (expense)	—	—
Income (loss) before taxes and minority interests	115.9	235.1
Income and social contribution taxes	64.3	(166.8)
Minority interests	—	—
Net income (loss)	180.2	68.3
Net income (loss) per share (reais)	0.08	0.03
Number of shares outstanding:		
Common shares (in millions)	798	795
Preferred shares (in millions)	1,545	1,539
Dividends per shares (reais)(3)	0.11	0.14
U.S. GAAP		
Net operating revenues	13,150.0	12,536.1
Operating income (expense)	52.1	208.4
Net income (loss)	151.5	68.3
Balance Sheet Data:		
Brazilian GAAP		
Property, plant, equipment and software, net	6,971.4	7,021.8
Total assets	16,239.5	14,564.0
Loans, financing and debentures	3,497.7	2,097.4
Shareholder's equity	7,790.5	7,771.8
Capital stock	7,613.6	7,550.5
U.S. GAAP		
Property, plant, equipment and software, net	6,781.6	6,916.9
Total assets	16,339.9	14,667.6
Loans and financing	3,497.7	2,113.5
Shareholders' equity	7,876.6	7,886.6

(1) 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.

(2) For consistency of presentation with 2008, amounts in 2007 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

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be accounted for within shareholders' equity; reclassification of non operating income to other operating income.

(3) 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."

Brazilian Economic Environment

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

The international financial crisis in 2008 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 previous macro-economic policies and a prompt fiscal, monetary and economic response by the Brazilian federal government. During this period, the Special System of Settlement and Custody basic interest rate (Sistema Especial de Liquidação e Custódia or "SELIC" (which is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government)) reached a historically low level of 8.75% per annum.

In 2010, the Brazilian economy continued to recover from the global financial crisis of 2008. The Brazilian economy's robust domestic market and recent trend of price stability contributed to economic strength in Brazil during the global economic crisis, which has been demonstrated in a pattern of consistent, sustainable economic expansion. In 2010, Brazilian GDP increased by 7.5%, continuing the rapid economic expansion from late 2009 and early 2010, reaching a value of approximately U.S.\$2.024 trillion. Following this rapid expansion, the government and the financial markets have begun to express concerns for rising inflation spurred by this strong economic activity.

The official inflation rate in Brazil (Índice de Preços ao Consumidor Amplo, or "IPCA") ended 2010 at 5.91%, the highest rate since 2004. The figure was above the Central Bank's target of 4.5%, though within the 2 percentage points margin that is considered acceptable by the government. However, to manage market expectations, the government initiated a process of monetary contraction by increasing the SELIC to 10.75% per annum at the end of 2010, from 8.75% per annum in 2009.

The rate of inflation in Brazil increased during the first half of 2011, causing the government to respond by tightening monetary policy. The official Brazilian inflation rate, the IPCA, was at its highest levels since 2004. Through June 2011, the inflation rate was of 3.87%, equivalent to a twelve-month rate of 6.71%, exceeding the target set by the Central Bank. As a result, the Central Bank has changed interest rates: after reaching 10.75% by the end of 2010, the SELIC rate was revised, positively and negatively, during 2011 and was 11% as of December 31, 2011. The IPCA ended the year with an increase of 6.4%, the highest since 2004. Low unemployment in Brazil and the expansion of the domestic market have contributed to strong domestic spending. Despite government measures to curb consumer spending, it currently shows no signs of cooling and will likely remain at high levels in the foreseeable future.

The Brazilian government remains active in foreign exchange markets in an effort to curb the appreciation of the real. In addition to participating almost daily in the foreign exchange market buying dollars, the government has

adopted several measures to contain the appreciation of the real against the dollar, such as an increase of the tax on financial operations (Imposto sobre Operações Financeiras, or “IOF”) and restrictive measures in relation to foreign investment in Brazil. Despite these measures, the U.S. dollar depreciated 5.9% against the real in the first half of 2011. Foreign exchange markets began to shift in the second half of 2011, and the real depreciated 20% against the U.S. dollar in the second half of 2011. Unlike in 2010, when the foreign trade balance showed a reduction in the accumulated surplus, in the first half of 2011 the accumulated surplus increased significantly, with a trade balance of

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R\$42.9 billion, compared to R\$16.6 billion in 2010 primarily due to purchases of U.S. dollars by the Central Bank, which totaled U.S.\$38 billion. In the second half of 2011, the accumulated surplus increased, with a trade balance of U.S.\$ 16.8 billion compared to U.S.\$12.4 billion in 2010. In 2011 the accumulated surplus increased 47.8% compared to 2010 (from U.S.\$20.1 to U.S.\$29.8 billion), the biggest increase since 2007 (U.S.\$40.0 billion).

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

	For the Year Ended December 31,					
	2011		2010		2009	
GDP growth (1)	2.7	%	7.5	%	(0.2))%
Inflation (IGP-M) (2)	5.10	%	11.32	%	(1.72))%
Inflation (IPCA) (3)	6.5	%	5.91	%	4.31	%
DI Rate (4)	10.87	%	10.64	%	8.61	%
TJLP (5)	6.0	%	6.0	%	6.0	%
Appreciation (devaluation) of the real against the U.S. dollar	12.59	%	(4.3)%	25.4	%
Exchange rate (closing)—R\$ per U.S.\$1.00	1.8751		1.6654		1.7412	
Average exchange rate—R\$ per U.S.\$1.00 (6)	1.6738		1.7684		1.9935	

- (1) Brazilian GDP for 2011, 2010 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, 2011, 2010 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, 2011, 2010 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 Getulio Vargas – FGV, and IBGE.

Exchange Rates

We will pay any cash dividends, interest on shareholders' equity and any other cash distributions with respect to our common 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 common 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 common 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."

Since 1999, the Central Bank has allowed the real/U.S. dollar exchange rate to float freely, and, since that time, the real/U.S. dollar exchange rate has fluctuated considerably. The real depreciated against the U.S. dollar by 15.7% in

2001 and 34.3% in 2002. Although the real appreciated by 22.3%, 8.8%, 13.4%, 9.5% and 20.7% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively, in 2008, as a result of the international financial and economic crisis, the real depreciated against the U.S. dollar by 24.0%. In 2009 and 2010, the real appreciated against the U.S. dollar by 25.5% and 4.3%, respectively. In 2011, the real depreciated by 4.8% against the U.S. dollar. On December 31, 2011, the period-end real/U.S. dollar exchange rate was R\$1.8758 per U.S.\$1.00.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments ranged from a daily to a monthly basis, floating exchange rate systems, exchange controls and dual exchange rate markets. We cannot predict whether the Central Bank or the Brazilian government will continue to let

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the real float freely or intervene in the exchange rate market by returning to a currency band system or otherwise. The real may depreciate or appreciate substantially against the U.S. dollar.

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	
2007	2.1556	1.7325	1.9483	1.7713
2008	2.5004	1.5593	1.8375	2.3370
2009	2.4218	1.7024	1.9935	1.7412
2010	1.8811	1.6554	1.7593	1.6662
2011	1.9016	1.5345	1.6746	1.8758

Month	Reais per U.S. dollar	
	High	Low
November 2011	1.8937	1.7270
December 2011	1.8758	1.7830
January, 2012	1.8683	1.7389
February, 2012	1.7376	1.7024
March, 2012	1.8334	1.7152
April, 2012	1.8918	1.8256
May, 2012 (through May 11)	1.9581	1.9149

Source: Central Bank/Bloomberg

On May 11, 2012, the selling rate was R\$1.9513 to U.S.\$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at May 11, 2012 may not be indicative of future exchange rates.

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.

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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.

Our business strategy is aimed at improving revenues and selective growth, while maintaining financial discipline. To achieve this goal, seek to strengthen our market position by leveraging mobile telephony to increase broadband usage and exploiting opportunities arising from fixed-to-mobile substitution.

Our ability to implement our strategy is influenced by many factors outside of our control, including:

- government policy and changes in the regulatory environment in Brazil;
- an increase in the number of competitors in the telecommunications industry that could affect our market share;
 - increased competition in our principal markets that could affect the prices we charge for our services;
 - our ability to strengthen our competitive position in the Brazilian mobile telecommunications market;
- our ability to develop and introduce new and innovative technologies that are received favorably by the market, and to provide value-added services to encourage the use of our network;
- the introduction of transformative technologies that could cause a significant decrease in revenues for all mobile telephone carriers;
 - our ability to integrate acquired businesses and implement operational efficiency;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of uncertainties in credit and capital markets;
 - our ability to attract and retain qualified personnel;
 - our ability to integrate companies and assets that we acquire; and
 - the effect of exchange rate fluctuations.

As a result of these uncertainties, there can be no assurance that our strategic objectives 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 historical margins in the industry. We face increased competition throughout Brazil from new entrants in the personal communications service, or “PCS,” market. We compete with providers of wireless services and trunking and with providers of 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 with Internet and other services. As a result, the cost of maintaining our revenue share has increased and in the future we may incur higher advertising and other costs as we attempt to maintain or expand our market presence. Claro and Vivo Participações S.A., or “Vivo,” received authorization to provide PCS in the same regions as TIM, completing their national coverage.

Also, “Oi” (the new Tele Norte Leste Participações S.A. brand) received authorization to provide PCS in the State of São Paulo.

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 and Fourth Generations or “3G” and “4G,” and Voice over Internet Protocol or “VOIP,” are expected to introduce additional sources of competition.

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Increased competition may increase our churn rate and could continue to adversely affect our market share and margins. Our ability to compete successfully will depend on the effectiveness of our marketing efforts 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. 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 to our customers. If we are unable to compete successfully, our business, financial condition and results of operations will be materially adversely affected.

Recent market consolidation, including the merger of Vivo and Telecomunicações de São Paulo S.A. – Telesp, may allow other telecommunications companies to compete more aggressively against us. In addition, 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, and it is uncertain when these auctions will occur, as they have been delayed due to certain issues regarding band attribution, though we expect they may take place in the second half of 2012. We are still analyzing whether to bid for this bandwidth, and even if we do bid, there is no assurance that our bids will be successful. Purchasers of these bandwidths could potentially offer services that could compete with our services.

In December 2010, Anatel held an auction for Band H in which it gave preference to new operators such as Nextel and CTBC, in a move to increase competition nationwide. We and other existing operators such as Oi, Claro and Vivo formally protested the auction rules, but these complaints were ultimately denied by the government regulator. Nextel won 11 of the 13 lots involving new 3G frequencies for the 1,900 to 2,100 MHz range, which included coverage areas from populous states, such as São Paulo and Rio de Janeiro, and more remote states, such as Roraima and Alagoas. Though Nextel has not been able to take full advantage of these bandwidths due to its coverage obligations, the award of these bandwidths to Nextel could lead to increased competition, as it will be a new entrant in the mobile market solely providing services on 3G frequencies.

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 our interconnection revenue may decrease below its current levels, 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 number portability;

- shorter time periods between the introduction of new telecommunication technologies and subsequent upgrades or replacements;
 - ongoing improvements in the capacity and quality of digital technology available in Brazil; and

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- the anticipated auction of licenses for the operation of 3.5 GHz and 10.5 GHz (WI-MAX) bandwidths with limited mobility.

We may be unable to keep pace with these technological changes, which could affect our ability to compete effectively and have a material adverse effect on our business, financial condition and results of operations.

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.

We believe that these requirements will 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 event that damages our network may adversely affect our business, financial condition and results of operations.

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, process customer orders, provide customer service and achieve operating efficiencies. We cannot assure 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 results of operations.

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

Our subscriber acquisition rate can be negatively affected by overall market penetration. Additionally, 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 on time. Churn reflects the number of customers who terminate their service or 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. As indicated by historical churn rates, we may experience a high rate of customer turnover which could increase our cost of operations and reduce our revenue. Several factors in addition to competitive pressures could influence our subscriber acquisition rate and our churn rate, including limited network coverage, lack of reliable service and economic conditions in Brazil.

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

Telecom Italia, through its ownership of TIM Brasil, our controlling shareholder, has 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 may pursue acquisitions, asset sales,

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joint ventures or financing arrangements or may pursue other objectives that conflict with the interests of other shareholders and which could adversely affect our business, financial condition and results of operations.

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, 2011, we had approximately R\$3.7 billion in consolidated outstanding indebtedness of which 28% was denominated in foreign currency (primarily U.S. dollars), for which we use derivative instruments to offset exposure to foreign currency. If we are unable to meet these debt service obligations, or comply with these 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 2011 of R\$411 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 if public or private financial is unavailable, our financial condition and results of operations and, consequently, the market price for our shares may be adversely affected.

We are subject to numerous legal proceedings.

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 losses and 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.

Any modification or termination of our ability to use the "TIM" trade name may adversely affect our business and operating results.

Telecom Italia owns the rights to the "TIM" trade name which is currently licensed to us. 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 significant changes which has subjected us to increased government oversight.

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., or "Telco." With the conclusion of the transaction and the subsequent merger of Olimpia S.p.A. with and into Telco in December 2007, Telco became the holder of 23.6% and currently holds 22.4% of the voting capital of Telecom Italia S.p.A. the indirect parent company of TIM.

In connection with the approval of the acquisition, through Act No. 68,276/2007, of October 31, 2007, Anatel imposed certain restrictions to guarantee the total segregation of the business and operations of Telefónica and TIM in Brazil, including, among other things, the obligation that the Telecom Italia group companies directly or indirectly involved in the Brazilian telecommunications sector present Anatel with copies of the minutes of the meetings of their respective boards of directors. On July 7, 2009, Anatel issued Act No. 3,804/2009, that considered accomplished some

of the obligations imposed by Act No. 68,276/2007, as well as established other obligations related to the filing of minutes of meetings of the respective boards of directors of the companies which directly or indirectly operate in the Brazilian telecommunication market and minutes of the shareholders meetings in which directors are appointed. The companies in Brazil were also obliged to present information related to the execution of any agreements between companies under the shareholding control of Telefónica and Telecom Italia in connection with telecom services offered in Brazil and also copies of minutes of the meetings of their respective boards of directors in which these agreements are discussed. Recently, on November 8, 2011, Anatel issued a new decision (No. 9,403/2011) clarifying that, according to its interpretation of Act No. 68,276/2007, companies of the Telecom Italia group to which the restrictions were addressed are also obliged to present Anatel with copies of the minutes of all meetings of the respective boards of directors, regardless of whether or not the members of such body were appointed following direct or indirect nomination by Telefónica and whether or not matters concerning activities relating to the provision of telecommunications services in the Brazilian market were discussed. In order to ensure full compliance with such restrictions and also considering those clarifications provided by Anatel, some internal procedures were approved and adopted by each of the companies to which the restrictions were addressed, by means of a resolution of the applicable administrative body. Such procedures were approved by our Board of Directors at a meeting held on February 15, 2012.

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We are subject to credit risk with respect to our customers.

Our operations depend to a significant extent on the ability of our customers to pay for our services. In the years ended December 31, 2011 and 2010, we made allowances for doubtful accounts in the amounts of R\$231.5 million and R\$310.5 million, respectively, primarily due to defaults in payment by our customers. As a percentage of our gross revenue, our provisions for doubtful accounts amounted to 0.9% and 1.5% in the years ended December 31, 2011 and 2010, respectively. Under Anatel regulations, we are allowed to undertake certain measures to reduce customer defaults, such as restricting or limiting the services we provide to customers with a history of defaults. If we are unable to undertake measures to limit payment defaults by our subscribers or that allow us to accept new subscribers based on credit history, we will remain subject to outstanding uncollectible amounts which could have an adverse effect on our results of operations.

We may be subject to liability related to outsourcing certain functions to third-party service providers.

We may be exposed to liabilities due to our outsourcing of certain functions to third-party service providers, for which we may not have made sufficient provisions. Recent government announcements and legal proceedings have called into question the ability of public service concessionaires to carry out their operations by outsourcing certain functions. Though no definitive position has been reached by any governmental authority, recent court opinions could set legal precedent that could call into question our ability to outsource certain operations. This may require us to hire as employees certain workers who currently work for us on an outsourced basis, which could adversely affect our results of operations and financial condition.

We depend on key suppliers.

We rely on various suppliers and vendors, including Ericsson, Alcatel-Lucent S.A., Huawei and Nokia, to supply network equipment and mobile handsets and accessories necessary for our business. These suppliers may, among other things, delay delivery periods, increase their prices, limit the amounts they are willing to supply to us, or may suffer disruptions in their own supply chains. If these suppliers are unable or unwilling to provide us with equipment or supplies on a regular basis, we could face difficulties in carrying out our operations, which could negatively affect our results of operations and limit our ability to execute our concession agreements.

Our infrastructure could be damaged as a result of natural disasters.

Our operations may be suspended or interrupted for an indeterminate period if any of our transmission bases are damaged by natural disasters, including by fire, explosion, storms or similar events. If we are unable to prevent against such damage in the event of a natural disaster, the interruption of our operations would have a material adverse effect on our business and results of operations.

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 operator's network and introduced the concept of significant market power in the industry. Under this regulation, the network usage fee, or VU-M, is freely negotiated between operators, but if operators have not negotiated a fee by 2010, Anatel will determine, through an arbitration procedure and based on a fully allocated cost model, a reference value VU-M companies it deems to hold significant market power in their respective service areas. New rules applicable to PCS

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operators with regard to this issue are currently being analyzed by Anatel, though currently all PCS operators are considered as having significant market power in their respective service areas. In making future determinations of companies that have significant market power, Anatel will consider market share in the mobile interconnection market and in the mobile services market, economies of scope and scale, infrastructure dominance that cannot be replicated economically, bargaining power vis-à-vis suppliers, existence of vertical integration, existence of barriers to entry and access to financing sources. For purposes of the mobile network remuneration rules, until Anatel defines which operators have significant market power, all operators that include a PCS provider will continue to be considered as having significant market power in the provision of mobile interconnection in their respective service areas. The new rules for PCS providers regarding the regulation of PGMC (Plano Geral de Metas de Competição) are currently being analyzed by Anatel with the expectation of publication sometime in 2012. If we are deemed to have significant market power under the new rules, we may be subject to increased regulatory requirements which could have an adverse effect on our business financial condition and results of operations.

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 levied by Anatel against TIM Celular and TIM Nordeste.

We cannot assure that we will be able to fully comply with each of the applicable 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;

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- 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.

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 equal to 2% of the prior year's revenue net of taxes, by way of investment under the Basic and Alternative Service Plans, which are intended to increase telecommunications penetration throughout Brazil.

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% of the prior year's service revenue net of tax, including interconnection and excluding value-added services revenues, by way of investment under the Basic and Alternative Service Plans. 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, including, for example, the introduction of 3G and 4G 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 occur, our most significant competitors in the future may be new participants in the market without the burden of an installed base of older equipment. The cost of upgrading our infrastructure and technology to continue to compete effectively could be significant.

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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 in the ordinary course of our operations as a mobile telecommunications provider in Brazil. 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, state and municipal tax authorities have questioned some tax procedures adopted by us, emphasizing the issues related to the offset of taxes by goodwill amortization as well as questions regarding the calculation of the basis for certain sector-specific contributions (FUST and FUNTTEL). As of December 31, 2011, we are subject to approximately 1,957 tax-related lawsuits and administrative proceedings with an aggregate value of approximately R\$7.0 billion. 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 effect on our business practices and results of operations.

In addition, federal, state and municipal tax authorities have questioned some tax procedures adopted by us, emphasizing the issues related to the offset of taxes by goodwill amortization as well as questions regarding the calculation of the basis for certain sector-specific contributions (FUST and FUNTTEL). On December 31, 2011, our aggregate tax contingency totaled approximately R\$7.0 billion.

The mobile industry, including our company, 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 PCS networks may not be adequate.

Since 2006, Anatel uses IST index (Índice de Serviços de Telecomunicações) to adjust Intelig for Fixed Switched Telephone Services (“STFC”) Concessionaires’ rates, Industrial Exploration of Dedicated Lines (“Exploração Industrial de Linha Dedicada” or “EILD”) and remuneration for the use of PCS, which substitutes the General Price Index, or the IGP-DI (the Índice Geral de Preços Disponibilidade Interna), an inflation index developed by the FGV, 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.

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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 the same PCS provider with different authorization areas may 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 is not successful, Anatel can, from April 2010 on, apply a full allocated cost model (by allocating the various service costs to determine a basic price. Final rules regarding these prices are still pending. 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 operators without significant market power.

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

In March 2007, Anatel issued regulations regarding the implementation of number portability in Brazil for fixed telephony and PCS providers. Portability is limited to migration between providers of the same telecommunications services. For PCS 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 one day, the portability request will be approved automatically, and the transfer process commences. Furthermore, after March 2010 the portability completion period was reduced from five to three 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 affect 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 that it would establish criteria and procedures for the exploration of virtual network services and standards for regulation, which process was completed on March 22, 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, there is still uncertainty about the sustainability of any recovery. 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 adverse 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.

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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 securities 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.

Uncertainty regarding changes by the Brazilian government to the policies or standards that affect these or other factors could contribute to economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and of securities issued abroad by Brazilian companies.

Additionally, interruptions in the credit and other financial markets, and the deterioration of the Brazilian and/or global economic environment may, among other effects: (1) have a negative impact on demand, which may reduce sales, operating income and cash flow; (2) decrease consumption of our products; (3) restrict the availability of financing for our operations or investments, or for the refinancing of our debt in the future; (4) cause creditors to modify their credit risk policies and restrict our ability to negotiate any of the terms of our debt in the future; (5) cause

the financial situation of our clients or suppliers to deteriorate or (6) decrease the value of our investments.

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.

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In 2010, the Brazilian government increased the IOF (“Imposto sobre Operações Financeiras”) rate on foreign investments in fixed income securities from 2% to 4%. This change reinforces the government’s decision taken in 2009, when these operations began to be taxed by the IOF. This tax increase is intended to decrease speculation on Brazilian markets and to reduce the volatility of appreciation of the real, reinforcing the efforts to discourage foreign investment by increasing transaction costs.

In 2011, the IOF was expanded to tax loans entered into by banks and companies outside of Brazil with a maturity of 90 days. Additionally, the IOF rate related to exchange currency increased from 0% to 0.38%. In 2012, the IOF rate related to tax loans entered in Brazil by foreign banks and companies remained 6%, however the maturity was increased to 1800 days (approximately 5 years). With this measure, the government intended to stem the flow of foreign capital entering Brazil through loans entered into outside of Brazil and contribute to decrease the value of the U.S. dollar in comparison to the real.

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 – FGV, 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, negative 1.72% in 2009, 11.32% in 2010 and 5.10% in 2011. 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 consumer price inflation rates were, 7.6% in 2004, 5.7% in 2005, 3.1% in 2006, 4.6% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010 and 6.5% in 2011. 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 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, 32% in 2008, and 4.8% in 2011. Notwithstanding the fact that the real has appreciated 11.5%, 8.7%, 25.4%, and 4.3% in 2006, 2007, 2009 and 2010, respectively, there can be no guarantees as to whether the real will depreciate or appreciate against the U.S. dollar in the future.

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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 common 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 (the SELIC rate) 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 2011, the basic interest rate was 11%.

At December 31, 2011, 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 Depósito 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. At December 31, 2011, R\$3,522 million (after hedging) 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.

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

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 the 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.

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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 Commons Shares and the ADSs

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 common 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 common 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 voting process will take longer for ADS holders than for direct holders of our shares.

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.

Holders of our ADSs or common 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 common 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 common shares in the United States that we will file a registration statement

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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.

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. At December 31, 2011, BM&FBOVESPA's market capitalization was approximately R\$2.3 trillion (U.S.\$1.2 trillion). The Brazilian capital market shows significant concentration. The top ten shares in terms of trading volume accounted for approximately 53.1% of all shares traded on the BM&FBOVESPA in the year ended December 31, 2011. 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.

All 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 common shares could be subject to Brazilian income tax on capital gains from sales of ADSs or common 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. See "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations."

Gains realized by non-Brazilian holders on dispositions of common 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, as amended, or “Resolution CMN 2,689” of the National Monetary Council (Conselho Monetário Nacional CMN, or “CMN”) as described below in “Item 10. Additional Information—E. 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

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not on the Brazilian stock exchanges and 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 common shares risks loss of certain foreign currency remittance and Brazilian tax advantages.

The ADSs benefit from the certificate of foreign capital registration, which permits J.P. Morgan Chase Bank, as depository, to convert dividends and other distributions with respect to common shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for common shares will then be entitled to rely on the depository'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 common 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.

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.

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) 4109-3742 and our fax number is +55 (21) 4109-3314.

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

Historical Background

Our indirect controlling shareholder, Telecom Italia, began operating in Brazil in 1998 and through us is currently a leading wireless operator in the country. 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, which at the time made

Telecom Italia 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

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government privatized Telebrás and established Anatel as an independent regulatory agency. In connection with the privatization, Telebrás was broken up (the “Breakup”) into 12 new holding companies (the “New Holding Companies”) that 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.

Upon the Breakup of the Telebrás System, the Brazilian territory was initially divided by Anatel into ten separate cellular service regions (“Band A”), 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 were distributed throughout ten different regions, which generally overlap with the Band A regions. Anatel’s rules at the time 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 and as a result, some companies controlled by Telecom Italia waived their rights to provide PCS services in certain areas.

In July 1998, the Federal Government sold substantially all its shares of the New Holding Companies, including its shares of Tele Sudeste Celular Participações S.A. (“TSU”) and Tele Nordeste Celular Participações S.A. (“TND”), the two companies that, following a series of acquisitions, corporate reorganizations and corporate name changes, merged to form TIM Participações (“TIM”) in 2004. In December 2002, TIM Sul, TIM Nordeste Telecomunicações and TIM Maxitel had converted their respective concessions to operate under Cellular Mobile Service (“SMC”) regulations into authorizations to operate under PCS regulations. We continued to expand and restructure our operations through a series of corporate reorganizations, mergers, acquisitions and name changes, and we are currently held, directly and indirectly, by Telecom Italia through its wholly-owned subsidiary, TIM Brasil. See “Item 4. Information on the Company—C. Organizational Structure” for a description of our current corporate structure and Exhibit 8.1 attached hereto for a list of our significant subsidiaries as of the date of this annual report.

2011 Important Events

Migration to the Novo Mercado listing segment

At an extraordinary shareholders meeting held on June 22, 2011 our shareholders approved, among other things: (1) the conversion of all of our preferred shares into common shares, at a ratio of 0.8406 common shares for each preferred share; (2) our adherence to the Novo Mercado rules and the transfer of trading of the shares issued by us to the Novo Mercado, and (3) amendments to our bylaws.

In order to join the Novo Mercado, we entered into a Novo Mercado Participation Agreement with the BM&FBOVESPA. Through this agreement, which became effective on July 27, 2011, we are required to adhere to heightened requirements relating to corporate governance and the disclosure of information to the market. Additionally, as of such date, our shares started trading on the Novo Mercado segment of the BM&FBOVESPA. Pursuant to the Novo Mercado Regulations, we are not permitted to issue preferred shares, participation bonuses or any kind of shares with restricted voting rights.

Prior to August 2, 2011 we had common shares and preferred shares listed on the BM&FBOVESPA under the symbols "TCSL3" and "TCSL4," respectively. Our ADSs listed on the NYSE each represented 10 preferred shares. As part of our migration to the Novo Mercado listing segment of the BM&FBOVESPA, our preferred shares

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ceased to trade on August 2, 2011. On August 4, 2011, our ADSs representing preferred shares ceased to trade on the NYSE. From August 3, 2011, we only had common shares traded on the Novo Mercado listing segment of BM&FBOVESPA, by using the code “TIMP3” and as from August 5, 2011, our ADSs representing five common shares instead of ten preferred shares commenced trading on the NYSE. See “Item 9. The Offer and Listing—A. Offer and Listing Details.”

Public offering of common shares

In September 2011, we publicly offered 200,258,368 newly issued common shares at an offering price of R\$8.60 per share. We received net proceeds of approximately R\$1.7 billion in the offering, which were used to develop and expand our network infrastructure. Our controlling shareholder acquired approximately 63% of our common shares issued in the offering.

Acquisition of AES Atimus, now TIM Fiber

On July 8, 2011, our wholly-owned subsidiary TIM Celular entered into an agreement with Companhia Brasileira de Energia and AES Elpa S.A. (the AES Group in Brazil) for the purchase of all of AES Elpa S.A.’s equity interests in Eletropaulo Telecomunicações Ltda. and 98.3% of the interest of AES Communications Rio de Janeiro S.A. (the “AES Atimus Acquisition”). We completed the acquisition on October 31, 2011, after all conditions precedent to the contract were completed and certain regulatory approvals were obtained. We paid a total of R\$1,074.2 million and R\$447.5 million, respectively, for each of Eletropaulo Telecomunicações Ltda. and AES Communications Rio de Janeiro S.A. In connection with the acquisition, Eletropaulo Telecomunicações Ltda. changed its corporate name to TIM Fiber SP Ltda., and AES Communications Rio de Janeiro S.A. changed its corporate name to TIM Fiber RJ S.A., and we call the business, collectively, TIM Fiber.

The AES Atimus Acquisition will allow us to expand our operations in the high-speed data communications market, allowing us to offer new products to our customers, as well as providing a reduction in infrastructure rental cost, and helping us obtain significant synergies related to Tim Fiber’s fiber optic network.

2011 mobile market developments

The Brazilian mobile market reached 242.2 million lines nationwide at the end of December 2011, corresponding to a penetration ratio of 123.4%, compared to 104.7% in 2010, and an annual growth rate of 19.4%, compared to 16.7% in 2010. Brazil is the fifth largest mobile telephone market in the world, and telephony is currently the most common means of communication in Brazilian households among all social classes. According to Anatel, mobile market net adds reached 13.1 million in 2011 which represents a 31.7% increase from 2010. The prepaid customer base continues to represent the greatest share of the total subscriber base, reaching 81.8% by the end of 2011.

Capital Expenditures

In 2011, our Board of Directors approved our budget for capital expenditures, which approved estimated expenditures of R\$9.0 billion for 2011 through 2013. We generally seek to budget approximately 12% of our total gross revenues for our capital expenditures. Most of the capital expenditures we budgeted relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure. Our principle source of funds for our capital expenditures is cash from operations and, in 2011, proceeds from the issuance and sale of our common shares.

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 future

periods.

Our main capital expenditure in 2011 was the AES Atimus Acquisition whereby we acquired the companies that now constitute TIM Fiber for a total purchase price of R\$1,521.7 million. Other capital expenditures in 2011 were also focused on development of our network infrastructure.

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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, 2011, there were approximately 242.2 million mobile lines, representing approximately 123.9% of the population, compared to approximately 202.9 and 174 million mobile lines, representing approximately 104.7% and 91% of the population in 2010 and 2009, respectively, and approximately 151 million mobile lines, representing 78% of the population in 2008.

Although the industry has benefited from the increased purchasing power of Brazil's less affluent population, market 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 2009, 2010 and 2011, approximately 82.6%, 82.3% and 81.8% respectively, of mobile lines were prepaid and 17.4%, 17.7% and 18.2%, respectively, were postpaid segment reached the number of 44.1 million lines, an annual expansion of 22.9%. The average monthly revenue per mobile customer in Brazil was approximately R\$26.6 for the year ended December 31, 2009, R\$23.6 for the year ended December 31, 2010 and R\$21.1 for the year ended December 31, 2011.

Our Business

We are the second largest provider of mobile telecommunication services in Brazil based on the number of phone lines, with 64.1 million lines and a market share of 26.5%, based on data from Anatel. We led the mobile telecommunications market in net additions of lines in 2011 according to Anatel. In the year ended December 31, 2011, we added 13.1 million net lines, an increase of approximately 25.6% compared to the year ended December 31, 2010.

We operate, through our subsidiaries in various telecommunications markets throughout Brazil including mobile, fixed and long distance telephony, data transmission and Internet services. In the year ended December 31, 2011, our gross service revenue was R\$24.8 billion, a 21.8% increase from the year ended December 31, 2010, following an 8.1% increase in gross service revenue from 2009 to 2010.

Through our GSM network, we serve approximately 94% of the urban population of Brazil, representing the largest GSM network coverage of any mobile telecommunications services provider in Brazil (based on publicly available data of other mobile telecommunications providers), with a presence in almost 3,300 municipalities. We offer extensive data coverage throughout Brazil, with our general packet radio services technology, or GPRS, covering 100% of our coverage area and our EDGE technology reaching 80% of our coverage area, in addition to our sophisticated 3G network covering more than 67% of the urban population of Brazil. Our international roaming agreements include more than 527 networks available in over 200 countries. Our fiber network extends from northern to southern Brazil, with an extensive wide area network, or backbone, of approximately 15,000 kilometers, and metropolitan area networks, or backhaul. Our fiber optic network has a unique capacity to offer high quality ultra-broadband service in the Rio de Janeiro and São Paulo metropolitan regions, which together represent 25% of Brazilian GDP and annual telecommunications industry revenues of R\$30 billion according to data from IBGE. The AES Atimus Acquisition provided us with a distinct competitive advantage as the TIM Fiber (formerly named AES Atimus) backhauling network is practically twice the size of our next closest competitor in the Rio de Janeiro and São Paulo markets, with over 5,500 kilometers of fiber-optic cable accessible to approximately 550,000 business

customers.

We believe we have a strong brand and a reputation for innovation, having pioneered several product launches in Brazil, such as the introduction of multimedia messaging services, or MMS, and the BlackBerry product line. Our mobile phone plans, such as Infinity Pré and Liberty, have transformed the mobile telecommunications market in Brazil, in line with our strategy to increase voice traffic and long distance calls in Brazil and to accelerate the growing trend in the substitution of fixed-line telephone services for mobile telephone services. In addition, according to a marketing research survey of 12,550 mobile telephone users throughout Brazil conducted by

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Synovate from April to June 2011 under an agreement with us, we are recognized as market leaders in terms of brand preference and innovation, among other attributes.

Our growth in the mobile telecommunications market does not result in revenue cannibalization (that is, substitution of fixed-line services for mobile services) as we are essentially a pure mobile operator unlike some of our competitors that offer both fixed-line and mobile telephony services. Also, we have a “no subsidy” policy for handset and accessories sales, which helps to avoid pressure on margins and costs as we grow.

In 2009, 2010 and 2011, we invested more in our infrastructure than any other mobile telecommunications operator in Brazil, based on capital expenditure data reported by our competitors. We believe this reflects our commitment to enhancing our ability to provide services of the highest quality and respond to the expected increasing demand in voice traffic in Brazil. According to Anatel, from in 2011, we were a leader in network quality, as the only company to have achieved 100% of the goals set for Personal Communication Service (Serviço Móvel Pessoal, SMP or PCS) providers during that period.

As of December 31, 2011, we had more than 9,000 points of sales through premium shops and dealers (exclusive or multi-brand), in addition to relationships we have established through a network of large, established retail chains. In addition to these retail outlets, our customers have access to prepaid phone service as an alternative channel to access our products and services through supermarkets and newsstands and other smaller retailers, for a total of approximately 400,000 points of sale spread throughout Brazil.

On October 31, 2011, we completed the AES Atimus Acquisition as part of our business strategy to expand our operations and strengthen our network infrastructure. TIM Fiber SP Ltda. (formerly named Eletropaulo Telecomunicações Ltda.) and TIM Fiber RJ S.A. (formerly named AES Communications Rio de Janeiro S.A.), which we refer to collectively as TIM Fiber, serve the principal metropolitan regions of the states of São Paulo and Rio de Janeiro, covering a potential market of approximately 8.5 million homes and an additional 550 thousand companies in 21 cities with a network of fiber optic cables extending 5.5 thousand kilometers. We believe the completion of this acquisition significantly strengthens our network infrastructure, allowing us to provide high speed data solutions to our existing and potential new customers.

Competitive Strengths

We believe that our robust network infrastructure, together with our brand recognition and our widespread sales network positions us well to capitalize on opportunities in the telecommunications industry in Brazil and meet the growing demand in the mobile telecommunications market. We believe our main strengths include:

Strong and sustainable revenue and margin growth coupled with leadership in attracting customers. According to a marketing research survey conducted by Synovate from April to June 2011, we are viewed as market leaders in terms of brand preference and innovation. We were also found to have the lowest rejection rate among our competitors according to this study. We had the largest net additions in lines among mobile telecommunications providers in Brazil in 2011, with 13.1 million net additions in 2011, according to Anatel, reaching a client base of 64.1 million lines in December 2011. In 2011, we obtained a 32.7% share of net additions. In the prepaid segment, we achieved 25.8% growth and in the postpaid segment, we achieved 24.4% growth.

Our leadership in customer acquisition is the result of factors such as: (1) innovative offerings that we believe have improved benefits to our customers when compared to our competitors, (2) community awareness in Brazil which has, in effect, through “word of mouth,” spread the benefits of our services, (3) superior network infrastructure that we believe allows users to fully enjoy our services, (4) strong brand recognition, and (5) clear and direct communication to our target client base.

Our growth in the mobile telecommunications market does not result in revenue cannibalization (that is, substitution of fixed-line services for mobile services) as we are essentially a pure mobile operator unlike some of our competitors that offer both fixed-line and mobile telephony services. Also, we have a “no subsidy” policy for handset and accessories sales, which helps to avoid pressure on margins and costs as we grow. We expanded our customer base by 16.7% from December 31, 2009 on a pro-forma basis to December 31, 2010, and 25.6% between December 31, 2010 and December 31, 2011. During these periods, we increased our net operating revenue by 9.9% and 18.2%, respectively.

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High quality services. According to Anatel, we are a leader in terms of network quality, as the only company to have achieved 100% of the goals of providing PCS in 2011. These results demonstrate our commitment to providing our customers with the highest quality service and responding adequately to rising service demand in Brazil, as we implement a strategy of increasing MOUs and stimulating data usage. We established this position through the growth and improvement in our network infrastructure and our information technology during 2009 and 2010, during which time we consolidated our position as the leading mobile telecommunications operator in infrastructure investments, based on public capital expenditure data reported by other operators. Such investments have been achieved organically, including through building long distance networks and establishing our metropolitan fiber optic cable network and through increased coverage and capacity, as well as by means of inorganic growth, for example, through the acquisition of assets such as Intelig and TIM Fiber.

During the period from January 1, 2009 to December 30, 2010, we increased the capacity of our voice network by 77.5%, based on installed TRX, which is the network element responsible for adding traffic capacity to an antenna. In this same period, our 3G network coverage grew by more than five times in terms of the number of cities covered, reaching 54% of Brazil's urban population.

The acquisition of Intelig added to our network infrastructure for a 100% digital fiber optic network installed from Northern to Southern Brazil, totaling more than 500 thousand kilometers of fiber cables, with an extensive wide area network (backbone) of approximately 15,000 kilometers and metropolitan area networks (backhaul) in Brazil's principal cities. In addition, we added to our network telephone exchanges and satellite stations, connecting to major networks and with capability in major international submarine cable systems. The AES Atimus Acquisition positions us well, relative to our competitors, to capture broadband Internet market share. In Rio de Janeiro and São Paulo, Brazil's two largest cities, the AES Atimus (now TIM Fiber) network is capable of reaching almost double the network size of our competitors in these markets, with a total of 5,500 kilometers of fiber optic cable spread over Rio de Janeiro and São Paulo, available to approximately 550,000 businesses.

Strong brand associated with innovation. We believe we have a reputation for innovation, as supported by a survey of the mobile market conducted by Synovate from April to June 2011, which found us to be market leaders in Brazil, particularly in terms of brand preference and innovation. We have pioneered the launch of several products and services in Brazil, such as MMS services and BlackBerry handsets.

We believe our offering of innovative plans in the Brazilian market has contributed to the increase in voice traffic in Brazil and has been instrumental in positioning us as a service provider capable of establishing the new standard in the market. Among these plans are our Infinity Pré plan in the prepaid segment, which introduced the concept of charging per call (rather than per minute) and equalization of tariffs for local calls and long distance within our network. In the postpaid segment, we launched the concept of unlimited calls within the TIM network with our TIM Liberty plan. We believe the subsequent development of other plans based on these concepts (Infinity Web – prepaid data; Liberty Web – postpaid data; More Infinity – calls to landlines; and Infinity Torpedo – text messaging) strengthen our leadership position vis-à-vis our competitors in terms of innovation.

The only Brazilian telecommunications company listed on the Novo Mercado. Since our listing on the Novo Mercado in July 2011, we are the only company in the Brazilian telecommunications sector listed on this segment of the BM&FBOVESPA. We believe that the recent listing on the Novo Mercado provides greater liquidity and value for our shares and allows us greater access to international markets, promotes the strengthening of our corporate image and increases confidence in us, in addition to reaffirming the long-term commitment of the Telecom Italia Group in Brazil. We believe listing on the Novo Mercado also aligns the interests among our controlling and minority shareholders with respect to voting rights, tag along rights and dividend policy.

In addition, we are the only company in the industry that belongs to a select group of companies comprising the portfolio of the Corporate Governance Index (CGI), the BM&FBOVESPA Tag Along Stock Index (ITAG), and the Carbon Efficient Index (ICO2), comprised of companies that have committed to adopt transparent practices with respect to their emissions of greenhouse gases. We are also part of the portfolio of the Corporate Sustainability Index (ISE) of the BM&FBOVESPA, an index comprised of companies that have a strong commitment to sustainability and social responsibility.

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Highly qualified and experienced executives and controlling shareholder support. We have a team of highly qualified executives, widely recognized in the industry and possessing extensive experience in telecommunications markets in Europe and emerging countries. Our executives have been nominated for various awards such as “CEO of the Year” by the World Communication Awards in 2010 and as finalists for the Second Business Marketing Leader Award and the Marketing Professionals Award in 2011 by Marketing Magazine. Our executive compensation policy seeks to align the interests of our executives with those of our shareholders, through variable compensation plans and stock options that reward good performance and the accomplishment of certain goals, as well as provide for improved executive retention.

Following significant losses in 2008, our controlling shareholder, Telecom Italia, restructured our management, which helped reposition us as the second leading mobile telecommunications in Brazil provider in terms of subscriber lines. Our controlling shareholder’s support in our operations is further demonstrated through the sharing of know-how and best practices and development of new solutions for networking, marketing and finance, which are rapidly rolled out under a “plug & play” strategy, under which network innovations may be developed by our parent company first in other regions and then implemented with us.

Our Strategy

Our strategy includes:

Strengthening our customer base and improving our network. The Brazilian mobile telecommunications market has grown significantly in recent years. We believe that there is still significant opportunity for growth in our user base beyond the estimates reported by Anatel because these estimates do not take into account the existence of multiple lines per user and non-human (machine-to-machine) access, such as points of sale and tracking services that use a GSM SIM card for data communication.

Our growth strategy involves strengthening our existing customer base by offering exclusive products to existing customers and by improving the quality of local and long-distance communications within our network. We believe this strategy will allow us to strengthen customer loyalty without requiring us to incur higher costs, as increased traffic within our own network does not cause us to incur interconnection charges. We are also constantly seeking new customers through new marketing efforts and promotional initiatives.

Capitalizing on the acceleration of fixed-mobile substitution. We seek to capitalize on the opportunity for growth in voice traffic and encourage the use of mobile devices, rather than fixed lines, for long distance communication, through fixed-mobile substitution. We believe that the main advantage of our product offerings is that our users are able to use our network more than that of other mobile telecommunications providers. Our prepaid “Infinity” plans and postpaid “Liberty” plans were initially developed in 2009 in connection with this strategy and we continue to develop these product offerings.

This strategy has been successful in part due to the limited service offerings of other long distance carriers in Brazil and the acceleration of fixed to mobile substitution. We have become the market leader in the long distance telecommunications market based on our market share, which in 2007 amounted to 11.5% and by December 2011 exceeded 26.5% according to Anatel. Fixed-mobile substitution is increasingly evident in the Brazilian market, as fixed telephony operators have experienced a decline in the number of users and revenue. Since we are primarily a mobile operator with robust network infrastructure, the impact of any reduction in the fixed telephony market does not impact our performance and we therefore encourage the acceleration of fixed-mobile substitution, which in turn increases demand for our services.

Providing universal Internet access to our customer base. We intend to provide universal Internet access to all segments of our customer base, offering our prepaid and postpaid customers competitive data usage plans through wireless handsets or accessories. Our focus on increased data usage among our customers depends on our ability to effectively manage our handset and accessories sales, with primary focus on models that provide for quality Internet access at a low cost, such as webphones. Since it is our policy not to subsidize our customers' purchases of handsets and accessories, this approach has allowed us to offer our services at a highly competitive price, offer convenient payment methods, meet market demand and allow for opportunities for innovation. The result of this strategy can be

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seen in the increase of 63.1% of gross revenue earned from sales of handsets in the year ended December 31, 2011 compared to the corresponding period in 2010.

Construction of a unique infrastructure network in the Brazilian market. We are committed to developing a robust network infrastructure capable of serving our expanding customer base and anticipating new trends and technologies in the industry. The development of this infrastructure requires both organic (planning and infrastructure development projects for the existing network) and inorganic (acquisitions) investments. As part of our strategy to focus our investments in infrastructure, we acquired Intelig in December 2009 to establish our own fiber optic network and develop automation projects and acquired TIM Fiber (formerly AES Atimus) in 2011 to strengthen and expand our fiber optic network. Our zero-subsidy handset policy further supports our strategy to invest in infrastructure because it frees up capital expenditures for spending on infrastructure. We believe that the implementation of our zero-subsidy policy between 2009 and 2010 has given us a significant competitive advantage compared to other mobile telecommunications operators in the marketplace. We plan to continue to invest in infrastructure in coming years, with an estimated capital expenditures budget for 2011 to 2013 of approximately R\$9.0 billion. We believe the construction of a differentiated network is an effective strategy for sustained growth as evidenced by our leadership position in the provision quality services as measured by Anatel, even our as customer base has grown significantly in the past two years.

In 2012, we plan to carry out this strategy through ongoing investments in projects that will continue to differentiate and strengthen our network, such as the construction of new fiber optic networks in the North and Northeast of Brazil.

Aligning our business with rising incomes in Brazil. Brazilian demographics have changed substantially in recent years, with the growth in Classes C and D and the increase in average salaries in Brazil. Because we pioneered the use of unlimited service at a fixed price and we have emphasized increasing the use of voice and data, we believe we have an advantage over our competitors in accessing this demographic shift. In 2011, our net additions reached 13.1 million lines, or the equivalent of 32.7% of all new lines in the market, with significant concentration in Classes C and D. The volume of unit sales in the same period increased markedly due to the growth of handset and accessory use as an affordable alternative for Internet access for Classes C and D users. As evidence of this trend, mobile Internet devices represented more than half of our total sales in 2011.

Expansion into new businesses. To capture new opportunities for growth in the mobile telecommunications sector goal, we entered into a partnership with the Ministry of Communications to join the National Broadband Program and formed a partnership with the insurance company Porto Seguro to create a Mobile Virtual Network Operator, or MVNO, which is a mobile operator without a proprietary network but which uses the network of other operators and buys minutes, SMS and/or data, among other services, at wholesale prices, paying a discounted price compared to average retail price, or entering into a revenue sharing arrangement. In addition, with the acquisition of AES Atimus, we believe that we will be able to capture opportunities in the corporate segment with more robust and responsive services. We also believe we can capture market share in the residential broadband segment, with offerings of high quality ultra-broadband, operating within Rio de Janeiro and São Paulo, markets that accounted for 25% of Brazilian GDP and which represent revenue potential of R\$30 billion a year.

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Regional Overview — Operations Under TIM Trademark

We offer GSM telecommunications services with a national reach to 94% of the urban population, which is the most extensive GSM coverage in Brazil, with a presence in almost 3,300 cities. We also provide extensive data coverage across Brazil using 100% GPRS technology, of which 80% is EDGE technology. We also have 3G coverage available to approximately 67% of the urban population in Brazil. The following map shows our coverage areas with the types of service available in each area.

Through our subsidiaries, we provide mobile telecommunications services using digital technologies, including GSM and 3G, AM, to the ten wireless areas of Brazil shown in the above map.

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.

	As of or For the Year Ended					
	2011		2010		2009	
Brazilian population (1)	195.0		190.8		191.5	
Total penetration(2)(3)	123.9	%	104.7	%	91	%
Brazilian subscribers	242.2		202.9		174.0	
National percentage subscriber growth	19.4		16.7	%	15.5	%
Population we cover(1)	184		173		169	
Percentage of urban population we cover(4)	94.4		94	%	94	%
Total number of our subscribers	64.1		51.0		41.1	
Our percentage growth in subscribers	25.6	%	24.1	%	12.9	%
Our percentage of postpaid customers	17.0		17.7	%	17.4	%
Our ARPU(5)	21.4		23.7		26.6	

(1) According to the latest information available from IBGE.

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- (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 customers commit to purchasing more minutes per month. Prices can also vary depending on the time of the day, the type of call (for example, calls from other operators on fixed lines or calls outside of the network for cellular calls) 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 data services.

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 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.

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 2011 we expanded our prepaid recharge stations by 27.0%. There are already over 445,963 recharge stations nationwide, offering two recharge options: physical (using prepaid cards) and electronic (both online and using a 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 (a network ATMs in Brazil), as well as customers using Visa, MasterCard or Diners Club credit cards can recharge their prepaid phones straight from their mobile handsets.

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Despite the highly competitive environment, we have maintained our 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 an Internet service provider, while "TIM Mais Completo" combines mobile and residential telephony with internet access. The two products are part of our strategy of offering increasingly convergent services and thus, in addition to competitive prices, mobility and internet portability, without the need for a separate access provider.

Each of our customer segments has options specially tailored for pre-paid, post-paid, and fixed clients. New 3G technology has allowed us to broaden convergence of our services, offering a new portfolio of options to meet a greater number of market needs, such as 3G mobile broadband, iPhone sales and service, and TIM TV, which provides the ability to watch a selection of TV channels through mobile handsets.

2010 and 2011 were years of consolidation and evolution of our offering portfolio, which had been completely redesigned in 2009. We have developed distinct product offerings for our consumer clients and our business clients that allow us to meet the specific needs of our customers in each target market.

Consumer Plans

We have continued to build upon the strength of our leading market position in voice traffic in our product offerings to consumers, focusing on our Infinity and Liberty calling plans which we believe reinforce the strength of the TIM network by relying on the favorable calling options for the 64.1 million lines within our network. Within the consumer business, our main plans include:

- Infinity (pre- or post-paid): in these plans, the customer is only charged for the first minute of each call to any TIM number, paying a fixed rate per call (and not per minute);
- Liberty: for a monthly flat fee, the customer has unlimited talk time with any number on the TIM network, with no restriction on the number or duration of calls.

In 2011, we launched a special offer during Father's Day in Brazil, offering unlimited local and long-distance calling using the prefix code (41) to any phone number in the country on the TIM network. Liberty customers also had unlimited talk time with any radio user without using any minutes in their calling plans.

We also enhanced our regional offerings in certain areas where we identified greater opportunities for expansion, such as with the launch of the Infinity TRI offering in the state of Rio Grande do Sul. In an offering that we believe is well-adapted to the culture of this region, we offered new Infinity plans whereby the caller is charged a fixed rate per day of use, rather than per call. This offering reinforced our commitment to establishing our presence in this region.

In 2011, we also increased the outlets through which our Infinity Pré and Infinity Controle customers can recharge their accounts. In particular, customers can now recharge their pre-paid phones through our website.

The following presents a brief summary of certain key elements of our Infinity and Liberty consumer plans:

- Infinity Pré, which consists of a promotional fixed 25 cent rate for calls to other TIM users;
- Infinity Mais, which charges a fixed 50 cent rate to landlines;
-

Infinity Web, where users in the Infinity Pré plan get one free month of unlimited Internet access and after this period pay 50 cents per day for unlimited Internet access;

- Infinity Zero, which is a plan without a monthly subscription charge and the customer only pays for monthly utilization and can also rely on Infinity plan benefits, such as charge per call, for local and long distance calls using code CSP41;

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- Liberty+100, which offers competitive subscription rates for SIM-only customers, offering the same benefits as the standard Liberty plans plus 100 minutes for calls outside of the TIM network and unlimited calls for radio users;
- TIM Turbo, which has special voice packages for post-paid customers, including the Predileto Local and Predileto DDD packages, which offered unlimited calls to fixed or mobile TIM numbers through a monthly subscription.
- Infinity Family, which offers free and unlimited calls between family members all using phones on the TIM network, including calls to TIM Fixo.
- Combos Liberty, that packages the Liberty plan benefits with the Liberty Web promotion, including, among other things, six months of free unlimited Internet access for customers that purchase a new unsubsidized handset.

In 2011, we maintained our SIM-only strategy, where customers may choose discounts in service rather than having the handset purchase subsidized by us. We believe this allows us to offer differentiated services at competitive prices and make handsets available without providing them to customers for free.

Business Plans

In 2011, we continued to enhance our unique product offerings to our business clients, maintaining an emphasis on simplified service and transparency with the aim of provided unlimited, worry-free use. We launched a number of new products and services based on the unique needs of our business clients. We also increased our focus on the provision of Internet solutions, providing companies of all sizes with improved, unlimited Internet connectivity.

The TIM Liberty Empresa plans, which already offered unlimited voice usage with other numbers on the TIM network, also began offering Liberty Web Smart, which allows our customers to access unlimited data usage, and customers only pay for such usage in any month in which such service is actually used. This product offering is unique to TIM and we believe provides convenience and transparency to our customers.

In 2011, we also launched “TIM Radar,” a simple location application that allows small businesses to monitor the location of their labor force in the field. At a promotional price of R\$9.90 per month, our offering became the most low-cost solution for employee monitoring solutions that previously had been available only to larger companies.

We also launched four new broadband Internet plans for businesses during 2011, each providing for unlimited data use, allowing for convenience and transparency in billing. In connection with the launch of these broadband plans, we also offered certain tablet computers to our customers at promotional prices.

With a view to providing customized solutions to targeted professionals, we launched a special promotion targeted at medical providers, whereby we offered physicians a special package that includes a smartphone, a cable modem, a tablet PC and fixed telephone service for a fixed monthly price, starting at R\$279 per month. As part of the promotion, each physician receives six free months of our specialized data solutions for healthcare professionals, providing direct access to medical information, scheduling software with appointment reminders sent by text message, and medical calculators.

Sources of Revenue

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

Year ended December 31,		
2011	2010	2009

Category of Activity

	(in millions of R\$)		
Gross mobile telephone services	22,217.1	18,761.4	16,357.0
Gross sales of handsets and accessories	2,540.5	1,557.9	1,717.7
Total	24,757.6	20,319.3	18,074.7

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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 relevant 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.
- 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”).

Usage charges are for minutes in excess of those included as part of the monthly subscription charge under the relevant postpaid plan.

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

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mobile service provider, that service provider is charged a roaming fee for the service used, 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 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%.

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 December, 2009, Anatel determined that we must have only three VU-Ms, according to the three authorization areas (PGA regions).

In October 2011 Anatel reduced fixed to mobile rates, which was based on a reduction in the respective wholesale interconnection levels on call termination. Anatel proposed a reduction of the fixed to mobile rates of 18% in 2012, 12% in 2013 and 10% in 2014, based on nominal declines. In the future, Anatel intends to establish the reference tariffs for Significant Market Power operators based on the fully allocated historic costs system, which reference tariffs are already under development by Anatel in consultation with a consortium formed by three companies (Advisia, Analysis Mason and Grant Thornton). The contract signed in August 2011 between Anatel and the consortium provides for a cost model in the amount of U.S.\$8.22 million, to be implemented by 2014, which will likely imply a reduction of the mobile termination rate.

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

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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 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 respective relationship and loyalty, 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 code.

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 12.8% of our gross service revenues in 2011, 12.0% in 2010 and 2009, 9.7% in 2008 and 7.9% in 2007. However, we continued to experience growth in usage of these services in 2011, as illustrated by revenue growth from value-added services of 41.3% compared to 2010. We work with 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.

The following is a brief summary of our principal value-added services.

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. 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.

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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. In 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 216 handset models and BlackBerry from several manufacturers, including Nokia, Samsung, Motorola, Sony, Ericsson and RIM, 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, including web phones and smartphones such as the iPhone and BlackBerry devices 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. 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

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addition, although there can be no assurance, if we achieve and maintain a clear leadership position in customer satisfaction, we believe we will be well placed and benefit from number portability, recently introduced in Brazil.

As of December 31, 2011, our services were marketed through the largest distribution network in Brazil with over 9,296 points of sale (8,989 in 2010), of which approximately 81 were our own stores. In addition, we had over 445 thousand 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. 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 94% of the urban Brazilian population based on Anatel's coverage criteria. During 2010, we started to move away from TDMA technology, migrating customers to the GSM system, and promoting greater efficiency in terms of power consumption and we discontinued the use of TDMA in 2011. During 2008 we implemented 3G services within our network, which enable users to experience a higher level of connectivity with broadband Internet access. At the end of 2011, there were 11,716 sites: 11,336 GSM base transceiver stations ("BTS") and 6,476 activated B nodes, all of them capable of offering high speed packet access, or "HSPA," services. 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. In December 2010 and in October 2011, we acquired additional bandwidth in the 1,800MHz band, in order to improve capacity and quality to the subscribers in the total amount of R\$81.8 million, and we are still monitoring the status of the possible auctions for new bandwidth authorizations by Anatel (2.6MHz band for UBB applications). 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 core to our business. In 2011, we made R\$2.1 billion in investments to improve our network infrastructure, primarily the AES Atimus Acquisition.

Our wireless network principally includes transport and computer equipment, as well as exchange, and transmission equipment, consisting primarily of switches, 11,336 BTS in our GSM network and 6,476 B nodes as of December 2011. The network is connected primarily by IP radio links and fiber-optic transmission systems from the recently acquired Intelig network. The remaining sites are connected by leased lines. Nokia Siemens Networks, Ericsson and Huawei are our main suppliers for GSM and 3G equipment.

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 high-traffic 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.

With the acquisition of Intelig, we have integrated more than 15 thousand kilometers of long-distance fiber optic cables connecting the main cities of Brazil. We have been deploying 40G/DWDM/ROADM (dense wavelength-division multiplexing and reconfigurable optical add-drop multiplexer) layers on top of this existing network, modernizing the existing assets by replacing the legacy network. In addition, we have entered into new joint construction contracts and other partnerships and initiatives to expand our fiber optic network by nearly 10 thousand kilometers by the end of 2011. We have also established a partnership with a consortium of electric transmission line operators in the northern region of Brazil, where we acquired the right to launch optical ground wire cables, connecting the cities of Manaus, Tucuuruí and Macapá by early 2013. During the next few years, we plan to execute

additional projects to increase the capillarity of our long-distance backbone network.

Our switching exchanges and intelligent network platform enable us to offer flexible, high quality voice service at extremely competitive prices. Our satellite network covers distant areas of the country and is being expanded and renewed to provide high capacity private service to other carriers and corporate customers. We also acquired capacity from major submarine cable systems such as AmericasII, Globenet and Atlantis2. As mentioned above, we

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have initiated a multi-year plan to expand the Intelig network with a goal of expanding coverage to the most isolated areas of Brazil.

Finally, the AES Atimus Acquisition and consequent creation of TIM Fiber has improved our fiber optic network presence in the metropolitan regions of Rio de Janeiro and São Paulo, with a network highlighted by the following characteristics:

- presence in 21 cities in the metropolitan regions of Rio de Janeiro and São Paulo;
- 100 fiber optic networks using ITU-T g. SMF 652 standards;
- 5,500 kilometers of fiber optic cabling deployed primarily over electrical utility poles;
- capability to provide connectivity (a “carrier’s carrier) through the electrical distribution network.

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.

Additionally, other sharing plans are being agreed among mobile operators, such as joint construction of long distance lines, backhaul sharing, and even studies for sharing radio access frequencies were made, with focus on lowering costs and increasing the penetration of the wireless services in Brazil.

Customer Service

We seek customer satisfaction through continuous improvements of processes and systems that facilitate the relationship between us and our customers regardless of the channel of communication. We constantly monitor and record customer interactions with the company with our proprietary customer monitoring tool (“CRM”) through a customer-driven organization, offering unique and innovative service in all points of contact.

In this daily pursuit of customer satisfaction we continuously train our customer service representatives, reviewing processes and procedures, improving and optimizing systems and thus ensuring that the daily relationship with our clients is of the highest standard of care and that our customers are satisfied with the level of care they receive.

We are continuously seeking ways to improve our level of customer service. For example, we invested in an automated calling process which provides services through interactive voice response, enabling client identification and manual selection of options, and recording and reporting through a unique sequential protocol. Additionally, we offer a cancellation and complaint option on our main calling menu to facilitate client access. With respect to call transfers, we invested in our 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 computer telephony integration (“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, we offer a preferential service through text messages, with storage of historical data service, which can be retrieved for later delivery. Furthermore, we 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 through text messaging. Finally, we have made customer service improvements to minimize waiting time.

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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 those applied for the mobile service.

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 our efforts remain 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.

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Competition

Mobile Competitors

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. See “Item 4. Information on the Company—A. History and Development of the Company—Historical Background.” Our network covers approximately 94% of the country’s population based on Anatel’s coverage criteria.

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

Our principal competitor in Brazil is Vivo, which is controlled by Spain’s Telefónica Móviles and until 2007 was operating in eight of the ten 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 using UMTS in 2100 MHz.

In addition, we compete with Oi (the new Telemar brand) and Claro (which is controlled by America Móvil and until 2008 was operating in nine of the ten wireless areas of Brazil recognized by Anatel, using GSM and TDMA technology) in all areas.

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, Telefónica 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.

We also compete in the corporate segment with Nextel, a digital trunking provider which operates under rules similar to the rules applicable to mobile telecommunications service providers, though trunking operators are not permitted to offer their services to individuals. Nextel has provided trunking services in Brazil since 2001 and, on December 14, 2010, bid R\$1.2 billion in winning 12 lots involving new GSM and UMTS frequencies in Anatel’s auction, which will give Nextel the opportunity to be the fifth nationwide mobile telecommunications competitor.

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, and aggressive marketing and promotions in the fourth quarter of each year.

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Our Operational Contractual Obligations

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

Interconnection Agreements

We have entered into interconnection agreements with most of the 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 (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 and 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.

Our GSM national and international roaming services are supported by individual agreements with our partners.

International Roaming Agreements

We also have roaming international agreements with 527 available networks in more than 200 countries.

Site-Sharing Agreement

With the objective of avoiding unnecessary duplication of networks and infrastructure, 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 other providers’ infrastructure, pursuant to site-sharing agreements with such operators.

Co-billing services

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. Beginning in 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.

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,

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FUNTTTEL, FISTEL, CONDECINE and Corporate Income Tax and Social Contribution on net income, 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 (“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% or 18% 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 Brazilian states 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 telecommunications companies 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 and must be paid for the state where the services (the activation of the card) are provided.
- **ISS.** The Imposto Sobre Serviços (“ISS”) is a municipal tax that applies on certain services listed in the List of Services prescribed by Complementary Law No. 116/03 (“LC116/03”). This list also includes certain activities 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, which is 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, LC116/03, established a new framework for the ISS, which required municipalities to adapt their respective ISS legislation in order to comply with the rules set forth by LC116/03. Such new federal rules are effective as from January 1, 2004.
- **COFINS.** The Contribuição Social para o Financiamento da Seguridade Social (“COFINS”) is a social contribution levied on gross revenues (financial revenues are levied at the rate of 0% due to Decree n. 5,442/2005 if the company is taxed in the non-cumulative method or if it applies both methods). Since January 1, 2000, companies began to pay the COFINS tax on their bills at a rate of 3%. In December 2003, through Law No. 10,833, the COFINS legislation was further amended, making this tax noncumulative, raising the rate to 7.6% for certain transactions, except in connection with telecommunications services, for which the method continues on a cumulative basis at a rate of 3%.
- **PIS.** The Programa de Integração Social (“PIS”) is another social contribution levied at the rate of 0.65%, on gross revenues from telecommunications service activities. In December 2002, Law No. 10,637 was enacted, making such contribution non-cumulative and increasing the rate to 1.65% on gross revenues (financial revenues are levied at the rate of 0% due to Decree No. 5,442/2005 if the company is taxed in the non-cumulative method or if it applies both methods), except in connection with telecommunications services, for which the method continues on a cumulative basis at a rate of 0.65%.
- **FUST.** On August 17, 2000, the Brazilian government created the Fundo de Universalização dos Serviços de Telecomunicações, (“FUST”), a fund that is supported by a tax applicable to all telecommunications services. 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. FUST tax is imposed at a rate of 1% on gross operating revenues, net of discounts,

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.

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On December 15, 2005, Anatel enacted Precedent No. 7/05 requiring that FUST should be paid on revenues arising from interconnection charges since the effectiveness of the FUST. A notice was issued deciding that we must adjust values on the FUST calculation basis in order to include interconnection revenues received from other telecommunications companies. A writ of mandamus was filed against Anatel to avoid the terms of Precedent No. 7/05. The first level decision was issued in our favor. Although such first level decision may still be challenged in the near future (that is, it is still subject to appeal and does not constitute a final decision), it is now in full force and effect.

- **FUNTTTEL.** On November 28, 2000, the Brazilian government created the Fundo para Desenvolvimento Tecnológico das Telecomunicações (“FUNTTTEL”), a fund that is supported by a social contribution tax applicable to all telecommunications services. The FUNTTTEL is a fund managed by BNDES and FINEP, government research and development agencies. The purpose of the FUNTTTEL 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. FUNTTTEL Tax is imposed at a rate of 0.5% on gross operating revenues, net of discount, ICMS, PIS and COFINS, and its cost may not be passed on to clients.
- **FISTEL.** The Fundo de Fiscalização das Telecomunicações (“FISTEL”) is a fund supported by a tax applicable to telecommunications services, which was established in 1966 to provide financial resources to the Brazilian government for its regulation and inspection of the sector. The FISTEL consists of two types of fees: (1) an installation inspection fee assessed on telecommunications stations upon the issuance of their authorization certificates, as well as every time a new mobile number is activated, and (2) an annual operations inspection fee that is based on the number of authorized stations in operation, as well as the total basis of mobile numbers at the end of the previous calendar year. The amount of the installation inspection fee is a fixed value, depending on the kind of equipment installed in the authorized telecommunication station. Effective April 2001, the installation and inspection fee is assessed based on net activations of mobile numbers (that is, 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 33% of the total amount of installation inspection fees that would have been paid with respect to existing equipment.
- **CONDECINE.** (Contribuição para o Desenvolvimento da Indústria Nacional) is a social contribution instituted to encourage development of the Brazilian film industry, established by Provisional Executive Order No. 2,228-1/2001, modified by Law No. 12,485/2011. It is levied on telecommunication services that distribute audio-visual contents. CONDECINE is payable by telecommunication companies annually with payment due by March 31 of each year. The Government justified the creation of the CONDECINE tax based on the decrease of the TFF rate of 33%, so the companies will not have a higher tax burden. Instead, companies will contribute at the same aggregate rate, but to different funds. The calculation base is the same as TFF.
- **Corporate Income tax and Social Contribution on net income.** Income tax expense is made up of two components, a corporate income tax (“IRPJ”) on taxable income and a social contribution tax on net income (“CSLL”). The corporate income tax is payable at the rate of 15% plus an additional rate of 10% (levied on the part of taxable profits that exceeds R\$0.02 million per month or R\$0.24 million per year). The social contribution tax is currently assessed at a rate of 9% 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 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. At first, Brazilian entities are 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

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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 that is 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: (1) 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 (2) 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

The telecommunications sector is regulated by Anatel, which was established by law and is administratively independent and financially autonomous from the Ministry of the Communications. Anatel is responsible for promulgating standards related to telecommunications services and regulating the relationship between different operators, as set forth in the General Law of Telecommunications (Lei Geral de Telecomunicações), Law No. 9,472, dated July 16, 1997 and the Regulamento da Agência Nacional de Telecomunicações, or the Anatel Decree.

Despite liberalization, which occurred in 1997, the Brazilian telecommunications market still faces persistent dominant positions held by fixed incumbent operators. In particular, broadband access is currently offered by operators over their own infrastructure and the respective regulatory framework is not always based on effective implementation of the wholesale access obligations.

Regarding the operating activities of TIM, Intelig and TIM Fiber, Anatel has developed a strict regulation of mobile communications services known as Personal Communication Service (Serviço Móvel Pessoal), or PCS, land line services known as Commuted Fixed Telephonic Service (Serviço Telefônico Fixo Comutado), or STFC and data communication known as Multimedia Service of Communication (Serviço de Comunicação Multimedia), or SCM.

Anatel may regularly alter these standards based on changes in technology, in particular regarding PCS technology, which are common to the telecommunications sector. In order to allow operators to plan for the implementation of

these policies, Anatel approved a General Plan of Update of Telecommunications Regulation in Brazil (Plano Geral para Atualização da Regulamentação das Telecomunicações no Brasil), or PGR, pursuant to which it established short-, medium-, and long-term policies for two, five, and ten-year terms, respectively. Anatel 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. This regulation process takes into consideration Anatel's specialized analysis of different areas of the telecommunication sector and matters resulting from public hearings,

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by means of which the regulation proposals are considered by Anatel, state authorities and the general public. We follow these public hearings closely.

A presidential decree issued on June 30, 2011, established a bidding process for fourth generation radiofrequencies, an important landmarks for the telecommunications sector. The notice to bidders is published by means of a public hearing and determined broadband quality goals, resulting in two new regulations to measure mobile and fixed broadband quality standards: the first one to review of PCS quality standards and a new one to introduce SCM measurement. These standards are currently being implemented by Anatel and a group of interested companies. The full adaptation of these standards will require new investments.

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 or Serviço Móvel Celular (“Cellular Mobile Service”) 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 attached 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 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 was 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, our predecessors were granted SMC concessions and in December 2002, such SMC concessions were converted 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.

On May 30, 2011, we entered into two new radiofrequency terms, formalizing the acquisition of excess radiofrequency in the states of Minas Gerais, Paraná, Santa Catarina, Amapá, Roraima, Pará, Amazonas and Maranhão and those new terms expire in April 2023.

The STFC and SCM authorization terms do not have an expiration date.

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

Territory	Expiration date		
	Radiofrequency 800 MHz, 900 MHz	Excess of 1800 MHz	1900 /2100 MHz (3G)
States of Amapá, Roraima, Pará, Amazonas and Maranhão	March, 2016	April, 2023	April, 2023
States of Rio de Janeiro and Espírito Santo	March, 2016		April, 2023
States of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás,	March, 2016		April, 2023

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Rio Grande do Sul (except for the city of Pelotas and its surrounding region) and the cities of Londrina and Tamarana in the state of Paraná			
State of São Paulo	March, 2016		April, 2023
State of Paraná (except for the cities of Londrina and Tamarana)	September, 2022	April, 2023	April, 2023
State of Santa Catarina	September, 2023	April, 2023	April, 2023
City of Pelotas and its surrounding region in the State of Rio Grande do Sul	April, 2024		April, 2023
State of Pernambuco	May, 2024		April, 2023
State of Ceará	November, 2023		April, 2023
State of Paraíba	December, 2023		April, 2023
State of Rio Grande do Norte	December, 2023		April, 2023
State of Alagoa	December, 2023		April, 2023
State of Piauí	March, 2024		April, 2023
State of Minas Gerais (except for the cities in sector 3 of PGO for radiofrequencies of 3G and excess radiofrequencies)	April, 2013	April, 2023	April, 2023
States of Bahia and Sergipe	August, 2013		April, 2023

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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 STFC incumbents 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.

In August 2009, Anatel gave its approval for the acquisition of the fixed line operator Intelig, which operates as a local, national and international long distance operator in Brazil and provides fixed broadband service in a number of regions in Brazil. According to the regulations, TIM Brasil and Intelig are obliged to resolve the overlapping of the fixed service authorizations within 18 months from the acquisition, which was postponed for one year in 2011 (that is by the end of June 2012) keeping only one authorization per class of service. In addition, Anatel updated the contracts assigned to STFC Concessionaries and in particular will indicate new obligations related to the fixed line universal service obligations (Plano Geral de Metas de Universalização), or PGMU, namely referring to backhauling, public pay phones and telephone services for families with low incomes, among others.

In July 2011, TIM Celular acquired from the Companhia Brasileira de Energia and AES Elpa S.A., its interest in Eletropaulo Telecommunications Ltda. (100%) and AES Communications Rio de Janeiro S.A. (98.3%) (together, “AES Atimus,” now named TIM Fiber). The contract was signed on July 8, 2011. On October 31, 2011, after all conditions set forth by the relevant regulatory agency were fulfilled, the transaction was completed. With these new acquisitions, TIM Celular not only significantly expanded its operations in the data communications segment, or SCM, in the urban areas of the states of Rio de Janeiro and São Paulo, but also obtained important synergies related to the acquired fiber optic network.

National Broadband Program

In May 2010, the Brazilian government approved a National Broadband Program to extend national broadband coverage by 2014. The plan includes the reactivation of Telebrás, which is responsible for managing and operating a national fiber optic network, and a new framework aimed at reducing the wholesale connectivity price and consequently allowing a more affordable price of “entry level” broadband residential connections.

Other measures included in the plan are represented by fiscal incentives to induce the operators to offer broadband access to low income families, public investments in research and financial support to national industries.

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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 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 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.

In 2011, Anatel published Resolution No. 575/11 to Review of the Regulation on the Management of Quality of Service – PCS. The new regulation established new quality goals, evaluation criteria, data collection and quality monitoring of Service Providers – PCS. The Anatel regulation aims to create a comprehensive model of quality management of the PCS providers providing preventive and proactive on the part of the Agency, through the incorporation of indicators and benchmarks that allow the systematic evaluation of the quality of service in all its dimensions.

This new list of proposals for quality indicators is divided into two major groups: Operational Indicators and Indicators Research.

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.

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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 for noncompliance with certain quality standards and noncompliance with the rules and the authorization terms. We have been fined by Anatel in some 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, 2011, the total amount of these fines was R\$108 million. However, only R\$3.4 million were classified as "probable loss" by our legal advisors. We continue to do our best 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 3. Key Information—D. Risk Factors—Risks Relating to our Business" and "Item 8. Financial Information—A. 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.

In August 2007, Anatel issued Resolution No. 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.

Significant Market Power

In September 2011, a new competition framework was published by Anatel, the General Plan for Competition Goals (Plano Geral de Metas de Competição, or “PGMC”), and the respective adoption will be the subject of a public hearing and public consultation. The PGMC will set out clear criteria for designating operators with Significant Market Power, and the specific regulations they will have to follow in the wholesale access market.

Anatel proposed a broad reform of the fixed-wholesale market, introducing asymmetric regulatory measures, in line with the European experience, in order to assure a more transparent and non-discriminatory access to the incumbent’s networks. It is expected that Anatel will publish the resolution in 2012.

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Interconnection Regulation

Telecommunication operators must publish a public interconnection offer on both economic and technical conditions and are subject to the “General Interconnection Regulatory Framework” promulgated by Anatel in 2005.

The free negotiation process for interconnection charges has been extended and will proceed until a “cost based” reference interconnection value is set by Anatel. Under a specific Resolution, Anatel developed a new model to determine reference costs for the use of mobile networks by providers who have Significant Market Power. These values will be used in arbitration cases involving termination rates by Anatel.

In 2005, Anatel issued a ruling for “Accounting Separation and Cost Accounting,” introducing the obligation of presenting the Accounting Separation and Allocation Document (Documento de Separação e Alocação de Contas – DSAC) by the license holders and groups holding Significant Market Power in the offering of fixed and/or mobile network interconnection and wholesale leased lines (Exploração Industrial De Linha Dedicada – “EILD”). Starting from 2006 (for fixed operators) and 2008 (for mobile operators related to the results of 2006 and 2007), operators (TIM included) are delivering the requested information to Anatel.

Anatel conducted a public consultation in March 2011 regarding a proposal to modify the regulation on leased lines, which is a service contract between a provider and a customer, whereby the provider agrees to deliver a symmetric telecommunications line connecting two or more locations in exchange for a monthly rent. The proposed rule provides for more efficient wholesale service regulation, taking into account the operational needs of alternative market players.

In October 2011 Anatel reduced fixed to mobile rates, which was based on a decrease on the respective wholesale interconnection levels on termination. Anatel proposed a reduction of the fixed to mobile rates of 18% in 2012, 12% in 2013 and 10% in 2014 based on nominal declines.

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 FGV, in evaluating prices and determining the relevant cap for prices charged in the telecommunications industry. Beginning in 2012, we expect Anatel to begin to assess prices in the telecommunications industry based on a model that takes into account the costs of a hypothetical company costs, along with other factors. We expect that the adjustment of our prices will follow the market trend, 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 PCS providers. Portability is limited to migration between providers of the same telecommunications services. For PCS 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.

Mobile Virtual Network Operators

In November, 2010, Anatel approved a resolution establishing the rules to permit the exploration of mobile services by means of a virtual network, based on commercial agreements between established operators and virtual operators.

We were the first mobile operator to negotiate a contract with a virtual operator and we are an industry leader in the discussions with Anatel to develop this service. The first and only contract to be submitted for Anatel's approval in December 2010 was for an authorization license in partnership with us. Our commercial partners have opted for

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the authorization license, which carries the obligations and responsibilities for providing the service. The contracts are negotiated on a case by case basis with the intention to build a specific solution for every new virtual operator.

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. 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 Brazilian Congress is considering bill number 2,126/2011, known as the Legal Framework for the Use of the Internet (Marco Civil da Internet), that would establish warranties, principles, rights and duties related to Internet use and its provision. The project aims to develop regulations related to this service with a general framework. Among key issues addressed in the legislation are: net neutrality, responsibility for damages caused by content generated or published by third parties, content storage and connections. This law is also intended to develop guidelines for how the government can or should act to provide and monitor Internet service.

Frequencies and Spectrum Background

We have a license to operate PCS services in the 800 MHz, 900 MHz, 1.8 GHz and 1.9/2.1 GHz frequency ranges, which allows us to provide mobile communications services with 2G and 3G technologies throughout Brazil.

In December 2010 Anatel auctioned an empty 3G band of radio spectrum consisting of (10+10)MHz in 2.1GHz in the whole country (the "H Band" Auction), and other left over frequencies in the 900MHz and 1800MHz bands that had not been assigned in previous auctions.

- Of the 12 available lots in the H Band, 10 were awarded to Nextel, a new entrant in the GSM market, which has traditionally offered trunking services in Brazil. Current operators were prevented from participating due to spectrum caps. OI and CTBC managed to win the remaining 2 lots where they had cap availability.
- The new entrant will be benefited with spectrum and infrastructure sharing, specifically in locations with less than 30,000 inhabitants, subjected to commercial agreements.
- TIM won individual block of frequencies in 5 service areas, strengthening its presence in the North, Santa Catarina, Minas Gerais and Parana, bidding a total of R\$81.8 million, which will be paid proportionately to the remaining years in the existing authorization licenses (remaining years/15).
- VIVO won blocks in 900MHz and due to available cap, managed to win lots of 1700/1800MHz in all regions, completing a national coverage of (10+10)MHz in this band.
- Claro won blocks of spectrum in the 1700/1800 MHz band.

In August 2010, Anatel approved a resolution for the destination of the 2.5 GHz spectrum to mobile services after 2013. Today the 2.5GHz band is assigned to multipoint distribution service ("MMDS") TV services and the respective cleaning for destination to other services will be the responsibility of the new owner. Only four national blocks of

FDD will be available, two of (20+20) MHz and two of (10+10) MHz. The 2.5GHz spectrum auction will be held in June 2012 and brings indirect obligations to the 450MHz band, even if this second band is not bought directly. The mentioned (20+20) MHz bands will require urban coverage obligations in 2.5GHz and rural coverage obligations. We believe the technology available for the 450MHz band is not economically viable. Two other bands will be available: a (10+10) MHz FDD band and a 35 MHz TDD band only where the MMDS companies renounce their rights.

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Brazil has not yet identified the Digital Dividend (the amount of spectrum that will be freed up in the switchover from analogue to digital terrestrial TV), but only briefly and publicly stated that this radiofrequency will be available to broadcasters after 2016. Since this band is complimentary to the 2.5GHz, the dynamics of the 2.5GHz Band deployment may be highly impacted by the outcome of the Digital Dividend discussions. Anatel has stated its commitment to complete its analysis of the destination of the 700MHz spectrum by the end of 2012.

In October 2010, Anatel started auction No. 002/2010-PVCP/SPV for sub band H (band of 1.9/2.1 GHz - 3G) and the leftovers of 1.8 GHz (2G) bands. Current PCS players with operation in the band of 1.9/2.1 GHz, were not eligible for the bidding of sub band H, as a result of limitations set out by Anatel, related to the limits for detention of radiofrequencies. The current contractor's inability to participate in the bidding process for sub band H, allowed Nextel to acquire nationwide 3G coverage and 2G presence in Region I of PGA, with a total investment of R\$1,421.3 million.

In November 2010, Anatel published the radiofrequency efficiency regulation, establishing metrics for efficiency measurement, excluding broadcasters of the obligation. The non-compliance includes in the extreme, expiration of the radiofrequency license without compensation. This regulation have been in place since November 2011, though Anatel has not yet established the parameters for evaluation, even though it is expected that all operators are currently in compliance.

In December 2011, Anatel started auction No. 001/2011-PVCP/SPV, pursuant to which 16 blocks in the 1,800 MHz band were sold to Claro, Oi, CTBC and TIM, who acquired the biggest amount of MHz with the lesser premium.

As a result of our participation in the auction, we will expand our 2G coverage and increase our presence in the northern and midwestern regions of Brazil, including the states of Paraná, Espírito Santo, Rio Grande do Sul, Santa Catarina and Minas Gerais, by making an investment of R\$65 million at the December 2010 auction and an expected investment of R\$80.7 million at the December 2011 auction.

MTR and Wholesale Market

The interconnection of telecommunication operators is mandatory, allowing the users of different services to make calls from one network to another. In the case of PCS, Anatel has established that, whenever its network is used to originate or to receive calls, the operators will receive the Value of Use of PCS Network (VU-M), also known as mobile termination rate, of free agreement between the parties.

Anatel urged us to adopt a single VU-M by region of the PCS License General Plan (Plano Geral de Autorizações), or PGA, which began on November 1, 2010, of free agreement between the related parties.

In October 2011, Anatel approved Resolution No. 576/2011, which reduced rates of land line to mobile calls by 18% in February 2012, 12% in 2013 and 10% in 2014 on the Telecommunications Services Index - IST. This negative readjustment of VC-1 rates is followed by new negotiations for VU-M rates, which might be followed by an arbitration process with Anatel, which established that the full nominal reduction of the VC-1 will be forwarded to the VU-M.

In December 2010, Anatel has also approved a public hearing that considered alterations of the Industrial Exploration of Dedicated Lines (Exploração Industrial de Linha Dedicada), or EILD, which established mechanisms for the operation of transmissions circuits to increase transparency between operators and concessionaires.

Anatel is currently reviewing discussions submitted as part of a public hearing addressing the wholesale market and improvements, which will be set out in the General Plan of Competition Goals (Plano Geral de Metas de Competição),

or PGMC. The PGMC will set out asymmetry standards, particularly within the EILD market of infrastructure of transmission, as a way to promote competition in the retail market and isonomy in the wholesale market, improving the model of regulation supported by the definition of Significant Market Power (Poder de Mercado Significativo), or PMS in the markets considered relevant.

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Costs Model

The implementation of a costs model by Anatel has been in development since March 2005, when the Separation and Allocation of Accounts Document (Documento de Separação e Alocação de Contas), or DSAC was approved, for pricing of STFC and PCS interconnection, as well as wholesale market inputs, in particular with regards to dedicated lines (EILD) and unbundling.

In August 2011, a consortium headed by Advisia Consultants was hired to develop the optimized modeling of costs, which will be the basis for all the models the agency will use, in particular when establishing rates and prices for telecommunications services.

The implementation of the costs model was one of the short term goals set by the PGR, with expectation of conclusion in 2013, however, its technical complexity indicates that it will only be effective in 2014.

Migration of the Mobile Networks with Analog Technology

In February 2011, Anatel approved Resolution No. 562/11, which modified a provision of the regulation on conditions of use of radiofrequencies, determining that, after a period of 360 days from the publication, the use of analog technology in radiofrequencies sub bands of 800 MHz would no longer be allowed.

In relation to the use of such radiofrequencies, we no longer have any subscriber of analog technology (AMPS). However, our analog networks are still used by STFC concessionaires to provide services to subscribers in rural areas of the country, a service called RuralCel.

The implementation of the RuralCel service was carried out by the companies in the Telebrás system, prior to the privatization process in 1998. Once the privatization of these companies was completed, SMC operators are required to keep sharing such infrastructure (mobile networks with analog technology) with STFC concessionaires with rural subscribers. There is a dispute with STFC concessionaires on the value for the availability of the RuralCel support network.

Anatel decided to postpone shutting down this service indefinitely and as a result, we continue to interact with the regulating agency to get a definite decision on the shutdown of our analog mobile networks.

Regulation of Quality

In October 2011, Anatel published PCS and SCM quality management regulations to establish quality parameters which will have to be met by the mobile telephone and internet connection operators in up to 12 months. Among such quality parameters, most notable are the ones relating to the quality of the networks, both mobile and fixed, creating obligations of minimum and average speeds in numbers, higher than those currently used by operators, which will demand in the short term, investments so that such obligations are met.

As a response to the need to better quantify the financial impacts, Grupo Oi has presented cancellation request along with a revision request to Anatel for the presentation of technical surveys of the economic that which motivated such regulations.

The aforementioned request was submitted for a public hearing by Anatel, which resulted in a series of differing opinions regarding quality measures by the different operations that are currently being considered by Anatel.

Consolidation of TIM and Intelig STFC Licenses

With the merger of Intelig with and into TIM we were required to eliminate the existing overlapping license, in order to abide by regulations. We were given 18 months to implement this elimination, beginning on the date of closing of the transaction. This term was extended for an additional 12 months, and now expires on June 30, 2012.

On December 30, 2011 we filed petitions with Anatel to authorize the consolidation of our STFC license terms in the local mode under Intelig and STFC LDN and LDI under TIM. On June 30, 2012 we will return CSP 23 to

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Anatel, keeping the operation of STFC LDN and LDI bound to CSP 41 under STFC LDN and STFC LDI of TIM, whereas Intelig shall keep the STFC local license.

Inclusion of ninth digit in 011 area code numbers

In December 2010, Anatel published Resolution No. 553/2010, determining the inclusion of one more digit for numbers in the 011 area code region, which includes the city of São Paulo and neighboring cities. Anatel's decision to add one more digit to mobile phone numbers in the 011 area code was intended to increase the availability of numbers in the metropolitan area of São Paulo from 37 million to 90 million, as it is expected that availability of mobile numbers would end by 2013 at the current rate of subscription growth. The beginning of the implementation of the ninth digit in area code 011 is expected for July 29, 2012. The change will require users to add the digit 9 to the beginning of existing mobile numbers.

This measure will require residents of the 011 area code region to carry out possible adjustments to private equipment and systems such as, for example, PABX equipment and phone lists, in addition to technical adjustments carried out by telecommunication companies. Technical, Communications and Regulatory work groups have been created by representatives of all PCS and STFC operators, in order to prepare for the implementation of the ninth digit in a synchronized way for all the operators, with standardized communication to avoid adjustment difficulties for users.

Following the July 29, 2012 deadline, 8-digit calls will still be completed for a 90-day period, to allow networks and users to adapt. Gradually there will be interceptions and users will receive messages with guidance on how to dial. After this transition period, calls dialed with 8 digits will no longer be completed.

Anatel Administrative Proceedings

Under the terms of the its PCS authorization, TIM Celular implemented mobile personal telecommunications coverage for the assigned area, as did Intelig and TIM Fiber in accordance with their STFC and SCM authorizations, respectively. Under such term of authorization, TIM Celular is required to operate in accordance with the quality standards established by Anatel. If it fails to meet the minimum quality standards required, TIM Celular, Intelig and TIM Fiber are subject to Obligation Non-Compliance Determination Procedures ("PADO") and applicable penalties. Anatel has brought administrative proceedings against TIM Celular for (1) noncompliance with certain quality service indicators; and (2) default of certain other obligations assumed under the Terms of Authorization and pertinent regulations. In its defense before Anatel, TIM Celular attributed the lack of compliance to items beyond its control and not related to its activities and actions. We cannot predict the outcome of these proceedings at this time, but have accrued the amount in our balance sheet as a provision for all those cases in which we estimate our loss to be probable.

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:

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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, 2011, we had 187 mobile switches, 11,336 radio base stations, and approximately 23,396 kilometers in fiber optic cable networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed. On December 31, 2011, we owned approximately 201,752 square meters and leased approximately 1,231,486 square meters of real property, all of which were available for installation of our equipment. We also lease approximately 158,777 square meters and owns approximately 70,201 square meters of office space. There are no encumbrances that may affect our utilization of our property or equipment. We plan to invest up to R\$9.0 billion in capital expenditures, according to our strategic plan for the years 2011 through 2013.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

Our consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements included herein as of and for the years ended December 31, 2011, 2010 and 2009 have been audited by PricewaterhouseCoopers Auditores Independentes. The report of PricewaterhouseCoopers Auditores Independentes on the consolidated financial statements appears elsewhere in this annual report.

Our first financial statements prepared in accordance with IFRS were those as of and for the year ended December 31, 2010, which contain comparative amounts related to year ended December 31, 2009, also prepared under IFRS. These financial statements were filed with the CVM and made publicly available in Brazil.

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Our summary financial data prepared in accordance with IFRS is not comparable with our summary financial data prepared in accordance Brazilian GAAP and presented in previous annual reports on Form 20-F.

The following discussion of the Company's financial condition and operating results should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2011, 2010 and 2009 included in this annual report that have been prepared in accordance with IFRS, issued by IASB as well as with the information presented under "Item 3. Key Information—A. Selected Financial Data."

Factors Affecting the Comparability of our Results of Operations

Merger of TIM Nordeste S.A. into TIM Celular

On October 30, 2009, our Board of Directors approved the corporate reorganization of our subsidiaries, whereby TIM Nordeste S.A. would be merged into TIM Celular. On December 17, 2009 Anatel granted 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 our organizational structure by further consolidating and rationalizing our businesses and operations by leveraging tax and financial synergies and cutting costs associated with maintaining separate legal entities. There was no impact on our financial statements prior to 2009.

Acquisition of Holdco/Intelig

At a meeting of our Board of Directors on April 16, 2009, we executed a Merger Agreement with Holdco, a subsidiary of JVCO, pursuant to which through a merger of Holdco into us, we would acquire indirect control of Intelig. Anatel approved the merger on August 11, 2009 in Decision No. 4634, and decided to eliminate the overlapping geographic licenses held by TIM Celular and STFC within 18 months.

On December 30, 2009, our shareholders approved the merger of Holdco into TIM Participações. As a result of this operation, we issued 127,288,023 shares (43,356,672 common and 83,931,352 preferred) for a book value of R\$516.7 million to JVCO. The acquisition date fair value of the consideration transferred totaled R\$739.7 million. Holdco's assets and liabilities acquired were, respectively, R\$517.1 million and R\$0.4 million as of November 30, 2009.

The results of Intelig's operations were not included in the 2009 consolidated financial statements since the acquisition date was December 30, therefore only the balance sheet was consolidated. Intelig is a provider of long distance and fixed line telecommunication services in Brazil. As a result of the acquisition, we began expanding our long distance and fixed line services in Brazil.

The table below includes the fair value of the identified assets acquired and liabilities assumed on the date of acquisition.

	R\$ (thousands)
Assets	
Cash and cash equivalents	132,816
Accounts receivable	126,353
Taxes recoverable	23,074
Court deposits	33,453
Property, plant and equipment	780,845
Intangible assets	135,850

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Other assets	25,114
Total identifiable assets purchased	1,257,505
Liabilities	(342,431)
Loans	(118,402)
Contingencies	(140,107)
Long-term taxes and contributions	(101,311)
Other liabilities	(25,540)
Total liabilities assumed	(727,791)
Net identifiable assets acquired	529,714

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As result of the adjustment to fair value of the identified assets acquired and liabilities assumed from Intelig upon the acquisition of the company, the fair value of the net assets purchased totaled R\$529.7 million. Thus, we concluded that the amount of R\$734.0 million, paid upon the acquisition of Intelig on December 30, 2009, exceeded the fair value of the net assets by R\$210.0 million. This surplus was recorded as goodwill and is based on expectations of future profitability of Intelig, supported by the projections prepared by us together with our financial advisers.

If such transaction had occurred as of January 1, 2009, the net revenue and net income for the period ended December 31, 2009, considering the combination of TIM Participações and its subsidiaries with Intelig, would have been R\$13,747.0 million and R\$801.2 million, respectively.

Public offering of common shares

In September 2011, we publicly offered 200,258,368 newly issued common shares at an offering price of R\$8.60 per share. We received net proceeds of approximately R\$1.7 billion in the offering, which were used to develop and expand our network infrastructure. Our controlling shareholder acquired approximately 63% of our common shares issued in the offering.

Acquisition of AES Atimus

On July 8, 2011, our wholly-owned subsidiary TIM Celular entered into an agreement with Companhia Brasileira de Energia and AES Elpa S.A. (the AES Group in Brazil) for the purchase of all of AES Elpa S.A.'s equity interests in Eletropaulo Telecomunicações Ltda. and 98.3% of the interest of AES Communications Rio de Janeiro S.A. (the "AES Atimus Acquisition"). We completed the acquisition on October 31, 2011, after all conditions precedent to the contract were completed and certain regulatory approvals were obtained. We paid a total of R\$1,074,179 and R\$447,471, respectively, for each of Eletropaulo Telecomunicações Ltda. and AES Communications Rio de Janeiro S.A. In connection with the acquisition, Eletropaulo Telecomunicações Ltda. changed its corporate name to TIM Fiber SP Ltda., and AES Communications Rio de Janeiro S.A. changed its corporate name to TIM Fiber RJ S.A., and we call the business, collectively, TIM Fiber.

The AES Atimus Acquisition will allow us to expand our operations in the high-speed data communications market, allowing us to offer new products to our customers, as well as providing a reduction in infrastructure rental cost, and helping us obtain significant synergies related to the fiber optic network.

Our financial statements for the year ended December 31, 2011, included net revenues of R\$22,594 and a loss of R\$19,406 relating to the businesses acquired in the AES Atimus Acquisition for the period from November 1, 2011 to December 31, 2011.

In the year ended December 31, 2011, we incurred R\$15 million in costs attributable to the AES Atimus Acquisition, which are recorded under general and administrative expenses.

The table below summarizes the amount paid to acquire control of the companies in the AES Atimus Acquisition, as well as the amounts provisionally established as identified assets and liabilities assumed at the acquisition date, as well as the fair value of the acquisition of non-controlling interest at the acquisition date:

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	Provisional Amounts	
	Eletropaulo Telecomunicações Ltda.	AES Communications Rio de Janeiro S.A. (thousands of reais)
Cash and cash equivalents	1,074,179	447,471
Fair value of non controlling interest acquired		
Total Consideration	1,074,179	445,409
Amounts recorded, identified assets and liabilities assumed		
Cash and cash equivalents	15,477	3,496
Financial assets valued at fair value through income	1,170	
Accounts receivable	19,868	18,156
Tax credits	22,064	18,227
Court deposits	501	63
Other assets	374	334
PP&E	164,198	120,639
Intangible	9,196	2,941
Loans and financing	(67,619)	(22,024)
Suppliers	(6,779)	(6,063)
Labor obligations	(5,514)	(3,391)
Tax obligations	(21,671)	(18,336)
Other liabilities	(5,973)	(1,933)
Contingencies	(11)	(472)
Total of identified assets net	125,281	111,637
Goodwill	948,898	343,772

On November 27, 2011, as provided for in the acquisition agreement, our subsidiary TIM Celular made an extension of the tender offer to non-controlling shareholders at the same price per share paid to the former controlling shareholders of businesses that now constitute TIM Fiber. As a result, for purposes of calculating the balances involved in the business combination, we consider the acquisition of 100% of AES Communications Rio de Janeiro S.A. and an additional financial liability of R\$7,938 recorded to reflect the tender offer to non-controlling shareholders.

Because the AES Atimus Acquisition was concluded toward the latter part of the year, based on information currently available, it is not possible to determine with reasonable certainty the existence of any additional assets, liabilities and contingent liabilities at fair value that should be recorded as part of the business combination, so this evaluation process will be completed during 2012 and any adjustments to the financial statements of businesses acquired and to our consolidated financial statements will be recorded retroactively, as required by IFRS 3. The deadline for completing these assessments and also for possible identification and valuation of new assets and liabilities that may be allocated in the process of the business combination, is October 31, 2012.

Since this is a complex evaluation, we focused our efforts on identifying the main factors for completing the AES Atimus Acquisition and, as mentioned above, the main factors were the possibility of increasing product offerings in the corporate segment and the launch of residential broadband service, which we believe represents an opportunity for

us to obtain a return on assets purchased in excess of the return currently earned by these businesses, and therefore are not allocated to any specific assets and liabilities, thus being recorded as goodwill. Based on management's assessment, the value of the purchase price premium is substantially composed of synergies, cost reductions and expected future profitability.

In relation to goodwill registered, even though the process of accounting for business combinations and the determination of goodwill have not yet been completed, TIM Celular made a general provisional analysis of these values at December 31, 2011, based the business plan that supported the acquisition and concluded that there is no need to recognize an impairment loss.

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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 5 to our consolidated financial statements.

Depreciation and Impairment of Long-Lived Assets

Property, plant and equipment are 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 note 5(a) to our consolidated financial statements. We currently depreciate automatic switching, transmission and other equipment based on an estimated useful life of seven years.

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. At least annually, the Company applies the recoverability test on the recorded goodwill. The calculations were performed based on the discounted cash flow using as parameters the assumptions included in the Company's 10 years Industrial Plan, growth rate compatible with our market conditions and a discount rate of 10% per year. The results of such tests indicated no need for an accounting provision.

The fair value of the cash generating units, as of the latest impairment testing date, is substantially in excess of their carrying value.

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 3.i 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 2011 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 collectability of accounts. 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

	Days overdue	to be uncollectible
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.

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Deferred Income Tax and Social Contribution

We compute and pay income taxes based on results of operations under IFRS.

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.

The taxable income projections used in determining the recoverability of our deferred tax assets as of December 31, 2009 were derived from our 2010-2012 Industrial Plan. At that time, our Industrial Plan forecasted our income for the following three fiscal years, with assumptions reflecting conditions we expected to exist and the course of actions we expect to take. Based on the three-year projections included in the Industrial Plan, we projected income out for a further seven years (i.e. to 2019). However, we did not extend the Industrial Plan projections beyond the basic three years for the valuation allowance of our deferred tax assets because we believe that the uncertainties described below made any extension of our projections difficult to support at the more likely-than-not level, required for projections in this context. We limited our projections to three years in determining the amount of the valuation allowance for deferred tax assets at December 31, 2009.

The principal uncertainties underlying our decision to limit the projections to three years at December 31, 2009 were:

- TIM Celular had a history of losses.
- at the end of 2009, Brazil was expecting a presidential election in 2010, generating uncertainties in relation to longer future projections and taxation.
- at the end of 2009, the economy was still recovering from the worldwide financial crises, generating a strong level of uncertainties in longer term future projections. In addition, we believed there was significant uncertainty regarding the Brazilian economy, including with respect to domestic inflation and commodities prices.
- in 2009, compared to 2008, the subsidiary TIM Celular did not experience growth in revenues and had a modest growth in profitability. Further, as described before in this Form, the Company lost approximately five hundred thousand clients from its average post-paid customer during 2009 when compared to 2008, and had a deterioration in its brand awareness and customers satisfaction. As a result, substantial efforts were made to turn around the Company (including the subsidiary TIM Celular) starting in the second half

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of 2009, including: (1) a substantial change in management (e.g. CEO, COO, CTO); (2) re-launching of the strategy and positioning of TIM in the market; (3) new and innovative services and products (“Infinity” and “Liberty”).

In addition to the above uncertainties, we also considered the inherent subjectivity of the positive evidence underlying our projections of future taxable income, such as the expectation that new management and a new business plan at TIM Celular would lead to a turnaround at that business. In evaluating the negative and positive evidence in assessing the likelihood of predicable earnings after 2012, we believed that the negative evidence outweighed the positive evidence. As a result, of all of the foregoing, we believed that the valuation allowance as at December 31, 2009 was necessary because our projections showed that the deferred tax assets were not recoverable to the extent of the allowance.

By the end of 2010, TIM Celular had clear evidence of the success of the strategy implemented during 2009. Accordingly, our actual 2010 results were significantly better than those we considered in our projections prepared in the end of 2009. The main positive factors that lead TIM Celular to better results were:

- 2010 final customer base of 51 million, showing an additional 4.6 million in new customers when compared to the projected customer base. Revenues were higher by approximately R\$200 million in comparison to projected revenues;
- efficiency plans effectiveness. During 2010, our costs and expenses were lower by approximately R\$250 million in comparison to the projected amounts, partially due to cost saving programs and partially due to synergies from Tim Nordeste merging process;
 - success of the new products (“Infinity” and “Liberty”) launched during 2009;
 - progressive exit from offering handset subsidies;
- significant reduction of handsets classified as property, plant and equipment (handsets owned by the Company and provided free of charge to corporate customers) with consequent reduction in depreciation (actual depreciation amount in 2010 was lower by R\$300 million in relation to projected depreciation);
- increase in cash generation, resulting in reduced indebtedness and lower net financial expenses (financial expenses were approximately R\$100 million lower than the expected in the projections).

Considering the reduction in the uncertainties we had at the end of 2009, we updated our business plan for years 2011-2013 and subsequent projections and we believe future income generation will be higher than we expected in the end of 2009. Based on the expected taxable income to be generated in future years and the growing stability of the economy after the uncertainty in 2009, at the end of 2010 we released in its entirety the valuation allowance for tax loss carryforwards related to our subsidiary TIM Celular that was recorded at December 31, 2009.

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.

Contingent Liabilities

The accrual for a contingency involves considerable judgment to be performed by management. 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 the policy of analyzing each proceeding and making a judgment as to whether a loss is probable, possible or remote. We account for accruals when we

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determine that losses are probable and can be reasonably estimated. Our judgment is always based on the opinion of our external legal advisors. Accrual balances may be adjusted to account for changes in circumstances relating to ongoing matters and we may establish 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 calculation. See note 4(u) 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 4. Information on the Company—B. 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 3. Key Information—D. Risk Factors—Risks Relating to Brazil.” In particular, our financial performance will be affected by:

- government policy and changes in the regulatory environment in Brazil;
- an increase in the number of competitors in the telecommunications industry that could affect our market share;
 - increased competition in our principal markets that could affect the prices we charge for our services;
 - our ability to strengthen our competitive position in the Brazilian mobile telecommunications market;
- our ability to develop and introduce new and innovative technologies that are received favorably by the market, and to provide value-added services to encourage the use of our network;
- the introduction of transformative technologies that could cause a significant decrease in revenues for all mobile telephone carriers;
 - our ability to integrate acquired businesses and implement operational efficiency;
- our ability to operate efficiently and to refinance our debt as it comes due, particularly in consideration of uncertainties in credit and capital markets;
 - our ability to attract and retain qualified personnel;
 - our ability to integrate companies and assets that we acquire; and
 - the effect of exchange rate fluctuations.

Overview

In 2011, the recovery of the global economy stalled due to the fiscal crises internationally, primarily in Europe and the United States. After excessive government spending to stimulate economic growth following the 2008 recession, many developed countries exhausted their public resources and as a result, economic growth decelerated. Unlike in 2010 when the 2008 and 2009 international financial and economic crisis did not have a significant impact on economic growth in Brazil, in 2011, economic growth in Brazil also decelerated, reaching just 2.7% annual growth. Nevertheless, the domestic market remains strong and consumption is on pace with recent growth, which is also affecting inflation.

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The Brazilian consumer price index, the IPCA, increased 6.5% in 2011, the highest increase since 2004, and in excess of the Central Bank's inflation target of 4.5%, though just within the upper limit of the 2% margin considered acceptable by the government. Despite inflationary pressure, the Central Bank has begun implementing an easing of monetary policy on the premise that the slowdown in global economic growth will help ease inflation.

Monetary policy from the Central Bank passed through two distinct phases during 2011. At the beginning of the year, when inflation was greater as a consequence of concerns for a slowdown in economic growth, the Central Bank maintained the restrictive monetary policies it had initiated in 2010, increasing the basic interest rate from 10.75% per annum to 12.50% per annum. From August onward, however, with the decline in financial and economic conditions globally, particularly with sovereign credit downgrades in Europe and the United States, the Central Bank began to concern itself more with increasing domestic output and the Central Bank began implementing an easing of monetary policy, reducing the basic interest rate by 1.5 percentage points to finish 2011 at 11.00% per annum.

Insofar as domestic demand is concerned, economists expect that consumption will continue to expand due to a record-low unemployment rate, wage increases, availability of consumer credit and the ongoing economic recovery. The balance of fixed assets is also expected to grow based on the growth in industrial output.

The Brazilian current account closed the year with a deficit of U.S.\$52.6 billion or 2.12% of the GDP, an increase in the deficit from 2010 when the deficit reached U.S.\$47.3 billion. The 2011 deficit was the highest recorded since the Central Bank began recording this metric in 1947. The main reason for the result was in the services sector, mainly an increase in remittance of profits offshore. On the other hand, direct external investments totaled U.S.\$66.7 billion, counterbalancing the capital outflow of the current account.

Foreign exchange rates were also marked by two periods this year. In the first half of the year, the strong flow of foreign currency put pressure on the value of the U.S. dollar with the real/U.S. dollar exchange rate reaching its lowest level since 1999. However, from August onward, the worsening of the global fiscal crisis led investors to take shelter in the security of the U.S. dollar, causing it to appreciate against the real. By December 31, 2011, the U.S. dollar had appreciated 12.6% versus the real, reaching an exchange rate of R\$1.88 per U.S. dollar.

Driven by the increase of 37.4% in direct external investment, the 2011 balance of payments registered a surplus of U.S.\$58.6 billions. The number represents a 19.4% increase as compared to the surplus of U.S.\$49.1 billions registered in 2010.

After the expansion of government expenditures and decrease in government surplus in 2010, which was influenced by the electoral year, the government surplus increased. In 2011, the accumulated surplus reached R\$93.5 billion, as compared to R\$78.8 billion accumulated in 2010, an increase of 18.7%. As a share of GDP, government expenditures rose from 2.15% in 2010 to 2.28% in 2011.

The Brazilian mobile market reached 242.2 million lines nationwide at the end of December 2011, corresponding to a penetration ratio of 123.4% (compared to 104.7% in 2010) and an annual growth rate of 19.4% (compared to 16.7% in 2010). 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, mobile market net adds reached 13.1 million in 2011 which represents a 31.7% upturn from 2010. Pre-paid subscribers continue to represent the greatest part of total subscriber base, reaching 81.8% by the end of 2011.

Our subscriber base ended 2011 with 64.1 million clients, a 25.6% increase from 2010, corresponding to a market share of 26.5%, while the service revenues share, our primary focus, reached 89.7% in 2011. The pre-paid segment reached 54.8 million (a 25.8% increase from 2010) while the post-paid segment stood at 9.3 million users in the year (a 24.4% increase from 2010). With regard to client mix, post-paid clients accounted for 14.5% of the total subscriber

base, compared to 14.6% from 2010, largely impacted by the increase of the pre-paid base. In 2011, we added 13.1 million customers, up from 9.9 million in 2010. The increase reflects our success with the “Infinity” and “Liberty” plans. Our ARPU (average revenue per user) registered R\$21.4 in 2011. On a yearly basis, ARPU dropped 9.8% which is partially attributed to an increase in the pre-paid segment (where the market growth is concentrated), and a lower incoming MOU.

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ARPU is a key performance indicator which is calculated by the ratio between total net service revenue per average customer base per month. In 2011, our average customer base, calculated as the simple mean of monthly averages, increased 25.4% to 56.7 million, compared to 45.2 million customers in 2010.

The following table shows the total average number of customers during 2011, 2010 and 2009.

	Year ended December 31,		
	2011	2010	2009
	(in thousands of users)		
Average number of customers using post-paid plans(1)	8,173	6,916	6,285
Average number of customers using pre-paid plans(1)	47,990	37,895	31,709
Total number of customers(1)	56,163	44,811	37,994

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

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, 2011, as well as the percentage change from year to year.

	Year ended December 31,			Percentage change			
	2011	2010	2009	2011 – 2010		2010 – 2009	
Net Operating Revenues	17,085,977	14,457,450	13,158,134	18.2	%	9.9	%
Cost of services and goods	(8,561,433)	(7,305,767)	(6,672,369)	17.2	%	9.5	%
Gross profit	8,524,544	7,151,683	6,485,765	19.2	%	10.3	%
Operating expenses:							
Selling expenses	(4,845,712)	(4,494,608)	(4,436,751)	7.8	%	1.3	%
General and administrative expenses	(963,394)	(1,008,694)	(1,033,438)	(4.5)%	(2.4)%
Other operating expenses	(647,996)	(448,247)	(462,114)	44.6	%	(3.0)%
Total operating expenses	(6,457,102)	(5,951,549)	(5,932,303)	8.5	%	0.3	%
Operating income before financial results	2,067,442	1,200,134	553,462	72.3	%	116.8	%
Net financial income	(238,858)	(245,457)	(245,115)	(2.7)%	0.1	%
Operating income before interest	1,828,584	954,677	308,347	91.5	%	209.6	%
Income and social contribution tax benefit	(547,356)	1,257,038	33,026	(143.5)%	3706.3	%
Net income	1,281,228	2,211,715	341,373	(42.1)%	547.9	%

Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

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.

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The composition of our operating revenues by category of service is presented in note 26 to our consolidated financial statements and discussed below. We do not determine net operating revenues or allocate cost by category of service.

The following table shows certain components of our operating revenues, as well as the percentage change of each component from the prior year, for each of 2011 and 2010:

Statement of Operations Data: Operating Revenues	Year ended December 31,		Percentage change 2011 - 2010	
	2011	2010		
	(in million of reais)			
Monthly subscription charges and usage charges	10,264.7	8,912.0	15.2	%
Fixed services	1,525.4	1,281.2	19.1	%
Interconnection charges	3,849.4	3,679.4	4.6	%
Long distance charges	3,181.2	2,374.3	34.0	%
Value added services	3,166.4	2,241.5	41.3	%
Other service revenues	229.83	272.9	(15.8))%
Gross operating revenues from services	22,217.1	18,761.4	18.4	%
Value added and other taxes relating to services	(4,861.3)	(4,143.6)	17.3	%
Discounts on services	(2,002.5)	(1,046.2)	91.4	%
Net operating revenues from services	15,353.2	13,571.6	13.1	%
Sales of cellular handsets and accessories	2,540.5	1,557.9	63.1	%
Value added and other taxes on handset sales	(524.0)	(332.2)	57.7	%
Discounts on handset sales	(283.7)	(339.8)	(16.5))%

Our gross service revenue for the year ended December 31, 2011 was R\$22,217 million, representing a 18.4% increase from R\$18,761 million in the year ended December 31, 2010, mainly due to the growth in our customer base and consistently solid revenues from value added services. The gross handset revenue for the year ended December 31, 2011 was R\$2,541 million, a 63.1% growth over R\$1,557.9 for the year ended December 31, 2010, resulting from a greater mix of products in handset sales and growth in sales volume. Gross revenues for the year ended December 31, 2011 totaled R\$24.8 billion, a 21.8% increase from the year ended December 31, 2010.

Net operating revenues increased 18.2% to R\$17,086 million in the year ended December 31, 2011 from R\$14,457.5 million in the year ended December 31, 2010.

Monthly subscription charges and usage charges

Revenue from monthly subscription charges and usage charges was R\$10,264.7 million in the year ended December 31, 2011, a 15.2% increase from R\$8,912.0 million in the year ended December 31, 2010, due primarily to subscriber growth of 25.6%, which resulted in significantly higher outgoing voice traffic.

The total average monthly MOU for 2011 and 2010 were as follows:

	Year ended December 31,	
	2011	2010
Average incoming MOU	13	16
Average outgoing MOU	115	100
Average total MOU	129	116

Fixed Services

Revenue from fixed services was R\$1,525.4 million in the year ended December 31, 2011, a 19.1% increase from R\$1,281.2 million in December 31, 2010, mainly due to improvements in the Intelig business, which underwent a rebranding project and launched a new line of corporate offerings.

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Interconnection charges

Interconnection revenues consist of amounts paid to us by other mobile and fixed line providers for completion of calls on our network of calls originating on their networks. Our interconnection revenues were R\$3,849.4 million in the year ended December 31, 2011, a 4.6% increase from R\$3,679.4 in 2010. Though there was subscriber growth in the business, this increase was mainly attributable to the contribution of the Infinity Torpedo offer, which provides customers unlimited SMS texting to any mobile operator, resulting in an increase in the number of SMS messages sent and received on our network, and Infinity Mais, an offer that charges customers R\$0.50 cents per call to a fixed number, resulting in an increase in traffic from fixed lines towards mobile phones. Interconnection as a percentage of total gross revenues of services stood at 18.6% in the year ended December, 2010.

Long distance charges

Revenues from long distance charges increased 34.0% to R\$3,181.2 million in the year ended December 31, 2011 from R\$2,374.3 million in the year ended December 31, 2010 reflecting post-paid traffic following post-paid growth in the customer base. In addition, long distance revenues were positively impacted by traffic migration from Intelig's CSP 23 to TIM's CSP 41.

Value-added services

Value-added service revenues increased 41.3% to R\$3,166.4 million in the year ended December 31, 2011 from R\$2,241.5 million the year ended December 31, 2010, principally due to an increase in smartphone and webphone penetration among our customer base, using both voice and data services, and an expansion of products and services.

Value-added services include short messaging services (SMS), multimedia message services (MMS), data transmission, downloads (wallpaper and ringtones), television access, voicemail and chat. SMS revenues represent a significant portion of our total value-added service revenues. Data transmission, supported by our 3G network, is also a key component to our value-added service revenues, and we have focused on improving our position in this area through expanding partnerships, enhancing our smartphone portfolio, including through the addition of the iPhone 3GS and iPhone 4, and promoting our mobile broadband service through TIM web broadband.

Other service revenues

Revenues from other services decreased 15.8% to R\$229.8 million in the year ended December 31, 2011 from R\$272.9 million in the year ended December 31, 2010. This was mainly due to the decrease in contract cancellation fees as less customers are cancelling the service.

Sales of mobile handsets

Sales of mobile handsets increased 63.1% to R\$2,540.5 million in the year ended December 31, 2011 from R\$1,557.9 million registered in the year ended December 31, 2010. This was mainly attributable to an increased mix in handset sales, with over 60% of total sales comprised of smartphones or webphones as compared to approximately 30% in 2010.

Value-added and other taxes relating to services

The principal tax on telecommunications services is ICMS tax, which is imposed at rates between 25% and 35%. ICMS is also the principal tax on sales of handsets, which is imposed at a rate between 7% and 17%. See "Item 4. Information on the Company—B. Business Overview—Taxes on Telecommunications Goods and Services." Two federal

social contribution taxes, PIS and COFINS, are imposed at combined rates of 3.65% on gross revenues operating relating to telecommunications services and at combined rates of 9.25% on mobile telephone handset sales.

Our value-added and other taxes relating to services and handset sales was R\$5,385.3 million in the year ended December 31, 2011 compared to R\$4,475.8 million in the year ended December 31, 2010, an increase of 20.3%.

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Discounts on services and handset sales increased 64.9% to R\$2,286.2 million in the year ended December 31, 2011 compared to R\$1,386 million in the year ended December 31, 2010. This was mainly attributed to discounts offered on voice plans.

Costs of services and goods

Costs of services and goods increased by 17.2% to R\$8,561.4 million in the year ended December 31, 2011 from R\$7,305.8 in the year ended December 31, 2010, mainly due to a significant increase in handset sales and, as a result, the cost of handsets and accessories sold. The following table shows the components of costs of services and goods for each of the periods indicated.

Statement of Operations Data: Costs of services and goods	Year ended December 31,		Percentage change	
	2011	2010	2011 - 2010	
	(in million of reais)			
Depreciation and amortization	(1,715.2)	(1,994.2)	(14.0)	%
Interconnection expenses	(4,133.0)	(3,603.0)	14.7	%
Circuit leasing and related expenses	(234.9)	(242.9)	(3.3)	%
Materials and services	(324.1)	(337.0)	(3.8)	%
Personnel	(40.3)	(58.4)	(31.0)	%
FISTEL tax and other	(51.5)	(44.2)	16.4	%
Total cost of services	(6,498.9)	(6,279.7)	3.5	%
Cost of handsets and accessories sold	(2,062.6)	(1,026.1)	101.0	%
Total cost of services and goods	(8,561.4)	(7,305.8)	17.2	%

Depreciation and amortization

Depreciation and amortization expenses decreased 14.0% to R\$1,715.2 million in the year ended December 31, 2011 from R\$1,994.2 million in the year ended December 31, 2010, mainly due to the decrease in capitalization of handsets as a result of our policy to no longer subsidize handset sales.

Interconnection expenses

Interconnection expenses consist of the amount paid to fixed-line and other mobile service providers for termination of our outgoing calls on their networks. Interconnection costs increased 14.7% to R\$4,133.0 million in the year ended December 31, 2011 from R\$3,603.0 million in the year ended December 31, 2010, mainly due to the increase in outgoing minutes as our subscriber base increased significantly, and Infinity Torpedo, which stimulates SMS usage on a pay-per-day basis for pre-paid customers.

Circuit leasing and related expenses

Circuit leasing and related expenses represent lease payments to fixed carriers for the use of circuits, interconnecting our network and transporting our customer traffic through third-parties fixed infrastructure. Circuit leasing and related expenses decreased 3.3% in the year ended December 31, 2011 to R\$234.9 million from R\$242.9 million in the year ended December 31, 2010, mainly due to the acquisition of TIM Fiber which allowed us to decrease our rental expenses of fiber optic networks.

Materials and services

Materials and services costs were R\$324.1 million in the year ended December 31, 2011, decreasing 3.8% from R\$337.0 million incurred in the year ended December 31, 2010, mainly due to a decrease in maintenance costs as a result of cost control measures implemented during the period.

Personnel

Personnel costs decreased 31.0% to R\$40.3 million in the year ended December 31, 2011 from R\$58.4 million in the year ended December 31, 2010. The decrease was due principally to the allocation of certain employees to certain infrastructure projects for which the related costs (including personnel expenses) were capitalized. During

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2011, there has been a 16.4% increase in our number of employees, from 9,081 in the year ended December 31, 2010 to 10,562.

FISTEL tax and other

FISTEL tax and other costs increased 16.4% to R\$51.5 million in the year ended December 31, 2011 from R\$44.2 million in the year ended December 31, 2010, due to the 25.6% increase in our customer base.

Costs of handsets and accessories sold

The cost of handsets and accessories sold in 2011 was \$2,062.6 million, representing a 101.0% increase from R\$1,026.1 million in the year ended December 31, 2010. This growth is attributable to a 147.0% increase in the number of handsets sold in 2011 as compared to 2010.

Gross profit margins

The following table shows our gross profits, as well as the percentage change, for each of the periods indicated:

Statement of Operations Data: Gross profit	Year ended December 31,		Percentage change 2011 - 2010	
	2011	2010		
	(in million of reais)			
Net operating revenues from services	15,353.2	13,571.6	13.1	%
Cost of services	(6,498.9)	(6,279.7)	3.5	%
Gross profit from services	8,854.3	7,291.9	21.4	%
Net operating revenues from sales of cellular handsets and accessories	1,732.7	885.8	95.6	%
Cost of goods	(2,062.6)	(1,026.1)	101.0	%
Gross loss from sales of cellular handsets and accessories	(329.8)	(140.3)	135.1	%
Gross profit	8,524.5	7,151.7	19.2	%

Our gross profit margin from services (gross profit as a percentage of net service revenues) increased from 53.7% in the year ended December 31, 2010 to 57.7% in the year ended December 31, 2011.

Our negative gross margin for sales of mobile handsets and accessories decreased from negative 15.8% in the year ended December 31, 2010 to negative 19.0% in the year ended December 31, 2011. This decrease is mainly attributable to a subsidy offered for SIM cards, the impact of foreign exchange rates on our inventories (the cost and balance of which are denominated in U.S. dollars) and the change in the mix of handset sales to smartphones and webphones.

Our overall gross profit margin increased slightly, from 49.5% in the year ended December 31, 2010 to 49.9% in December 31, 2011. This resulted primarily from decreased amortization costs as a result of our policy not to subsidize handset sales which decreased the depreciation of capitalized handsets.

Operating expenses

The following table shows our operating expenses, as well as the percentage change from year to year of each component, for the years ended December 31, 2011 and 2010:

Statement of Operations Data: Operating expenses	Year ended December 31,		Percentage change 2011 - 2010	
	2011	2010		
	(in million of reais)			
Selling expenses	4,845.7	4,494.6	7.8	%
General and administrative expenses	963.4	1,008.7	(4.5	%)
Other operating expenses, net	648.0	448.2	44.6	%
Total operating expenses	(6,457.1)	(5,951.5)	8.5	%

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Our total operating expenses increased 8.5% to R\$6,457.1 million in the year ended December 31, 2011 from R\$5,951.5 million in December 31, 2010, mainly due to the factors described below.

Selling expenses

Selling expenses increased 7.8%, to R\$4,845.7 million in the year ended December 31, 2011 from R\$4,494.6 million in the year ended December 31, 2010, mainly due to a significant increase in handset sales offset in part by a decrease in the allowance for doubtful accounts from R\$310.5 million in the year ended December 31, 2010 to R\$231.5 million in the year ended December 31, 2011, as a result of our “go-to-market” approach based on a zero subsidy policy for handset sales and better customer credit scoring.

General and administrative expenses

General and administrative expenses decreased 4.5% to R\$963.4 million in the year ended December 31, 2011 from R\$1,008.7 million in the year ended December 31, 2010. As a result of the decrease in depreciation and amortization along the period amid the end of the subsidy policy on handsets.

Other operating expenses, net

Other net operating expenses increased 44.6% to R\$648.0 million in the year ended December 31, 2011 from R\$448.2 million in the year ended December 31, 2010. This decrease was mainly due to a reassessment in certain tax positions adopted by the Company in relation to FUST and FUNTTEL. The effect of this reassessment amounted to approximately R\$70 million.

Net financial expense

We had net financial expense of R\$238.9 million in the year ended December 31, 2011, from a net financial expense of R\$245.5 million in the year ended December 31, 2010. The variation is due to an increase in interest on cash and equivalents and a decrease in the cost of debt.

Income and social contribution taxes

Income and social contribution taxes are calculated based on the separate income of each subsidiary, adjusted by the additions and exclusions permitted in the year ended December 31, 2011 under tax law. We recorded income and social contribution tax of R\$547.4 million in the year ended December 31, 2011, compared to a positive R\$1,257.0 million in the year ended December 31, 2010. The increase of income and social contribution tax is largely due to a tax credit from a loss carry forward realized in the year ended December 31, 2010 that was not repeated in 2011.

Net income

Our net income in the year ended December 31, 2011 was R\$1,281.2 million, representing an decrease of R\$930.5 million or 42.1% from a net income of R\$2,211.7 million in the year ended December 31, 2010

Results of Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Operating revenues

The following table shows certain components of our operating revenues, as well as the percentage change of each component from the prior year, for each of 2010 and 2009:

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Statement of Operations Data: Operating Revenues	Year ended December 31,		Percentage change 2010 - 2009	
	2010	2009		
	(in million of reais)			
Monthly subscription charges and usage charges	8,912.0	8,068.2	10.5	%
Fixed services	1,281.2	89.9	1325.1	%
Interconnection charges	3,679.4	4,042.6	(9.0))%
Long distance charges	2,374.3	1,943.1	22.2	%
Value added services	2,241.5	1,907.2	17.5	%
Other service revenues	272.9	306.0	(10.8))%
Gross operating revenues from services	18,761.4	16,357.0	14.7	%
Value added and other taxes relating to services	(4,143.6)	(3,615.4)	14.6	%
Discounts on services	(1,046.2)	(542.6)	92.8	%
Net operating revenues from services	13,571.6	12,199.0	11.3	%
Sales of cellular handsets and accessories	1,557.9	1,717.7	(9.3))%
Value added and other taxes on handset sales	(332.2)	(301.1)	10.3	%
Discounts on handset sales	(339.8)	(457.4)	(25.7))%

Our gross service revenue for the year ended December 31, 2010 was R\$18,761.4 million, representing a 14.7% increase from R\$16,357.0 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig, which significantly boosted our fixed services revenues in 2010, as well as organic growth. This increase primarily reflected a strong increase in our long distance charges (22.2% up from the year ended December 31, 2009, due to the Intelig acquisition), fixed service charges (1,325.1% up from the year ended December 31, 2009, due to the Intelig acquisition), and value added services (17.5% up from the year ended December 31, 2009). All of these increases reflect a significant increase in our client base to over 50 million customers. The gross handset revenue for the year ended December 31, 2010 was R\$1,557.9 million, a 9.3% decrease over R\$1,717.7 for the year ended December 31, 2009, resulting from a client acquisition approach focused mainly on discounted services, rather than discounted handsets. Gross revenues for the year ended December 31, 2010 totaled R\$20,319.3 billion, a 12.4% increase from the year ended December 31, 2009.

Net operating revenues increased 9.9% to R\$14,457.5 million in the year ended December 31, 2010 from R\$13,158.1 million in the year ended December 31, 2009, due primarily to the acquisition of Intelig, as well as organic growth. This organic growth was primarily due to the expansion in the number customers, reflecting better results in several revenue lines, such as fixed services, long distance charges and value added services.

Monthly subscription charges and usage charges

Revenue from monthly subscription charges and usage charges was R\$8,912.0 million in the year ended December 31, 2010, a 10.5% increase from R\$8,068.2 million in the year ended December 31, 2009, due primarily to the increase in the proportion of post-paid subscribers.

The total average monthly MOU for 2010 and 2009 were as follows:

	Year ended December 31,	
	2010	2009
Average incoming MOU	16	21

Average outgoing MOU	100	62
Average total MOU	116	83

Fixed Services

Revenue from fixed services was R\$1,281.2 million in the year ended December 31, 2010, an increase from R\$89.9 million in December 31, 2009, mainly due to the acquisition of Intelig.

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Interconnection charges

Interconnection revenues consist of amounts paid to us by other mobile and fixed line providers for completion of calls on our network of calls originating on their networks. Our interconnection revenues were R\$3,679.4 in the year ended December 31, 2010, a 9.0% decrease from R\$4,042.6 in 2009. Despite subscriber growth, this decrease was mainly attributable to a significant volume of in-network calls stimulated by our new subscription plans and a trend of reduced fixed to mobile traffic. Interconnection as a percentage of total gross revenues of services stood at 19.6% in the year ended December 31, 2010 compared to 24.7% in the year ended December, 2009.

Long distance charges

Revenues from long distance charges increased 22.2% to R\$2,374.3 million in the year ended December 31, 2010 from R\$1,943.1 million in the year ended December 31, 2009. This increase was a result of our efforts to facilitate the use of our long distance service through lower cost service packages such as Liberty and Infinity.

Value-added services

Value-added service revenues increased 17.5% to R\$2,241.5 million in the year ended December 31, 2010 from R\$1,907.2 million the year ended December 31, 2009, principally due to an increase in our customer base, both in voice and data, and an expansion of products and services.

Other service revenues

Revenues from other services decreased 10.8% to R\$272.9 million in the year ended December 31, 2010 from R\$306.0 million in the year ended December 31, 2009, principally reflecting revenues from other services consist mainly of site sharing and co-billing services, which occur when a customer is billed by his own operator on behalf of another long distance company for services provided by such carrier and contractual penalties.

Sales of mobile handsets

Sales of mobile handsets decreased 9.3% to R\$1,557.9 million in the year ended December 31, 2010 from R\$1,717.7 million registered in the year ended December 31, 2009. This was mainly attributable to our strategy of SIM-only sales.

Value-added and other taxes relating to services

The principal tax on telecommunications services is ICMS tax, which is imposed at rates between 25% and 35%. ICMS is also the principal tax on sales of handsets, which is imposed at a rate between 7% and 17%. See "Item 4. Information on the Company—B. Business Overview—Taxes on Telecommunications Goods and Services." Two federal social contribution taxes, PIS and COFINS, are imposed at combined rates of 3.65% on gross revenues operating relating to telecommunications services and at combined rates of 9.25% on mobile telephone handset sales.

Our value-added and other taxes relating to services and handset sales was R\$4,143.6 million in the year ended December 31, 2010 compared to R\$3,615.4 million in the year ended December 31, 2009, an increase of 14.6% partly due to the acquisition of Intelig.

Discounts on services and handset sales increased 38.6% to R\$1,386 million in the year ended December 31, 2010 compared to R\$1,000 million in the year ended December 31, 2009. This increase was primarily due to the acquisition of Intelig and an effort to acquire and maintain clients based on innovation and premium services, rather

than discounts.

Costs of services and goods

Costs of services and goods increased by 9.5% to R\$7,305.8 in the year ended December 31, 2010 from R\$6,672.4 in the year ended December 31, 2009, mainly due to the acquisition of Intelig, as well as organic growth. Cost of handsets and accessories sold increased 10.9% in the year ended December 31, 2010 due largely to

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campaigns to stimulate purchases of the TIM Chip alone, and the appreciation of the Brazilian real. The following table shows the components of costs of services and goods for each of the periods indicated, as well as the percentage changes.

Statement of Operations Data: Costs of services and goods	Year ended December 31,		Percentage change	
	2010	2009	2010 – 2009	
	(in million of reais)			
Depreciation and amortization	(1,994.2)	(1,816.0)	9.8	%
Interconnection expenses	(3,603.0)	(3,351.8)	7.5	%
Circuit leasing and related expenses	(242.9)	(166.0)	46.3	%
Materials and services	(337.0)	(315.6)	6.8	%
Personnel	(58.4)	(60.8)	(3.9)	%
FISTEL tax and other	(44.2)	(37.0)	19.5	%
Total cost of services	(6,279.7)	(5,747.2)	9.3	%
Cost of handsets and accessories sold	(1,026.1)	(925.2)	10.9	%
Total cost of services and goods	(7,305.8)	(6,672.4)	9.5	%

Depreciation and amortization

Depreciation and amortization expenses increased 9.8% to R\$1,994.2 million in the year ended December 31, 2010 from R\$1,816.0 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig. The increase in depreciation expenses was due largely to efforts by the Company to expand and improve its network and information technology infrastructure.

Interconnection expenses

Interconnection costs increased 7.5% to R\$3,603 million in the year ended December 31, 2010 from R\$3,351.8 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig.

Circuit leasing and related expenses

Circuit leasing and related expenses represent lease payments to fixed carriers for the use of circuits, interconnecting our network and transporting our customer traffic through third-parties fixed infrastructure. Circuit leasing and related expenses increased 46.3% in the year ended December 31, 2010 to R\$242.9 million from R\$166.0 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig.

Materials and services

Materials and services costs were R\$337 million in the year ended December 31, 2010, up 6.8% from R\$315.6 million incurred in the year ended December 31, 2009, mainly due to the acquisition of Intelig.

Personnel

Personnel costs decreased 3.9% to R\$58.4 million in the year ended December 31, 2010 from R\$60.8 million in the year ended December 31, 2009. The decrease was due principally to corporate restructuring, implementing a new administrative and commercial structure that led to headcount adjustment. During 2010, there was a 1.6% decrease in our number of employees, from 9,231 in the year ended December 31, 2009 to 9,081 in the year ended December

2010.

FISTEL tax and other

FISTEL tax and other costs increased 19.8% to R\$44.2 million in the year ended December 31, 2010 from R\$37.0 million in the year ended December 31, 2009, due to larger client base during 2010.

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Costs of handsets and accessories sold

The cost of handsets and accessories sold in 2010 was R\$1,026.1 million, representing a 10.9% of increase from R\$925.2 million in the year ended December 31, 2009. This increase partially attributable to the effects of our campaigns to stimulate the purchase of the TIM chip alone, and the appreciation of the real as most of our handset portfolio is imported.

Gross profit margins

The following table shows our gross profits, as well as the percentage change, from 2009 to 2010:

Statement of Operations Data: Gross profit	Year ended December 31,		Percentage change	
	2010	2009	2010 - 2009	
	(in million of reais)			
Net operating revenues from services	13,571.6	12,199.0	11.3	%
Cost of services	(6,279.7)	(5,747.2)	9.3	%
Gross profit from services	7,291.9	6,451.8	13.0	%
Net operating revenues from sales of cellular handsets and accessories	885.8	959.2	(7.6))%
Cost of goods	(1,026.1)	(925.2)	10.9	%
Gross loss from sales of cellular handsets and accessories	(140.3)	34.0	(512.8))%
Gross profit	7,151.7	6,485.8	10.3	%

Our gross profit margin from services (gross profit as a percentage of net service revenues) increased from 52.9% in the year ended December 31, 2009 to 53.7% in the year ended December 31, 2010. The increase was mainly due to a decrease of 15.3% in interconnection expenses during the period while registering significant outgoing traffic increase

Our negative gross margin for sales of mobile handsets and accessories decreased from positive 3.5% in the year ended December 31, 2009 to negative 15.8% in the year ended December 31, 2010. We changed our subsidy policy, and launched the “TIM Chip Avulso” offer, pursuant to which customers can choose between purchasing a discounted handset up-front, or paying discounted monthly fees for stand alone TIM chip purchases. This campaign resulted in 50% of our fourth quarter handset sales being subsidy-free.

We continue to aim to offer a complete and exclusive handset portfolio, which also supports VAS usage.

Our overall gross profit margin increased, from 49.3% in the year ended December 31, 2009 to 49.5% in December 31, 2010. This resulted primarily from an increase in gross profit margin on services, despite negative gross margin for handset sales.

Operating expenses

The following table shows our operating expenses, as well as the percentage change from year to year of each component, for the years ended December 31, 2010 and 2009:

Statement of Operations Data: Operating expenses	Year ended December 31,		Percentage change	
	2010	2009	2010 - 2009	

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	(in million of reais)			
Selling expenses	4,494.6	4,436.8	1.3	%
General and administrative expenses	1,008.7	1,033.4	(2.4))%
Other operating expenses, net	448.2	462.1	(3.0))%
Total operating expenses	5,951.5	5,932.3	0.3	%

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Our total operating expenses increased 0.3% to R\$5,951.5 million in the year ended December 31, 2010 from R\$5,932.3 million in December 31, 2009, mainly due to the acquisition of Intelig.

Selling expenses

Selling expenses increased 1.3% registering R\$4,494.6 million in the year ended December 31, 2010 from R\$4,436.8 million in the year ended December 31, 2009, mainly due to the acquisition of Intelig,

The allowance for doubtful accounts decreased from R\$422.2 million in the year ended December 31, 2009 to R\$310.5 million in the year ended December 31, 2010, as a result of rational go-to-market approach based on naked SIM-Card sales (which are sales of stand-alone SIM cards) and better customer credit scoring.

General and administrative expenses

General and administrative expenses decreased 2.4% to R\$1,008.7 million in the year ended December 31, 2010 from R\$1,033.4 million in the year ended December 31, 2009. This decrease was primarily attributable to lower maintenance and personnel costs for the year ended December 31, 2010.

Other operating expenses, net

Other net operating expenses decreased 3.0% to R\$448.2 million in the year ended December 31, 2010 from R\$462.1 million in the year ended December 31, 2009. This decrease was primarily due to a decrease of expense contingency.

Net financial expense

TIM registered a net financial expense of R\$245.5 million in the year ended December 31, 2010, from a net financial expense of R\$245.1 million in the year ended December 31, 2009 stable in a year over year comparison.

Income and social contribution taxes

Income and social contribution taxes are calculated based on the separate income of each subsidiary, adjusted by the additions and exclusions permitted in the year ended December 31, 2010 under tax law. We recorded income and social contribution tax of R\$1,257.0 million in the year ended December 31, 2010, compared to R\$33.0 million in the year ended December 31, 2009. The positive impact is largely related to the release in its entirety of the valuation allowance for tax loss carryforwards related to our subsidiary TIM Celular in the end of 2010, reflecting a better judgment for utilization of such tax credit following expected improvements on earnings.

Net income

With the impact of the tax credit, our net income in the year ended December 31, 2010 was R\$2,211.7 million, compared to net income of R\$341.4 million in the year ended December 31, 2009, due primarily to the acquisition of Intelig.

B. Liquidity and Capital Resources

We expect to finance our capital expenditures and other liquidity requirements for 2012 and 2013 with operating revenue, renewals of maturing indebtedness and new financing to be obtained from financial institutions.

In 2011, TIM Celular disbursed new loans totaling R\$743 million from (1) BNDES, for an amount of R\$370 million; (2) Bank of America, for an amount of R\$200 million equivalent to U.S.\$120 million; and (3) JPMorgan, for an amount of approximately R\$173 million equivalent to U.S.\$100 million. TIM Celular also extended the maturity of the credit agreement with Santander in the total amount of R\$350 million for an additional eighteen months, which was scheduled to mature in part in April 2011 and in part in June 2011.

In October 2011, TIM Celular purchased 100% of Eletropaulo Comunicações Ltda. (now denominated TIM Fiber SP Ltda.) and 98.26% of AES Communications Rio de Janeiro S/A. (now denominated TIM Fiber RJ S/A). These companies had outstanding indebtedness with Itaú in the amount of R\$90 million.

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In December 2011, TIM Celular signed a new finance contract with European Investment Bank for €100 million. We expect funds from this loan to be disbursed in 2012.

TIM Celular has an outstanding facility in the amount of R\$147 million to be disbursed from BNDES. We expect funds from this loan to be disbursed in 2012.

The terms of our long term debt contain cross-default clauses, restrictions on our ability to merge with another entity and restrictions on our ability to prematurely redeem or repay such debt. We are currently not, and do not expect to be, in breach of any material covenant of our debt instruments that would be construed as events of default under their terms.

In 2012, we plan to complete our financing needs through our current long-term facilities and partial renewal of short-term debt.

Sources of Funds

Cash from operations

Our cash flows from operating activities were R\$4,129 million in the year ended December 31, 2011 compared to R\$3,972 million in the year ended December 31, 2010. In the year 2011, the Infinity and Liberty Plans consolidated their position as market leaders within the plans which use the unlimited calls concept. Separately analyzing the adjusted results, this contributes to generate R\$5,060 million positive cash flows.

On the other hand, we had variations in our operational assets and liabilities which decrease our cash from operation. The main variations of assets and liabilities were:

- Increase of accounts receivable in the amount of R\$783 million;
- Increase in recoverable taxes in the amount of R\$377 million; and
- Increase in accounts payable to suppliers in the amount of R\$574 million.

Another item that had a relevant impact in the cash flow from operations was the contingency area. We have paid R\$186 million in judicial deposits and R\$172 million to settle contingencies.

Financial Contracts

We and our subsidiaries are parties to the financial contracts described below. With respect to loans denominated in currencies other than reais, we enter into currency swaps to hedge against exchange rate fluctuations.

- Credit Agreement, dated as of June 28, 2004, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$20 million. The amount outstanding as of December 31, 2011, including accrued interest, was R\$1.7 million. The agreement, which matures on June 28, 2012, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Celular and Banco Bradesco S.A. provides for the issuance of a R\$30 million promissory note by TIM Celular with TIM Participações as the guarantor of such promissory note.

- Credit Agreement, dated as of April 29, 2005, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of approximately R\$85.3 million. The amount outstanding as of December 31, 2011, including accrued interest, was R\$19 million. The agreement, which matures on April 29, 2013, and bears interest at a rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Celular and Banco Bradesco S.A. provides for the issuance of a R\$128.0 million promissory note by TIM Celular with TIM Participações as the guarantor of such promissory note.
- Credit Agreement, dated as of June 28, 2004, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$99.9 million. The amount outstanding as of December 31, 2011, including accrued interest, was R\$8.3 million. The agreement, which matures on June 28, 2012, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Celular and Banco Bradesco S.A. provides for the issuance of a R\$149.8 million promissory note by TIM Celular with TIM Participações as the guarantor of such promissory note.

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- Credit Agreement, dated as of January 28, 2008, among TIM Nordeste (incorporated by TIM Celular), as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$67.0 million. The amount outstanding as of December 31, 2011, including accrued interest, was R\$44.8 million. The agreement, which matures on January 31, 2016, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Votorantim S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 0.575% per annum of the integral principal amount offered in the Credit Agreement. The guarantee agreement executed by TIM Celular and Banco Votorantim S.A. provides for the issuance of a R\$87.1 million promissory note by TIM Celular. TIM Participações is not the guarantor in this promissory note.
- Credit Agreement, dated as of August 10, 2005, among BNDES, as lender, TIM Celular, as borrower, and TIM Brasil as guarantor, in the principal amount of R\$1.3 billion. The agreement, which matures on August 15, 2013, bears the average interest fixed rate of 4.2% plus the TJLP, which was 6% per annum on December 31, 2011. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$364.7 million.
- Credit Agreement, dated as of October 6, 2009, among BNDES, as lender, TIM Celular and TIM Nordeste (incorporated by TIM Celular), as borrowers, and TIM Participações as guarantor, in the principal amount of R\$400 million. The agreement, which matures on October 15, 2012, bears interest at a fixed rate of 4.82% plus the TJLP, which was 6% per annum on December 31, 2010. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$185.1 million.
- Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Celular, as borrower, and TIM Participações as guarantor, in the principal amount of R\$592.9 million. The agreement, which matures on July 15, 2017, bears the average interest fixed rate of 2.17% plus the TJLP and the interest rate of 2.62% plus the IPCA which was 7.61% per annum on December 31, 2011. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$610.3 million.
- Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Nordeste (incorporated by TIM Celular), as borrower, and TIM Participações as guarantor, in the principal amount of R\$202 million. The agreement, which matures on July 15, 2017, bears the average interest at a fixed rate of 2.03% plus the TJLP and the interest rate of 2.62% plus IPCA which was 7.61% per annum on December 31, 2011. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$202.8 million.
- Credit Agreement, dated as of November 19, 2008 and amended on June 29, 2010, among BNDES, as lender, TIM Celular, as borrower, and TIM Participações as guarantor, in the principal amount of R\$716.9 million, which R\$570 million was already disbursed. The agreement, which matures on July 15, 2018 bears interest at (1) a fixed rate of 3.62% plus the TJLP or (2) fixed interest rate of 4.5% per annum. On December 31 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$544 million.
- Credit Agreement, dated as of April 18, 2008, among Santander as lender, and TIM Celular, as borrower, in the principal amount of R\$150.0 million. The agreement, which matured in April 2011, was amended to have its maturity postponed to September 2012 and bears interest at a variable rate of 108% of the CDI interest rate instead of 100%. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$164 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of May 5, 2008, among Santander as lender, and TIM Celular, as borrower, in the principal amount of R\$50.0 million. The agreement, which matured on April 25, 2011, was amended to have its maturity postponed to October 2012 and bears interest at a variable rate of 108% of the CDI interest rate instead of 109,6%. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest,

was R\$54.3 million. No guarantees were issued under this loan.

- Several facility agreements contracted under CMN Resolution No. 2,770 (Foreign currency denominated debt already swapped into local floating interest rate denominated currency). The outstanding amount as of

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December 31, 2010 was R\$159.3 million, including accrued interest. The last tranche of which matured on June 2011 was amended to have its new maturity postponed to December 2012, bear an average cost of 108% of the CDI. No guarantees were issued under these loans.

- Finance Contract, dated as of June 3, 2008, between European Investment Bank, as lender, TIM Celular S.A. and TIM Nordeste (incorporated by TIM Celular) S.A., as borrowers and TIM Participações as guarantor, in the total principal amount of €200 million fully disbursed, and fully swapped into local currency, between September 2009 and June 2010. The total outstanding amount as of December 31, 2011 converted from euros was R\$532.1 million, including accrued interest. The drawings, the last of which matures on June 2017, bear an average cost of 95.32% of the CDI after hedging. The Guarantee was provided by BBVA Milan Branch and BES Portugal for the principal amount of €200 million.
- Facility Agreement, dated as of November 28, 2008, between BNP Paribas, as lender, and TIM Celular S.A., borrower and TIM Participações as guarantor, in the total principal amount of U.S.\$143.6 million fully disbursed and swapped on January 15, 2009. The total outstanding amount as of December 31, 2011 converted from U.S. dollars was R\$267.8 million, including accrued interest. The agreement matures on December 2017 and bears an average cost of 95.01% of the CDI after hedging.
- Finance Contract, dated as of September 5, 2011, between JPMorgan Chase Bank National Association, as lender, TIM Celular S.A., as borrower, in the total principal amount of U.S.\$100 million. The total outstanding amount as of December 31, 2011 converted from U.S. dollars was R\$187.2 million, including accrued interest. The agreement matures in September 2013 and bears an average cost of 92.00% of the CDI after hedging. No guarantees were issued under this loan.
- Finance Contract, dated as of September 6, 2011, between Bank of America, N.A., as lender, TIM Celular S.A., as borrower, in the total principal amount of U.S.\$119.8 million. The total outstanding amount as of December 31, 2011 converted from U.S. dollars was R\$223.4 million, including accrued interest. The agreement matures on September 20, 2013 and has an average cost of 92.50% of the CDI after hedging. No guarantees were issued under this loan.
- Finance Contract, dated as of December 29, 2011, between European Investment Bank, as lender, TIM Celular S.A. as borrower and a first tier bank as guarantor, in the total principal amount of €100 million to be disbursed in up four tranches in a minimum amount of €25 million each. As of December 31, 2011, the funds from this loan had not yet been disbursed.
- Loan Agreement dated as of September 20 2011, between Tim Celular and Bank of America, pursuant to CMN Resolution No. 4,131 in the principal amount of U.S.\$119.8 million. The outstanding amount as of December 31, 2011, converted from U.S. dollars was R\$187.2 million, including accrued interest. The agreement matures in September 2013 and bears an average cost of 92.50% of the CDI after hedging. No guarantees were issued under this loan.
- Credit Agreement, dated as of August 22, 2011, between Itaú as lender, and Eletropaulo Comunicações Ltda. (now denominated TIM Fiber SP Ltda.) acquired by TIM Celular in October 2011, as borrower, in the principal amount of R\$40.0 million. The agreement, which matures on August 18, 2014, bears interest at a variable rate of 1.5% over the CDI. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$40.9 million. No guarantees were issued under this loan.
- Credit Agreement, dated as of September 22, 2011, between Itaú as lender, and Eletropaulo Comunicações Ltda. (now denominated TIM Fiber SP Ltda.) acquired by TIM Celular in October 2011, as borrower, in the principal

amount of R\$28.0 million. The agreement, which matures on September 15, 2014, bears interest at a variable rate of 1.5% over the CDI. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$28.3 million. No guarantees were issued under this loan.

- Credit Agreement, dated as of August 22, 2011, between Itaú as lender, and AES Communications Rio de Janeiro S.A. (now denominated TIM Fiber RJ S/A) acquired by TIM Celular in October 2011, as borrower,

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in the principal amount of R\$22.0 million. The agreement, which matures in August 2014, bears interest at a variable rate of 1.5% over the CDI. On December 31, 2011, the outstanding amount under this credit agreement, including accrued interest, was R\$22.5 million. No guarantees were issued under this loan.

See notes 20 and 41 in our consolidated financial statements for a further description of such financing agreements.

Uses of Funds

Principal uses of funds during the three-year period ended December 31, 2011, were capital expenditures, payment of dividends to our shareholders, and loan repayments.

Investments in Fixed Assets

Our capital expenditures in 2011, 2010 and 2009, related primarily to:

- acquiring and developing our fiber optic network;
- deployment of our third generation (3G) network;
- implementation and maintenance of our GSM and TDMA networks;
- purchases of equipment relating to our migration to PCS operations;
- expanding network capacity, geographic coverage and digitalization;
- developing new operational systems to meet customers' demands and information technology systems; and
- free handsets provided to corporate customers (comodato).

The following table contains a breakdown of our investments in fixed assets for the years ended December 31, 2011, 2010 and 2009:

Capital Expenditures Categories	Year ended December 31,		
	2011	2010	2009
	(in millions of reais)		
Network	2,081.7	1,701.0	1,319.4
Information technology	570.5	607.1	499.9
Handsets provided to corporate customers (comodato)	201.3	182.8	351.9
Handsets provided to consumer customers (subsidiaries)	8.3	290.3	483.4
Other	140.7	54.4	47.6
Total capital expenditures	3,002.4	2,835.7	2,702.1

Our Board of Directors has approved our budget for capital expenditures from 2011 to 2013 in the total amount of R\$9.0 billion and R\$2.9 billion in 2011 for expenditures relating to our subsidiaries. Most of the capital expenditures we budgeted for 2011 to 2013 relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure. See "Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures."

Dividends

Our Dividends are calculated in accordance with our bylaws and Brazilian corporate law. Pursuant to our bylaws, we must distribute an amount equivalent to 25% of adjusted net income as minimum dividend each year ended December 31, provided that there are funds available for distribution.

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For the purposes of the Brazilian corporate law and in accordance with our bylaws, “adjusted net income” is the amount equal to the net profit adjusted to reflect allocations to or from: (1) the legal reserve, and (2) a contingency reserve for probable losses, if applicable.

The following table contains a breakdown of the dividends and interest on shareholders’ equity actually paid (net of income taxes) by us to our shareholders during the years ended December 31, 2011, 2010 and 2009:

Dividend Distribution (1)	Year ended December 31,		
	2011	2010	2009
	(in millions of reais)		
Dividends	496.6	201.2	168.1
Interest on shareholders’ equity	–	–	–
Total distributions	496.6	201.2	168.1

On April 11, 2012 our shareholders approved the distribution of R\$304.291.584,06 as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2011 results. On April 11, 2011 our shareholders approved the distribution of R\$496.6 as dividends in accordance of the minimum required on Brazilian Law, with respect to our 2010 results. On April 27, 2010 our shareholders approved the distribution of R\$204.1 million as dividends to our shareholders with respect to our 2009 results. On April 2, 2009 our shareholders approved the distribution of R\$171.1 million as dividends to our shareholders with respect to our 2008 results.

C. Research and Development

We do not independently develop new telecommunications hardware and depend upon the manufacturers of telecommunications products for the development of new hardware. Accordingly, we do not expect to incur material research and development expenses in the future.

D. Trend Information

Customer Base and Market Share

In the year ended December 31, 2011, our subscriber base increased 25.6% to 64.1 million clients. This represented a market share of 26.5%, while our service revenues share, our primary focus, reached 27% in the year ended December 31, 2011, compared to 25% in the year ended December 31, 2010. The pre-paid segment reached 54.8 million users in the year ended December 31, 2011, an increase of 25.8% from the year ended December 31, 2010. The number of post-paid users was 9.3 million in the year ended December 31, 2011, a 24.4% increase from the year ended December 31, 2010.

Although no assurances can be given as to the size of our subscriber base and market share in the future, we intend to focus on maintaining and improving our strong position in the mobile and fixed telecommunications market in Brazil in terms of number of subscribers and our high quality customer composition. To do so we intend to utilize sophisticated strategies and our customer segmentation approach, which we believe has contributed to an increased subscriber base and to retain our current customers and attract new customers. In 2012, we plan to improve and maintain subscriber growth by promoting our innovative Infinity and Liberty plans.

Change of Mix Between Postpaid and Prepaid Customers

With respect to the composition of our clients, our post-paid customers accounted for 14.5% of our total subscriber base in the year ended December 31, 2011, compared to 14.7% from a year ago, largely due to the significant growth in our pre-paid subscriber base.

Average Revenue Per User (ARPU) Per Month

TIM's ARPU registered R\$20.9 in the year ended December 31, 2011, a decrease of 9.2% when compared to R\$23.0 presented in the year ended December 31, 2010. The trend is partially attributed to an increase of 90 basis points in the pre-paid segment and a minor incoming revenue contribution.

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Revenues from value-added services had an important role in offsetting ARPU's downward trend of the market as a whole. In 2011 we registered a value-added service revenue growth of 41.3% and accounted for 14.3% of total gross service revenue (compared to 11.9% registered in 2010). We anticipate that revenues from value-added services will continue to increase and become a larger component of our total service revenues, particularly based on the availability of our 3G offers (such as our mobile broadband solution). As the provision of value added services has a relatively low marginal cost, we anticipate that value added services will contribute to the growth of our operating margins.

Competitive Environment

Brazil has a competitive scenario that is almost unique in the world. The competition in the country's mobile telephony sector has become more intense due to recent mergers and acquisitions. This market has been growing at a rapid pace compared not only to the telecom industry but also to other sectors of the economy. Brazil is one of the few markets with four nationwide competitors, each with a market share between 20% and 30%, which TIM believes, acts as the driver of growth and for the development of differentiated and quality services at fair and competitive prices.

In 2011, despite the competitive environment, our gross acquisition cost (per gross addition) was R\$34 for the year ended December 31, 2011, compared to R\$73 in the year ended December 31, 2010. The decrease of 53.4% reflects our different approach regarding handset subsidies and sales commissions. Our chip-only strategy sharply reduced the expenses related to handset subsidies and the restructuring of our sales commission policy and the adoption of new alternative sales channels decreased commission expenses.

In addition to competition from other traditional mobile telecommunications service providers, the level of competition from fixed-line service providers has increased, and we expect will continue to increase, as fixed-line service providers attempt to attract subscribers away from mobile service based on price and package offers that bundle multiple applications such as voice services (mobile and fixed-line), broadband and other services. Technological changes in the telecommunications field, such as the development of third generation, and number portability are expected to introduce additional sources of competition. It is also expected that Anatel will auction licenses to provide mobile telecommunications services over additional bandwidth frequencies to accommodate these emerging technologies.

The year 2011 continued to be marked by both the government's programs to encourage digital inclusion and the development of convergent services, recently inaccessible to the majority of the population.

The Brazilian mobile telephony market is the fifth largest in the world and reached a penetration level of 123.87 telephone lines for every 100 inhabitants in 2011, making mobile telephony the most widely used form of communication in Brazilian homes across all social classes. The prepaid segment of the mobile telecommunications market increased 18.6% in 2011 to 198.2 million accesses, which represents 81.8% of the total market. The postpaid segment grew the most in 2011, reaching 44.1 million lines, an increase of 22.9%. The key growth drivers in both sectors were the favorable economic scenario in Brazil, with increased availability of credit, better income distribution (with part of population migrating from the D and E class to C class), and competition in Brazil's mobile telephony market.

According to data published by Telco's website, the fixed telephony sector showed a slight growth of 2.3% compared to last year, ending the period with 43.0 million lines, representing a penetration level of approximately 22.2 lines for each 100 inhabitants. The sector also went through important mergers and acquisitions in 2011, in particular, the acquisition of TIM Fiber by us (the former AES Atimus).

Network Investment

In order to support the sector's high growth rates, substantial investments are required in technology and infrastructure, both for expansion and for improving the quality of services provided. As a provider of a service that is fundamental for the company's social and economic development, TIM reiterates its commitment to invest in and work for universal access to telecommunications.

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We maintain our investments in expanding our GSM network, reaching coverage of 94.4% of the country's urban population, serving almost 3,300 cities. GSM coverage counts with 100% of GPRS and around 80% of EDGE. Our 3G services (launched in the second quarter of 2008) are already in the main cities in Brazil. We will, however, continue to invest in selectively expanding our coverage of the Brazilian population, focusing on the quality of coverage we provide in major metropolitan areas by increasing our coverage in buildings, tunnels and major roads and on increasing capacity across our network to ensure it remains capable of absorbing high call volume in high usage areas. GSM is viewed as good pathway to more advanced technologies, and we expect relatively limited further investment will be required to make our current network capable of supporting emerging technologies such as 3G, 3.5G and High Speed Downlink Packet Access, or HSDPA.

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations and commercial commitments as of December 31, 2011:

	Payments due by Period (in millions of reais)				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Total debt (post hedge)	3,706	1,111	1,489	1,050	55
Operating leases(1)	—	—	—	—	—
Total(2)	3,706	1,111	1,489	1,050	55

(1) The information regarding payments due by period under our operating leases reflects future payments due that are non-cancelable without payment of a penalty.

(2) Other than as set forth herein, we have no capital lease obligations, unconditional purchase obligations, commercial commitments (i.e., lines of credit, standby letters of credit, standby repurchase obligations or other commercial commitments) or other long-term obligations. Interest is not included in long-term debt since it is subject to variable interest.

In 2011, we expect to have approximately R\$2.9 billion in capital expenditures relating to our subsidiaries. Most of the planned 2011 capital expenditures relate to extending TIM's infrastructure capacity and coverage, ensuring high quality levels and supporting the market strategies and updating and developing TIM's systems and technological platforms. See "Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures."

Contingent Pension Liabilities

Until December 1999, we participated in a multi-employer defined benefit plan (the "Telebrás Pension Plan") that covered the employees of the Telebrás System who retired before the Breakup as well as those who continued working for the operating companies after the Breakup. We are contingently liable, jointly and severally with the other New Holding Companies, for the unfunded obligations of the Telebrás Pension Plan with respect to all such employees who retired before January 30, 2000. In December 1999, we changed to a defined benefit plan (the "PBS Plan") that covers only those former employees of Telebrás who continued to be employed by us after December 1999. We are also contingently liable for the unfunded obligations of the PBS Plan with respect to our employees participating in this plan. See note 38 to our consolidated financial statements.

In November 2002, we created a separate defined contribution plan (the “TIMPREV Pension Plan”). Migration to this plan was optional for employees linked to the PBS Plan. Migration to the TIMPREV Pension Plan extinguishes the migrating participant’s rights under the PBS Plan. We are also contingently liable for the unfounded obligations of the TIMPREV Pension Plan with respect to our employees participating in this plan. See note 41 to our consolidated financial statements.

SISTEL and TIMPREV

The Company, TIM Nordeste merged into TIM Celular and TIM Celular have sponsored a private defined benefit pension plan for a group of TELEBRÁS system’s former employees, which is managed by Fundação Sistel de Seguridade Social – SISTEL, as a consequence of the legal provisions applicable to the privatization process of these companies in July 1998.

Given that in 1999 and 2000 the sponsors of the pension plans managed by SISTEL had already negotiated conditions for the creation of individual pension plans for each sponsoring company and the maintenance of joint liability only in relation to the participants already assisted on January 31, 2000, the Company and its subsidiaries, like other companies created as a result of the former TELEBRÁS system, created in 2002 a defined contribution pension plan meeting the most modern social security standards adopted by private companies, and enabling migration to this plan of the employee groups linked to SISTEL.

On November 13, 2002, the Brazilian Secretariat for Supplementary Pension Plans, through official ruling CGAJ/SPC No. 1917, approved the statutes of the new pension plan (hereafter “the Statutes of the TIMPREV Benefits Plan”) as a defined contribution plan, which provide for new conditions for granting and maintaining benefits, as well as the rights and obligations of the Plan Managing Entity, the sponsoring companies, participants and the beneficiaries thereof.

Under this new plan, the sponsor’s regular contribution will correspond to 100% of a participant’s basic contribution, and TIMPREV’s managing entity will ensure the benefits listed below, under the terms and conditions agreed upon, with no obligation to grant any other benefits, even if the government-sponsored social security entity starts granting them:

- Normal retirement pension
- Early retirement pension
- Disability pension
- Deferred proportional benefit
- Death benefit

However, as not all of the Company’s and its subsidiaries’ employees have migrated to TIMPREV, the pension and health care plans deriving from the TELEBRÁS system briefly listed below remain in force:

PBS: defined benefits plan of SISTEL, which includes active employees who participated in the plans sponsored by the companies of the former TELEBRÁS system

PBS Assistidos: a multi-sponsored pension plan for inactive employees

Convênio de Administração: for managing pension payments to retirees and pensioners of the predecessors of the subsidiary companies

PAMEC/Apólice de Ativos: health care plan for pensioners of the predecessors of the subsidiary companies

As happened with TRCA, the Company, until December 31, 2010, had understood that it was responsible for liabilities of the PAMA participants (health care plan) who are related to the Company and its subsidiaries. Based on a new understanding of internal and external lawyers, the Company changed its position. As a result, the liabilities previously recorded were written off.

In accordance with the rules established by NPC-26 issued by the Institute of Independent Auditors of Brazil – IBRACON, and approved by CVM Resolution No. 371, the plans having a surplus are not recorded by the Company, as it is impossible to recover these amounts. Furthermore, the amounts of contributions will not be reduced for future sponsors.

On January 29, 2007 and April 9, 2007, through the Brazilian Secretariat for Supplementary Pension Plans- SPC, the Ministry of Social Security approved the transfer of the management of the PBS–Tele CelularSul, TIM PrevSul, PBT–TIM, Convênio de Administração, PBS–TelenordesteCelular and TIM PrevNordeste benefit plans (according to SPC/DETEC/CGAT Communications Nos. 169, 167, 168, 912, 171 and 170, respectively) from SISTEL to HSBC – Fundo de Pensão.

The PBS Assistido plan continues to be managed by SISTEL. The only exception is Plano PAMEC, which was extinguished, with the Company remaining responsible for coverage of the respective benefit, which is now called PAMEC/Apólice de Ativos.

In view of the approval of the proposed migration by the Board of Directors in January 2006, and the approvals by the Ministry of Social Security, the transfer of the above mentioned funds from SISTEL to HSBC – Fundo de Pensão came into effect in April 2007.

In 2011, contributions to pension plans and other post-employment benefits amounted to R\$303 (R\$151 in the same period of 2010). See note 42 to our consolidated financial statements.

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Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Board of Directors

We are administered by a Board of Directors (Conselho de Administração) and a Board of Executive Officers (Diretoria), which are overseen by a Board of Auditors/Audit Committee (Conselho Fiscal/Comitê de Auditoria) referred to as our Statutory Audit Committee. The Board of Directors is comprised of five to nineteen members, serving for a two year term each with the possibility of re-election.

Our directors' duties and responsibilities are set forth by Brazilian law, our bylaws (Estatuto Social) and our Disclosure Policy (Política de Divulgação de Informações), as determined by CVM Instruction 358. All decisions taken by our Board of Directors are registered in the books of the Board of Directors' meetings. The Board of Directors holds regular meetings once every quarter of the fiscal year and also holds special meetings whenever discretionarily called by the Chairman, by two Directors or by the Chief Executive Officer. The chairman of the Board of Directors may also invite to the Board of Directors' meetings, at his discretion, any of our key employees, in order to discuss any relevant corporate matter. Our Board of Directors does not have an independent directors' committee. In 2008, the Board of Directors has implemented two special advisory committees: the Compensation Committee (Comitê de Remuneração) and the Internal Control and Corporate Governance Committee (Comitê do Controle Interno e da Governança Corporativa), both composed by at least one independent director.

Management is required to comply with, and has agreed to comply with, the Manual of Securities Trade and Information Use and Disclosure Policy, the Code of Ethics, issued by the Company, "Regulamento para Observância dos Atos Anatel nº 68.276, de 31 de outubro de 2007, e nº 3.804, de 07 de julho de 2009," and "Regulamento para a observância do Acordo de 28 de abril de 2010 celebrado com o Conselho Administrativo de Defesa Econômica (CADE)."

The following are the current effective members of the Board of Directors and their respective titles, whose terms of office will be valid until the Annual Shareholders' Meeting to be held in 2013:

Name	Title	Date of Birth	Date Appointed
Manoel Horácio Francisco da Silva	Chairman	July 16, 1945	April 11, 2011
Gabriele Galateri di Genola e Suniglia	Director	January 11, 1947	April 11, 2011
Stefano de Angelis	Director	August 22, 1967	April 11, 2011
Andrea Mangoni	Director	June 5, 1963	April 11, 2011
Maílson Ferreira da Nóbrega	Director	May 14, 1942	April 11, 2011
Adhemar Gabriel Bahadian	Director	October 22, 1940	April 11, 2011
Carmelo Furci	Director	March 12, 1953	April 11, 2011
Oscar Cicchetti	Director	June 17, 1951	July 20, 2011

In addition, it shall be recorded that Messrs. Francisco da Silva, Nóbrega and Bahadian are the members of the Board of Directors qualified as independent directors according to Brazilian independence standards. They are scheduled to be re-elected or replaced at the Annual Shareholders' Meeting to be held in 2013. Set forth below are brief biographical descriptions of the members of the Board of Directors.

Manoel Horácio Francisco da Silva. Mr. Francisco da Silva holds a degree in Business Administration from Pontifícia Universidade Católica (PUC) of São Paulo and also completed the Advanced Management Program in the Harvard Business School. He was the Chief Executive Officer of Banco Fator from 2002 to 2011 and has been Chairman of the

Board of Director of Banco Fator since August, 2011. Mr. Francisco da Silva was the Chief Executive Officer of Telemar and also managed the area of paper and cellulose from Cia. Vale do Rio Doce. He worked in the Group Ericsson do Brasil for 23 years, where he reached the position of Chief Executive Officer in many companies of the Group. He was also the Chief Executive Officer of Ficap and of Sharp Equipamentos Eletrônicos. He also performed as the Superintendent Officer of the Companhia Siderúrgica Nacional, being responsible for the restructuring process of the Cia. Vale do Rio Doce. He has held a position in the Board of

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Directors of many companies, such as Sadia, Bahia Sul, Group Ericson, Docenave and Telemar. In 1989, he was appointed as the major financial professional of the year by the Instituto Brasileiro de Executivos de Finanças (IBEF)

Gabriele Galateri di Genola. Mr. Galateri di Genola was appointed Chairman of Telecom Italia on December 3, 2007 and confirmed in the office on April 15, 2008 until April 11, 2011, when he was reappointed as member of the Board of Directors of Telecom Italia After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analysis Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office to Head of International Finance and, ultimately, Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A. He is Chairman of the Board of Directors of Tim Brasil Serviços e Participações SA, a non-executive Board Member of TIM Participações S.A., Banca CRS S.p.A., Banca CARIGE, and Italmobiliare S.p.A. He is a member of the General Council and of the Executive Board of Assolombarda. He is also Confindustria's Chairman Representative for telecommunications and broadband development. Since April 8 2011 he has been the Chairman of Assicurazioni Generali S.p.A.

Stefano de Angelis. Mr. De Angelis is currently responsible for Administration and Control in Telecom Italia SpA. He is also member of the Board of Directors of Matrix S.p.A., Pathnet S.p.A., Telecontact Center S.p.A. and Telenergia S.r.l (Telecom Italia Group Companies). He was the Chief Financial and Investor Relations Officer of TIM Participações S.A. between 2006 and 2007. He has also served as Chief Administration, Finance and Control Officer of the TIM Companies in Brazil since July 2004 and then responsible for the Planning and Control Department at Telecom Italia, since 2008. Between 2002 and 2004, he was responsible for the planning and controlling operations of Telecom Italia Mobile S.p.A. in Italy. Mr. De Angelis also worked in the Consodata Group Ltd, H.M.C. S.p.A., Stet S.p.A. and at Fiat Geva. S.p.A. Mr. De Angelis was a member of the Board of Directors of Stream S.p.A. between April 2000 and June 2000, TV Internazionale S.p.A. ("La 7") between June 2001 and December 2002, MTV Italia S.r.l. between April 2002 and December 2002, Officer of TVI Montecarlo S.A.M. between April 2002 and November 2002, Chief Executive Officer of Globo Communication S.A.M. between April 2002 and November 2002, and Chief Executive Officer and Officer of Consodata Group Ltd between October 2002 and January 2003. Mr. De Angelis holds a degree in Economics and Business Administration from Università degli Studi di Rome and also a MBA from Scuola di Amministrazione Aziendale dell' Università di Torino, in Italy.

Andrea Mangoni. Mr. Mangoni graduated from the University of Rome in 1988 with a thesis on valuation and private financing of investments in public infrastructures. Presently, he is Responsible for Administration, Finance and Control & International Development in Telecom Italia. Mr. Mangoni joined the Telecom Italia Group on July 1, 2009, as Chairman of Telecom Italia Sparkle (from July 2009 to July 2010) and as Director of International Business at Telecom Italia S.p.A. From 1996 to March 2009 he worked in Acea, where he was appointed Chief

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Executive Officer in November 2003; from March 2003 to November 2003 he was General Manager of Acea; from June 2001 to February 2003 was Chief Financial Officer, responsible of strategies, finance, budget, economic planning and control, investor relations of Acea; in 2002 he was appointed common representative of the Joint Venture among Acea, Electrabel and Energia Italiana which brought to the acquisition of Interpower, the third generation company sold by Enel; from January 2000 to May 2001 he was Strategic Planning Director of Acea; from January 1998 to December 1999 he worked as manager of the Finance Department of Acea and he was responsible of strategic planning; from 1996 to 1997 he was President Assistant, responsible for the transformation process of Acea from municipal company into share capital company. Mr. Mangoni worked for InterAmerican Development Bank (IDB).

Maílson Ferreira da Nóbrega. Mr. Nóbrega holds a degree in Economics from Centro Universitário de Brasília (CEUB). From 1988 to 1990, he held the position of Brazil's Minister of Finance, after building an extensive career at Banco do Brasil and in the public sector, in which the following positions stand out: Chief Economist and Chief of Project Analysis Department at Banco do Brasil; Coordination Chief of Economic Affairs of the Ministry of Industry and Commerce, and Secretary General of the Ministry of Finance. He performed as the Deputy Managing Director of the European Brazilian Bank - EUROBRAZ, in London. As a minister, he became a member of the Board of the International Monetary Fund and the World Bank. Mr. Nóbrega is currently a member of the Fernand Braudel Institute of World Economics, member of the Board of Directors of a several companies in Brazil and abroad, partner at Tendências Consultoria Integrada and columnist of Veja weekly magazine. Mr. Nóbrega was also a member of our Statutory Audit Committee between 2004 and 2005 and he has been a member of our Board of Directors since April 2007. He wrote four books, the last one was his auto biography.

Adhemar Gabriel Bahadian. Mr. Bahadian was a Brazilian Ambassador in Rome from 2006 to 2009 and a Deputy-Chairman of the trade negotiations related to the Free Trade Area of Americas (FTAA) from 2003 to 2005. Mr. Bahadian holds a degree in Law from the Pontifícia Universidade Católica do Rio de Janeiro (PUC-RJ) and a master's degree from Instituto Rio Branco.

Carmelo Furci. Mr. Furci is currently the president of the Italian insurer Generali in Brazil. The board of the company indicated Carmelo Furci for the presidency. Generali operates branches in Brazil in life, automobile and other risks present in eight states. Since October 5th, 2011 he is partner of Furci Consulting LTDA., focused on doing business in Brazil and has been Chairman of the Board of Directors of Generali BrasilSeguros S.A. since October 5th, 2011. In 2010, he became the Chief Executive Officer of the Ongoing Group, responsible for publishing economic diaries. In August 6th, 2008, he was appointed to the Board of Directors of TIM Participações S.A. and as Chairman of TIM Brasil Serviços e Participações S.A.. In June 14th, 2008, he was appointed as Vice President of Telecom Italia Group in Latin America. After earning his first degree in 1978, he worked as a consultant in Vector - Center for Social and Economic Studies in Amsterdam and Santiago. In 1982, he earned his Doctorate of Philosophy in Economics and Government at the London School of Economics (LSE), part of London University. After three years working as a NATO Senior Fellow in Political Science, he spent two years, 1983 and 1984, at the London School of Economics (LSE), where he became an Honorary Fellow in Latin American Studies. In 1984, he taught international relations at American University of Rome (AUR). Mr. Furci worked at Enimont as Supervisor of International Relations from 1985 to 1989. In the following year, 1999, he joined the World Bank as head of the department of Foreign Affairs for Europe and the Vatican State. From 1994 to 1997, he worked as Manager of Strategies for International Affairs. In 1998 he joined the Telecom Italia Group and held several positions, starting as Chairman of the Board of Directors and Chief Executive Officer of Telecom Italia do Brasil and head of Economic and Public Affairs of Telecom Italia Latin America. In 2002, after return to Italy, he joined the Division of Financial Management and Control, where he became responsible for relations with international financial organizations, to which position he was reelected in 2006. From December 2007 to May 2008, he was appointed as Coordinator of the Director Committee for Telefónica Group relations. Mr. Furci held the positions of director of Telecom Italia Group companies, namely: Solpart, Brazil Telecom, ETECSA Cuba, Entel Bolivia and Entel Chile. He was also the Chairman of Tele Nordeste Celular and Tele

Celular Centro Sul in Brazil. He is a member of the OECD task force in China, and wrote several books about Latin America.]

Oscar Cicchetti. Mr. Cicchetti has acted as the Head of Strategy at Telecom Italia S.p.A. since April 15, 2011. He is also Chairman of Matrix and Member of the Board of Directors of Telecom Italia Foundation. Mr. Cicchetti started work in SIP in 1979. From 1979 to 1984, he was in charge of Network and Plant Management for the geographical area of Ascoli Piceno and then became Market Manager for the Ancona and Perugia areas. From 1987 to 1993, he was Head of Organization and Process in the Personnel Department. In 1993, he joined a task force of the IRI

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Group to work in the Azienda di Stato dei Servizi Telefonici (State Telephone Services Board, later called Iritel), participating in the privatization process of the State-owned company and its subsequent integration in the Telecom Italia Group. In 1994 he joined Telecom Italia and in 1997 he was the Staff Manager for the General Manager and then for the Managing Director of the Group. From 1997 to 2000 he occupied various positions in the top management of the Telecom Italia Group: first as Assistant Central Director and Manager of the International Business Unit and then Head of Strategic Planning and Head of the Network Division. From 2001 to 2002, he was a freelance consultant for various corporations, such as Wind and Morgan Stanley Private Equity. In 2003, together with a group of investors, including TCom and Merloni Group, he acquired Netscalibur S.p.A., a company specialized in data services business. As Managing Director, he handled the company turnaround and its sale to the Infracom Group in 2006. In 2007, he was appointed Managing Director of Infracom Network Application S.p.A. and stayed in this position until January 2008, when he returned to Telecom Italia Group. In Telecom Italia, he held the position of Head of Business Strategies & International Development and then he was appointed Head of Domestic Market Operations. In November 2009, he became Head of Technology & Operations.

We do not have contracts with our directors providing benefits upon termination of their appointments.

Board of Executive Officers

Pursuant our bylaws, amendment in the Extraordinary Shareholders' Meeting held on June 22, 2011, our Board of Executive Officers (the members of which we also refer to as our statutory officers) is comprised of at least two and no more than nine members, who may or may not be shareholders. The title of the members of our Board of Executive Officers shall be as follows: (1) Chief Executive Officer, (2) Chief Financial Officer, (3) Investor Relations Officer, (4) Purchasing & Supply Chain Officer, (5) Chief Operations Officer, (6) Chief Marketing Officer, (7) Regulatory Affairs Officer, (8) Wholesale Officer and (9) Legal Officer. Each member of our Board of Executive Officers, who serve two-year terms of office (with re-election permitted) may be elected or dismissed by our Board of Directors at any time and with no cause.

The following are the current members of the Board of Executive Officers and their respective titles, whose terms of office will remain valid until the first Board of Directors' Meeting to be held after the Annual Shareholders' Meeting that was held in April 2012:

Name	Title	Date of Birth	Date Appointed
Claudio Zezza	Chief Financial Officer	May 22, 1963	May 3, 2010
Rogério Tostes Lima	Investors Relations Officer	February 13, 1971	October 31, 2011
Daniel Junqueira Pinto Hermeto	Purchase & Supply Chain Officer	April 27, 1971	May 3, 2010
Lorenzo Federico Zanotti Lindner	Chief Operations Officer	August 10, 1973	May 3, 2010
Roge Sole Rafols	Chief Marketing Officer	April 10, 1974	August 2, 2011
Mario Girasole	Regulatory Affairs Officer	June 8, 1968	December 13, 2010
Antonino Ruggiero	Wholesale Officer	November 29, 1965	December 13, 2010
Jaques Horn	Legal Officer	March 15, 1964	November 28, 2011

Set forth below are brief biographical descriptions of our executive officers.

Claudio Zezza. Mr. Zezza is an Italian citizen and holds a degree in Economics and Trade from the University of Rome, with specialization in Finance, Financial Statements and Economics. Currently, he is Chief Financial of the

Company. In 2009, Mr. Zezza joined Telecom Italia and in 1998 he started working in the area of International Businesses. In 2000, he became responsible for the International Operational Management. In 2004, he became responsible for the Planning and Control Department. In 2005, he was responsible for the International Business Performance area. In 2007, before coming to Brazil, he became responsible for the International Control in Administration, Finance and Control.

Rogério Tostes Lima. Mr. Lima holds a degree in Business Administration and received an Executive MBA from Ohio University and also from Fundação Getulio Vargas (FGV). He has been Investor Relation Director of the

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Company since 2008. Mr. Lima has followed telecommunication scenario in Brazil since Telebras privatization process in 1998, when he joined a team responsible to evaluate/split Telebras system and prepare it for the privatization process. After that, he worked in a management team responsible to manage BCP/BSE operations in São Paulo and Northeast for Banco Safra, where he ended-up working as sell-side analyst. More recently, he was sell-side analyst for Banco Santander for three years.

Daniel Junqueira Pinto Hermeto. Mr. Hermeto holds a degree in Electrical Engineering from the Escola Federal de Engenharia de Itajubá concluded in 1994. He attended a post-graduate program in Business Administration at Fundação Getulio Vargas – São Paulo in 2002 and also holds a MBA in Executive Management from the Fundação Instituto de Administração – São Paulo concluded in 2007. Mr. Hermeto began his career in 1995 as a Product and Sales Engineer at Siemens in São Paulo. In 1997, he was promoted to the role of Senior Engineer, performing his duties in Munich. From 1998 to 2008, he worked for Motorola as Manager of Purchasing and Senior Purchaser from 1998 to 2002, Senior Manager of MP&L from 2003 to 2004, Chief Officer of Manufacturing Operations in 2005 and Chief Officer of Purchasing, Planning and Logistics from 2006 to 2008. Between February, 2008 and November, 2009, Mr. Hermeto worked as the Chief Officer of Purchasing and Logistics in Claro, reporting directly to the Chief Executive Officer, and was responsible for the areas of Purchasing, Sourcing, Logistics and Inventory Management throughout the country.

Lorenzo Federico Zanotti Lindner. Mr. Lindner holds a degree in Economics from the Universidade do Estado do Rio de Janeiro (UERJ) and a Master degree in Administration from the Instituto Coppead de Administração da Universidade Federal do Rio de Janeiro (Coppead-UFRJ). Mr. Lindner began his career in 1999 as a consultant in Booz-Allen & Hamilton. He joined TIM in 2002, where he worked until 2008, and was responsible for several offices, including Budgeting & Control, Commercial Planning and CRM (Marketing). In the middle of 2008, he joined the consultancy Bain & Company, where he worked until the beginning of 2009, when he returned to TIM as the Strategy & Business Monitoring Officer.

Roge Sole Rafols. Mr. Rafols is a Spanish citizen. He holds a degree in Business Bachelor and Master in Business Administration from Escuela Superior de Administración y Dirección de Empresas – ESADE concluded in 1997 and attended the MBA Exchange Program in University of California in 1996. He also attended Post Graduation Program in Management of Audiovisual Companies in Universitat Pompeu Fabra, Instituto Desarrollo Continuo (IDEC) – Barcelona in 2000 and Advanced Management Program in IESE Business School, Universidad de Navarra in 2006. From 1996 to 2001 Mr. Rafols worked for Dimondcluster (ex Cluster Consulting and current Oliver Wyman) as consultant of strategy, marketing and technology in telecommunications and internet fields. From 2001 to 2008 he worked for Vivo Participações S/A holding the position of Head of the Department of Business Data and Value Added Services (VAS), between July, 2002 and March, 2006, and Head of the Department of High Value Marketing, between April, 2006 and May, 2008. In 2008, Mr. Rafols joined TIM holding the position of Senior Manager Executive from January, 2009 to April, 2009, Leader of the Marketing's Department of Consumer Offering, from May, 2009 to October, 2009, Head of the Department of Marketing Consumer, from November, 2009 to August, 2011 and, currently, Chief Marketing Officer.

Mario Girasole. Mr. Girasole is an Italian citizen with Laurea Magistralis in Economics from University LUISS (Rome). He also has an L.L.M. in International Business Law (London), post graduate in Competition Policy, in International Commerce and Modern Economic History, and executive education at London Business School (Finance) and Harvard (School of Government). He joined TIM in 1997, for the regulatory and pricing area, in Rome. Previously, he was responsible for economic analysis in antitrust in law firms. From 2000 to 2003, he headed, in Brussels, the TIM Group relations with the institutions of the European Union, and was appointed to the position of Deputy-Chairman of the European Mobile Sector (GSM Europe). In 2004, he became Chief of Public and Economics Affairs at Telecom Italia America Latina. During this period, he worked also as Director of Entel Bolivia and Alternate Director of TIM Participações S.A. Mr. Girasole has been the Regulatory Affairs Officer of Company since

January 2009. He is also member of the Board of Directors and the Board of Officers of national and international entities, including Febratel, Accel/Telebrasil, GSM Latin America, Department of Infrastructure and the House of FIESP Italo-Brazilian Trade.

Antonino Ruggiero. Mr. Ruggiero is an Italian citizen, graduated at the Instituto Tecnico Industriale Electronic Napoli - Italy. He worked in Technical Support Engineer of Ericsson (Mobile Network Area) and BT Italia (Long Distance Operator Area). From 1994 to 1997, he worked as Manager of Network Operations at Vodafone. From

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1997 to 2000, he became Chief Technology Officer of Entel PCS in Chile. From 2000 to 2005, he became Chief Technology Officer of Ária Ilethisim, in Turkey. From 2006 to 2008, he worked as Chief Technology Officer at TIM Celular S.A.. He has hold the position of Wholesale Officer of TIM Celular S.A. and TIM Participações S.A since 2009 and Chief Executive Officer of Intelig Telecomunicações Ltda. since 2010.

Jaques Horn. Mr. Horn graduates at Law (LLB) at Candido Mendes University, with specialization at Harvard and the Academy of International and American Law. He has been Legal Officer of TIM since July 2010. He worked at Tetra Pak, also as Legal Director, being responsible for Central and South America, and Caribbean, from 2007 to 2010. He also worked at Shell, as Corporate Manager at the holding company and Legal Director at the Subsidiary companies. Mr. Horn worked as Legal Counsel at Companhia Atlantic Petroleo (ARCO Petroleum Co.) from 1992 to 1994, as a Lawyer at Franco, Bhering, Barbosa & Novaes Law Firm for one year, and Tax Senior Consultant at Arthur Andersen for four years.

There are no family relationships among any of our directors and executive officers.

Statutory Audit Committee

The Statutory Audit Committee's composition for 2012 consisted of four members, three of which were elected by our controlling shareholder and one by the minority shareholders.

The following are the current members of our Statutory Audit Committee:

Name	Date of Birth	Date Appointed
Alberto Emmanuel Carvalho Whitaker	October 10, 1940	April 11, 2012
Oswaldo Orsolin (*)	May 30, 1943	April 11, 2012
Carlos Alberto Caser	December 8, 1960	April 11, 2012
Samuel de Paula Matos	March 22, 1948	April 11, 2012

(*) Audit committee financial expert.

Under Brazilian corporate law, our bylaws and the Internal Rules of the Statutory Audit Committee, the Statutory Audit Committee's general duties and responsibilities include monitoring the actions of management and verifying its compliance with legal duties and appropriate statutes; providing opinions regarding management's annual report, business plans and budgets; and performing reviews of, and opinions regarding our financial statements. All members serve independently from the company in their capacities on the Statutory Audit Committee.

Since our April 23, 2004 Shareholders' Meeting, we have elected members of the Statutory Audit Committee who are independent from the Company and its affiliates. At a Shareholders' Meeting held on May 6, 2004, we adopted internal regulations of our Statutory Audit Committee in order for it to serve also as an alternative structure to an audit committee in accordance with Rule 10A-3 under Section 301 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley. Such internal regulations were updated on the Shareholders' Meeting held on March 16, 2006 and later at the Statutory Audit Committee meeting held on June 24, 2009. See "Item 16D. Exemptions from the Listing Standards for Audit Committees."

Other Committees

We have other non-statutory committees including a Compensation Committee and Internal Control and Corporate Governance Committee.

Compensation Committee

The Compensation Committee was established by the Board of Directors on September 30, 2008 to: (1) prepare proposals for our Board of Directors regarding allotment of the overall annual remuneration approved by General Shareholders' Meeting; (2) provide our Board of Directors with proposals concerning the remuneration of our executive officers; (3) evaluate the compensation criteria of Company's executive officers; (4) monitor the

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performance of the decisions taken by management and the Company's policies relating to senior executive compensation.

The members of our compensation committee are appointed and dismissed by our Board of Directors. The compensation committee consists of three members, all of whom are effective members of our Board of Directors. The following are the current members of our Compensation Committee:

Name	Date of Birth	Date Appointed
Gabriele Galateri di Genola e Suniglia	January 11, 1947	February 23, 2010
Manoel Horácio Francisco da Silva	July 16, 1945	November 27, 2009
Oscar Cicchetti	June 17, 1951	August 02, 2011

Internal Control and Corporate Governance Committee

The Internal Control and Corporate Governance Committee was established by the Board of Directors on September 30, 2008 to: (1) assist the Board of Directors in performing their duties related to the Company's internal control system; (2) monitor the performance and periodic updating of the corporate governance rules; (3) recommend procedures to better supervise the management of the executive officers; (4) evaluate the plan of action drawn up by the head of the area of compliance and review his or her periodic report; (5) provide recommendations on the appointment and dismissal of the Company's independent auditors; (6) monitor the effectiveness of Company's related parties transactional policy; and (7) analyze other matters related to the internal control of the Company, as delegated by the Board of Directors.

The following are the current members of the Internal Control and Corporate Governance Committee:

Name	Date of Birth	Date Appointed
Maílson Ferreira da Nóbrega	May 14, 1942	May 05, 2009
Manoel Horácio Francisco da Silva	July 16, 1945	May 05, 2009
Andrea Mangoni	June 5, 1963	December 12, 2010

Legal Investigation

On April 20, 2012, our controlling shareholder, Telecom Italia, was notified by the Milan Public Prosecutor of the conclusion of a preliminary investigation under the Italian Code of Criminal Procedure in which three previous executives of Telecom Italia (including our former chief executive officer, Mr. Luca Luciani) were charged with obstruction of supervisory activity. The charges relate to (1) the alleged unlawful renewal of prepaid SIM cards after their normal termination date from 2006 to 2008, in the amount of 223,000 lines or 0.19% of Market Share in 2006; 2,742,000 lines or 1.88% of Market Share in 2007; and, 2,345,000 lines or 1.64% of Market Share in 2008, and (2) around one million SIM cards which allegedly were not refilled in 12 months after their activation (184,000 lines in 2005; 445,000 lines in 2006; 335,000 lines in 2007; and 78,000 lines in 2008). Telecom Italia and TIM Participações are in the process of reviewing the documentation relating to the investigation received from the Milan Public Prosecutor. Information regarding this investigation and that our former chief executive officer was a possible subject of such investigation has been previously disclosed by the Company.

Resignation of Chief Executive Officer

On May 4, 2012, Mr. Luca Luciani resigned from his position as our chief executive officer and renounced all duties held in companies of the Telecom Italia Group. On May 14, 2012, Mr. Andrea Mangoni, already a member of our Board of Directors, was nominated as our interim chief executive officer, subject to certain administrative approvals

by the competent Brazilian authorities; Mr. Mangoni will be appointed and he will assume the role of interim chief executive officer upon the receipt of such approvals. In the meantime, on May 14, 2012 our Board of Directors acknowledged Mr. Claudio Zezza as acting principal executive officer.

B. Compensation

At the year ended on December 31, 2011, we approved the aggregate amount of approximately R\$18.0 million as compensation to our directors and statutory officers during 2012. The statutory officers' and directors' compensation is composed of fixed remuneration, benefits, bonuses, short term incentives and participation in long term incentive plans.

Accordingly, we did not set aside or accrue any amounts to provide pension, retirement or similar benefits to our officers and directors during 2011. The aggregate compensation to our statutory officers in the year ended December 31, 2011, including fixed remuneration, benefits, bonuses, short term incentive and long term incentive plans, was approximately R\$10.5 million.

Our statutory officers and other managers of the company are eligible to receive a short term incentive (Management by Objectives or "MBO") bonuses. The general criteria for the MBO bonus are approved by our Board of Directors and provide that eligible statutory officers and other managers may receive an amount calculated based on the organizational roles and certain pre-established performance targets.

Some key officers are also eligible to participate in a long term incentive plan (stock option plans) for which compensation is based on performance targets for our share price. The general criteria for the stock option plans are approved by our Board of Directors and provide that eligible participants may buy our shares at a discount or at a readjusted price, applied over the base exercise price, based on ongoing relative performance.

For the year ended on December 31, 2011, each member of our Board of Directors received R\$168,000 and each member of our Statutory Audit Committee received annual compensation of R\$150,000, paid pro rata according to each member's time of service on such body.

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C. Board practices

See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management” and “Item 6. Directors, Senior Management and Employees—B. Compensation.”

D. Our Employees

On December 31, 2011, we had 10,562 full-time employees. The following tables show a breakdown of our employees as of December 31, 2011, 2010 and 2009.

	As of December 31,		
	2011(1)	2010	2009(2)
Network	1,183	980	1,011
Sales and marketing	3,186	3,020	2,888
Information technology	551	447	459
Customer care	4,340	4,703	4,320
Support and other	1,302	988	1,133
Total number of employees	10,562	10,138	9,811

(1) Includes 296 new employees from TIM Fiber.

(2) Includes 580 new employees from the merger with Intelig.

All employees are represented by state labor unions associated with the Federação Nacional dos Trabalhadores em Telecomunicações (“Fenattel”) and the Federação Interestadual dos Trabalhadores em Telecomunicações (“Fittel”) or the Sindicato dos Engenheiros do Estado do Paraná e Nordeste. We negotiate a new collective labor agreement every year with the local unions. Management considers our relations with our work force to be satisfactory. We have not experienced a work stoppage that had a material effect on our operations.

Employee Benefit Plans

The Company and its subsidiaries have defined benefit and defined contribution plans in place. In general, defined benefit plans establish a specific retirement benefit amount that an employee will receive upon retirement, usually dependent on one or more factors such as age, length of service and remuneration.

The liability recognized in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit liability as at the balance sheet date, less the fair value of plan assets, and past service cost adjustments are not recognized. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of defined benefit obligation is determined by discounting estimated future cash outflows, using interest rates consistent with market yields, which are denominated in the currency in which benefits will be paid and which have maturities close to those of the respective pension plan liabilities.

The actuarial gains and losses resulting from adjustments based on experience and changes in actuarial assumptions, which exceed a corridor of 10% of the value of plan assets, or 10% of the value of plan liabilities, are charged or credited to the statements of income over the expected remaining period of service of the employees.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional upon employees remaining in employment for a specific time period (the period in which the right is acquired). In this case, past service costs are amortized using the straight-line method over the period during which the right was acquired.

With respect to defined contribution plans, the Company makes contributions to pension insurance plans public or private on a mandatory, contractual or voluntary. The Company has no further obligation for payment after the contribution is made. The contributions are recognized as employee benefit expense when due.

Stock Options

The company operates share-based compensation plans, settled in shares, under which the entity receives services from certain employees in exchange for equity instruments (options) granted. The fair value of the employee's service is recognized as an expense against capital reserves, and is determined with reference to the fair value of the options granted. The latter excludes the effect of any conditions on the acquisition of non-market rights based on the service and on performance (for example, profitability, sales growth targets and remaining in the job for a specific period of time). The conditions for acquiring non-market rights are included in the assumptions regarding the quantity of vesting options. The total amount of the expense is recognized during the vesting period (the period during which the specific vesting conditions must be met). On the balance sheet date, the entity reviews its estimates of the quantity of vesting options based on the acquisition conditions for non-market rights, and recognizes the impact of the revised initial estimates, as the case may be, on the income statement, with a corresponding adjustment to the capital reserves.

The amounts paid to the employees, net of any directly attributable transaction costs, are credited to equity and to the goodwill reserve, if applicable, when the options are exercised.

Social contribution taxes payable in connection with the granting of stock options are considered an integral part of what is being granted, and are charged as a transaction settled in cash.

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Defined Contribution Plan

During 2002, TIM created a new defined contribution pension plan (“TIMPREV”), which allowed employees to migrate from the former pension plan. TIMPREV was approved by the Secretary of Complementary Pension on November 13, 2002 in Notification 1,917 CGAJ/SPC. TIMPREV sets forth new guidelines for the granting and maintenance of benefits and outlines new rights and obligations for Sistel, the plan administrator; sponsors; participants and their respective beneficiaries.

Migration from the PBS Plan to TIMPREV is optional. In order to encourage migration to TIMPREV, we offered bonuses to those employees migrating before January 29, 2003. As of December 31, 2004, more than 90% of the participants in our private plan had migrated to TIMPREV. Upon electing to migrate to TIMPREV, a participant extinguishes all rights to benefits under the PBS Plan.

During 2008, the Company made its best effort to encourage migration of the remaining participants of the defined benefit plans to TIMPREV. Even though employees agreed with the migration proposed, legal complications not allow this change prevented the migration at that time. The situation was resolved in 2009 and a new cycle of migration encouragement for TIMPREV was offered. On this occasion more participants migrated to TIMPREV plans, one of the plans (PBT) was closed.

As more employees participate in TIMPREV, we anticipate that the sponsor’s risk to eventual actuarial deficit will decrease, consistent with the characteristics of typical defined contribution plans. Under the rules of defined contribution plans, the sponsor normally contributes 100% of the basic contribution of the participant. In accordance with the terms and conditions of the approved rules, the administrator of TIMPREV will ensure the benefits listed below:

- a regular retirement pension;
- an anticipated retirement pension;
- a disability pension;
- a deferred proportional benefit; and
- a death pension.

However, the administrator will not assume responsibility for granting any other benefit, even if social security officially grants it to its beneficiaries.

In accordance with Brazilian law, our employees also receive payments based on our financial performance. The amount of the payment is determined by negotiation between us and the unions representing our employees.

On January 31, 2006, our Board of Directors approved a proposal of migration of pension plans sponsored by us, TIM Sul, TIM Participações and TIM Nordeste Telecomunicações at Sistel to a multi-employer plan administered by HSBC Pension Fund. Such migration was approved by Secretary of Complementary Pension during the first quarter of 2007. Pursuant to this authorization, the HSBC Pension Fund began to administer TIMPREV in April 2007.

On August 7, 2006, the board of directors of TIM Participações approved the adoption of a supplementary defined contribution plan managed by Itaú Vida e Previdência S.A. for the Company and its subsidiaries. All employees not yet entitled to pension plans sponsored by the Company and its subsidiaries are eligible to enroll in this supplementary

defined contribution plan.

Due to the incorporation of Intelig by us in 2010, the pension plan of this company was taken over by TIM. The Intelig pension plan is a closed defined contribution plan, managed by HSBC Pension Fund and it's not offered to our employees anymore, since we have started a process with the Secretary of Complementary Pension to change the plan rules, in order to close the plan to new members. For new Intelig employees or those transferred from

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Intelig to TIM, we now offer the supplementary defined contribution plan managed by Itaú Vida e Previdência S.A, since Intelig also became a sponsor of this plan.

Due to the incorporation of AES Atimus in 2011 (renamed as TIM Fiber), we assumed responsibility for this company's pension plan. The TIM Fiber pension plan is a closed defined benefit plan, managed by the CESP Foundation. This plan is closed to new employees; those wishing to enroll in a benefits plan, have the option to join the defined contribution plan established by TIM Fiber and managed by Itaú Vida e Previdência S.A.

E. Share Ownership

As of December 31, 2011, our directors and executive officers, owned, in the aggregate, 15,266 common shares, which represented less than 0.001% of our common shares outstanding.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth ownership information with respect to all shareholders that, to our knowledge, own 5% of the common shares or more as of December 31, 2011. The common shares held by TIM Brasil Serviços e Participações S.A. have the same voting rights as the common shares held by other holders.

Name of owner	Common Shares Owned	Percentage of Outstanding Common Shares	
TIM Brasil Serviços e Participações S.A.(1)	1,611,969,946	66.68	%
All our officers and directors as a group*	15,266	0.00	%
Total	1,611,985,212	66.68	%

* Represents less than 1%.

TIM Brasil Serviços e Participações S.A. is a Brazilian subsidiary of a group controlled by Telecom Italia. See "Item 4. Information on the Company—C. Organizational Structure."

As of December 31, 2011, there were 76,668,672 common shares represented by ADSs. As of such date, the number of common shares represented by ADSs represented 3.2% of our total capital.

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. Telecom Italia is one of three mobile operators licensed to provide services using GSM 900 technology in Italy and one of three operators licensed to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS license and providing third-generation telephony services in Italy.

On December 31, 2011 the Telecom Italia Group had approximately 14.7 million physical accesses (consumer and business) in Italy, a decrease of 0.7 million compared to December 31, 2010. The wholesale customer portfolio in Italy reached approximately 7.1 million accesses for telephone services at December 31, 2011, an increase of approximately 0.3 million compared to December 31, 2010. The broadband portfolio in Italy reached 9.1 million accesses at December 31, 2011 (consisting of approximately 7.1 million retail accesses and 2.0 million wholesale accesses), stable compared to December 31, 2010 (a market share of 53%). In addition, the Telecom Italia Group had approximately 32.2 million mobile telephone lines at December 31, 2011 in Italy, an increase of 1.2 million mobile telephone lines compared to December 31, 2010.

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Shareholders' Agreement

On April 16, 2009, we entered into a shareholders' agreement with TIM Brasil Serviços e Participações S.A., or "TIM Brasil," JVCO Participações Ltda., or "JVCO," and Docas Investimentos S.A., which was amended on November 30, 2009 and further amended on June 22, 2011.

The shareholders' agreement automatically terminates on the tenth anniversary of the date of our merger with Intelig, which was December 30, 2009, unless any of the following early termination conditions occurs: (1) any of the parties is subject to bankruptcy or judicial or non-judicial corporate reorganization (recuperação judicial or recuperação extra-judicial), (2) breach of the terms and conditions set forth in the shareholders' agreement and the breach is not cured within 10 days after receipt of written notice from the non-breaching party, or (3) a change in control of JVCO.

Under the shareholders' agreement, JVCO may nominate an individual with the requisite experience and qualifications as a member of our Board of Directors, as well as such member's alternate, which would be elected by TIM Brasil. Under the agreement, JVCO must refrain from exercising its voting rights with any affiliate or any third party to appoint any additional members to our Board of Directors or our audit committee. The members nominated by JVCO must meet the requirements set forth in our bylaws and the applicable laws and regulations. JVCO may at any time, but no more than once, replace the member appointed by it during such director's term.

During the first two years of the shareholders' agreement, JVCO may not, in whole or in part, transfer its interest in us to third parties without our prior consent (except for transfer of all shares of owned by JVCO to an affiliate of JVCO). After such time, transfers of our shares by JVCO are subject to a right of first refusal granted to TIM Brasil, as well as certain other restrictions. Such restrictions will be effective for five years after the rescission of the shareholders' agreement.

The shareholders' agreement does not contain any provisions related to the voting rights of members of our Board of Directors.

B. Related Party Transactions

As of December 31, 2011, we did not owe to our affiliates any amounts arising out of outstanding inter-company loans. We had inter-company receivables and payables in amounts of R\$37.6 million and R\$73.8 million, respectively on December 31, 2011. See note 38 to our consolidated financial statements.

Guarantees of Obligations of our Subsidiaries

We are a guarantor of a promissory note issued by TIM Celular in the amount of R\$1.7 million as of December 2011. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Celular, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of June 28, 2004, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$20 million .

We are a guarantor of a promissory note issued by TIM Celular in the amount of R\$8.3 million as of December 31, 2011. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Celular, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of June 28, 2004, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$99.9 million.

We are a guarantor of a promissory note issued by TIM Celular in the amount of R\$18.9 million as of December 31, 2011. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Celular, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of April 27, 2005, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$85 million.

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We are the guarantor of a promissory note issued by TIM Celular in the amount of R\$45.6 million as of December 31, 2011. This promissory note was issued pursuant to a guarantee agreement between Banco Votorantim S.A. and TIM Celular, in which Banco Votorantim S.A. issued a letter of guarantee for the Credit Agreement, dated as of February 14, 2008, between TIM Celular, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$67 million.

We are guarantor for TIM Celular's Finance Contract with European Investment Bank in the principal amount of €200 million as of December 31, 2011. BBVA Milan Branch and BES Portugal, issued, respectively, a bank guarantee in the principal amount of €147.4 million and €72.6 million, for the Finance Contract, dated as of June 3, 2008, between TIM Celular, as borrower, and European Investment Bank, as lender.

We are guarantor in favor of BNDES, in the amounts of R\$1,940.9 million under the Credit Agreement dated as of August 10, 2005, of TIM Celular; under the Credit Agreement dated as of November 19, 2008, of TIM Celular, under the Credit Agreement dated as of October 6, 2008 of TIM Celular and under the Credit Agreement dated as of October 6, 2008, of TIM Nordeste (incorporated by TIM Celular).

For more information on our guarantees of obligations of our subsidiaries, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Financial Contracts."

Agreement between Telecom Italia S.p.A. and TIM Participações and our Subsidiaries

Our shareholders at the meeting held on April 11, 2012 approved an extension for an additional 12 month period until January, 2013 of the Cooperation and Support Agreement, originally signed in May 3, 2007 with Telecom Italia. The purpose of this agreement is to enable us to benefit from Telecom Italia's internationally recognized expertise, built throughout years of operation in more mature and developed markets. The cooperation and support activities to be performed by the parties will be focused in adding value to our operations through:

- Benefiting from Telecom Italia's experience and industrial capacity as one of the major players in the European market;
- Applying the systems/services/processes/best practices that were largely used in the Italian market and may be easily customized for the Brazilian market through limited investments and mitigated implementation risks; or
- An increase in efficacy and efficiency by adopting in-house solutions that have been widely tested and used.

The extended term of the agreement provides for a total price cap of €8.0 million. The price cap represents the maximum consideration to be paid by TIM Participações operating companies for all the services and support rendered by Telecom Italia during 2012 under the agreement.

C. Interests of experts and counsel.

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See "Item 18. Financial Statements."

Legal Proceedings

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 legal proceedings that we are party to when we determine that losses are probable and can be reasonably estimated. Our judgment is

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always based on the opinion of our legal advisers. 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.

Anatel Administrative Proceedings

Under the terms of the its PCS authorization, TIM Celular implemented mobile personal telecommunications cover for the assigned area. Under such term of authorization, TIM Celular is required to operate in accordance with the quality standards established by Anatel. If it fails to meet the minimum quality standards required, TIM Celular is subject to Obligation Non-Compliance Determination Procedures (“PADO”) and applicable penalties. Anatel has brought administrative proceedings against TIM Celular for (1) noncompliance with certain quality service indicators; and (2) default of certain other obligations assumed under the Terms of Authorization and pertinent regulations. In its defense before Anatel, TIM Celular attributed the lack of compliance to items beyond its control and not related to its activities and actions. We cannot predict the outcome of these proceedings at this time, but have accrued the amount in our balance sheet as a provision for all those cases in which we estimate our loss to be probable.

Class Actions

Our subsidiaries are subject to a number of class action claims where the risk of loss is regarded as probable. These claims are summarized as follows: (1) a lawsuit against TIM Celular in the State of Pernambuco, challenging our policy of exchanging defective handsets, which is alleged to be contrary the manufacturer’s warranty, (2) a lawsuit against TIM Celular in Natal in the State of Rio Grande do Norte challenging that state’s network quality, (3) a lawsuit against TIM Celular in the State of Pará, challenging the service quality of the São Felix do Xingu and Marabá networks, (4) lawsuits against TIM Celular in the State of Maranhão, challenging the quality of the services and networks in the following municipalities: Balsas, Grajaú, Coelho Neto, Vitorino Freire and Lago da Pedra, (5) lawsuits against TIM Celular in the State of Ceará, challenging service quality of the networks in Fortaleza, Iguatu, Monsenhor Tabosa, Icó and Icapuí, (6) lawsuits against TIM Celular in the State of Piauí, challenging the service quality of the network in that state, (7) lawsuits against TIM Celular in the State of Rondônia, challenging the quality of the network and services in the municipalities of Machadinho do Oeste and Vale do Anari, (8) lawsuits against TIM Celular in the State of Amazonas, challenging the quality of the network and services in that state, including in Manaus, Tabatinga and Humaitá, (9) lawsuits against TIM Celular in the State of Mato Grosso, challenging the quality of the network and services in Novo São Joaquim, Campinópolis and Nova Xavantina, (10) a lawsuit filed against TIM Celular in the State of Pernambuco, specifically in the municipality of Araripina, (11) a lawsuit filed against TIM Celular, challenging the long-distance charges levied on calls made in the municipality of Bertioga in the State of São Paulo and in the surrounding region, and (12) a lawsuit against TIM Celular in the State of Rio de Janeiro, challenging the sending of SMS messages without prior consumer consent.

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Other Actions and Proceedings

TIM Celular is a defendant, together with other telecommunications companies, in a lawsuit brought by GVT in the Fourth Lower Federal Court of the Federal District. The lawsuit seeks to void the contractual clause which provides for the VU-M amount used by the defendants in their interconnection arrangements. The plaintiff alleges such amount to be illegal and abusive, and is requesting a refund of all excess amounts allegedly charged since July 2004. The judge granted an injunction ordering the provisional payment of VU-M at an amount of R\$0.2899 per minute, and ordered that GVT make court deposits equal to the amount of the difference between this amount and the amount indicated by the defendants. The injunction was confirmed by the First Regional Appellate Court. TIM contested this decision by means of a special appeal which was partially upheld, which obligated GVT to pay TIM the amount fixed by Anatel in the arbitration process at the agency to which GVT and VIVO are parties. In September 30, 2011, the judge in this case confirmed the request to suspend GVT's claim until the Anatel's work to determine the VU-M reference amounts is concluded.

In addition to this claim, GVT has also filed a representation before the SDE (Secretariat of Economic Law), which agreed to file an administrative proceeding against the Company and other mobile telephone operators, on the grounds of an alleged infringement of economic principles, which was judged in March 2010.

The SDE ruled against the alleged practice of price fixing and forwarded the proceeding to CADE for judgment, also voting for the dismissal of the cartel claim for common price fixing. The CADE has not yet issued its judgment.

TIM Celular is a defendant in a lawsuit for damages filed by the service provider Glória Souza & Cia Ltda. before the Ninth Lower Court of the municipality of Belém, in the State of Pará, where it is claiming the sum of R\$6,119 thousand. This company provided TIM with outsourced labor in Northern Brazil. After term terminated its contract with the company, it brought a lawsuit claiming punitive damages, alleging losses as a result of claims for severance claims brought by its employees. TIM's defense and the reply from Gloria Souza & Cia have been submitted. A reconciliation hearing was held without result. There has still been no decision from the lower court.

A legal action for collection was filed against TIM Celular by Mattos & Calumby Lisboa Advogados Associados, which is in progress at the Twenty-Ninth Lower Court of the Judicial District of Rio de Janeiro. The plaintiff asserts that it is owed money as a result of a contract for the provision of legal services that was entered into with TIM. The proof of the expert investigation was upheld and the opinion was ratified by the judge. TIM filed an appeal, challenging the decision of the expert investigation, and the court recently ordered that a new expert investigation be carried out. The case records are currently in the expert examination phase.

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A lawsuit was brought against TIM Celular by Integração Consultoria E Serviços Telemáticos Ltda. (a pre-paid calling plan recharge distributor), with the Second Lower Court of the Judicial District of Florianópolis in the State of Santa Catarina, for the sum of R\$4,000 thousand, which aims to suspend the enforceability of credits already executed by TIM, preliminarily claiming non-inclusion in lists of bad debtors, as well as damages incurred as a result of contract termination. The injunction was granted by the court. TIM filed an execution action against the aforementioned company with the Fourth Lower Court of Florianópolis, for the sum of R\$3,957 thousand. An appeal was filed against the execution, requesting a suspended sentence, by the Integration Consultancy (Integração Consultoria), which was rejected by the judge. This led to the filing of an interlocutory appeal, with the suspended sentence having been granted. TIM has made a declaration to the effect that the assets listed by the debtor are insufficient to secure the execution. The execution against TIM is currently suspended due to the fact that an interlocutory appeal has been filed, the staying effect of which has been granted, and the court's judgment remains pending.

MCS was TIM's largest commercial partner in São Paulo (with approximately 40 stores). This commercial partnership had been in operation since 2003, and the agreement expired in January 2010. The contract was terminated on account of disagreements between the parties in respect of compensation amounts, systems operation, and the creation and determination of targets, among other matters. MCS alleged default by TIM and sought recovery for alleged losses. MCS has claimed that its financial health has been negatively affected by the changes in TIM's remuneration policy. Prior to the end of the agreement, MCS filed a lawsuit for termination of the contract, claiming payment of R\$8,120 thousand. TIM filed a restraining action, in order to prevent MCS from transferring TIM stores to its competitors. In March 2010 the restraining action was ruled valid and it was determined that MCS should abstain from transferring the stores which were previously TIM stores for a period of twelve months, starting from January 2, 2010 (when the contract ended). The restraining action is still in progress and is currently in the expert investigation phase.

SECIT has brought an action for damages against TIM, alleging that TIM was in breach of contract. This company had been hired by TIM to undertake infrastructure work for the installation of ERBs in Area 4 in Minas Gerais. TIM presented its defense and the case is in the initial phase, currently under expert investigation. Thus there has been no decision by the lower court. The amount allocated to the case was R\$9,758 thousand.

In December 2010, TIM Celular filed an action against Anatel with the Fifteenth Federal Court of the Federal District requesting interlocutory relief for the purpose of acknowledgement and annulment of PADO No. 53500.025648/2005 and of Act No. 62.985/07. The PADO applied by Anatel prevented the company from participating in the public bid for the "H" Band. Interlocutory relief was not granted by the judge, which enabled TIM to make a court deposit of R\$3,595 thousand in order to suspend the debt and enable the company to participate in the bidding process. The judge ruled for the suspension of the charge until a decision is reached. TIM has already filed a reply and petition, submitting evidence that the court deposit has been supplemented. The case is currently in the evidentiary phase, and there has been no decision by the lower court.

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Labor Claims

A significant percentage of the existing labor claims against us relate to our organizational restructuring processes, in particular due to the closure of our call centers in Fortaleza, Salvador and Belo Horizonte, which resulted in the termination of approximately 800 employees, including in-house staff and outsourced personnel.

There was a public civil action filed by the Labor Public Prosecutor's Office of the Third Region, in the State of Minas Gerais, which alleged irregular outsourcing practices and demanded collective punitive damages. A judgment was rendered and published on April 16, 2008, in which the acting judge ruled the Labor Public Prosecutors' Office claims as partially valid, recognizing irregular outsourcing and granting collective punitive damages. An appeal was filed but was dismissed on July 13, 2009. Prior to filing the aforementioned appeal, TIM Celular filed a writ of mandamus to prevent the prompt implementation of enforcement the judgment at the lower court. In view of the appeal filed, the writ of mandamus lost its purpose. In order to obtain staying effects for its appeal, TIM Celular filed an unspecified writ of prevention, which was dismissed without prejudice. In order to reverse the decision of the Regional Labor Court of the Third Region, TIM Celular filed an appeal against abusive acts by the judge with the Superior Labor Court, and obtained a favorable decision, which reversed the appellate court's decision. A motion for clarification was filed, but dismissed. On September 16, 2009, a motion to review was filed, which is pending judgment by the Higher Labor Court.

As a result of the above mentioned public civil action in Minas Gerais, the Labor Public Prosecutor's Office of the Federal District filed another claim, alleging irregular outsourcing practices and demanding collective punitive damages. The action was found to be without merit, ruling that as a result of the General Telecommunications Law, all outsourcing in the telecommunications sector is legal. The Labor Public Prosecutor's Office filed an ordinary appeal with the Regional Labor Court of the Tenth Region in March 2010, but the ruling of the lower court was upheld. Thereafter, the Labor Public Prosecutor's Office filed for a review, which is pending a hearing by the by the Higher Labor Court.

A group of actions have been filed in the state of Paraná, involving claims for damages in connection with contractual provisions set forth in employees' work cards. According to an internal rule, TELEPAR had undertaken to supplement the retirement benefits of employees hired prior to 1982. Prior to its privatization, TELEPAR had proposed to implement this benefit by means of the payment of a certain amount in cash. However, some of the company's former employees have questioned this transaction, and in some cases have obtained favorable decisions.

There is a series of labor claims, particularly in São Paulo, brought by former Gazeta Mercantil employees who have filed claims requesting the inclusion of Holdco or TIM Participações as defendants, claiming damages from Holdco and TIM Participações. Plaintiffs who have filed the claims were employees of Gazeta Mercantil, without any employment ties to Holdco or TIM Participações. However, prior to the merger with TIM Participações, Holdco belonged to the Docas economic group, of which Gazeta Mercantil is part.

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Social Security Claims

In São Paulo TIM Celular received a debit assessment notice referring to alleged irregularity in the payment of social security contributions in connection with the payment of profit-sharing amounting to R\$2,388 thousand. TIM Celular filed its administrative defense, but on September 16, 2009, a decision was rendered which upheld the assessment notice. An administrative appeal was filed on October 5, 2009, the judgment of which is still pending.

In May 2006, TIM Celular was issued a tax assessment notice for social security contributions that were allegedly due in connection with the following: (1) hiring bonuses (2) non-adjusted bonuses (3) payments to self-employed persons, and (4) sales incentives. TIM Celular filed an administrative defense but the tax assessment was upheld. TIM Celular filed an appeal with the Ministry of Finance's Taxpayers' Council, which is now pending judgment.

Intelig in Rio de Janeiro received notifications for the release of tax debt regarding alleged irregularities in the payment of social security contributions levied in connection with the following: (1) profit sharing, (2) retention of 11% on service agreements, (3) failure to deduct and pay management fees, and (4) failure to properly fill out the GFIP. An administrative defense was presented, with an unfavorable outcome. Intelig filed an appeal with the Taxpayers' Commission of the Ministry of Finance, which is currently pending judgment. Based on the final decision in the administrative proceedings with respect to the assessment for 11% withholding on service agreements, a legal action was filed to reverse the assessment.

Tax Claims

IR and CSLL

On October 30, 2006, TIM Celular received tax assessment notices which initially amounted to R\$331,171 thousand. In March 2007, the Federal Revenue Secretariat in Recife in the State of Pernambuco, notified the TIM Celular by means of a tax information report, which informed the company that part of the amount in connection with income and social contribution taxes and a separate fine, which totaled R\$73,027 thousand had been excluded from the original assessment notice. Thus the final amount of the infraction notice was set at R\$258,144 thousand.

These tax assessment notices are part of the same administrative proceeding, and include demands in connection with the alleged failure to pay income and social contribution taxes, together with a separate unrelated fine for various reasons. Most of these relate to the amortization of goodwill resulting from the privatization auction of the Telebrás System and related tax deductions. Under Law No. 9532/97, Article 7, the proceeds of goodwill amortization can be included in the actual profit of a subsidiary created as a result of a merger, spin-off or consolidation, whereby one company has a stake in the other, with said stake being acquired based on the future profitability of the investee. We understand this was a normal market transaction and was executed in accordance with CVM Instruction No. 319/99.

The above-mentioned tax information report did indeed lead to a portion of the infractions contained in the assessment notice, which discussed the timely adaptation of the deductibility of the goodwill to 159 specific federal tax offsetting proceedings amounting to R\$85,771 thousand, which arose from offsetting involving this recognition. In September 2009 and April 2011, a decision was rendered partially favorable to TIM Celular with respect to certain of the offsetting proceedings, reducing the credit offset by the TIM Celular. At present, TIM Celular continues to challenge the remainder of the offsetting proceedings, certain of which are in administrative proceedings totaling R\$67,404 thousand and certain of which are in judicial proceedings totaling R\$9,193 thousand.

In December 2010, TIM Celular received an infraction notice served by the Federal Revenue Department in the State of São Paulo in the amount of R\$ 164,102 thousand involving (1) the alleged non-payment of income and social contribution taxes of the amount related to the amortization of the goodwill from the acquisition of shares of Tele

Nordeste Celular Participações, (2) the exclusion of the amortized goodwill, (3) the deduction of corporate income tax by way of fiscal incentives for the reduction of tax and alleged additional amounts not eligible for rebate on account of the alleged failure to formalize with the Federal Revenue Service the incentive granted by the Sudene. This tax assessment notice was immediately challenged by TIM Celular and a decision in the administrative proceeding is pending.

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In March 2011, TIM Celular, as successor to TIM Nordeste received a tax assessment notice filed by the Federal Revenue Department of the State of Pernambuco, amounting to R\$1,265,346 thousand concerning income and social contribution taxes referring to: (1) the deduction of goodwill amortization expenses, (2) the exclusion of the reversal of the goodwill from the former BITEL, (3) the improper offsetting of tax losses and negative bases by disregarding the incorporation of TIM Nordeste Telecomunicações by Maxitel, (4) improper use of the Sudene income tax reduction tax benefit in 2006, for alleged failure to formalize the benefit with the Federal Revenue Department, (5) the deduction of WHT without proof of payment, (6) the deduction of accruals without proof of payment, (7) a one-off penalty for underpayment of estimates, (8) a regulatory penalty for omitting information and failure to produce digital files, and (9) a supplementary entry to the administrative proceedings mentioned in the above paragraph. This notice was immediately contested by the TIM Celular, and a decision in the administrative proceeding is pending.

IRRF

In December 2006, the subsidiary Intelig received a notification from the Federal Revenue Department amounting to R\$49,652 thousand, arising from the alleged failure to pay IRF and CIDE on remittances abroad by way of remuneration for outbound traffic. This notification was successfully challenged in an administrative proceeding in view of the final favorable decision on a related writ of mandamus.

In May 2010, TIM Celular received three tax assessment notices from the Federal Revenue Department in São Paulo, amounting to R\$50,026 thousand, of which the amount of R\$1,029 thousand was provisioned for in November 2011, involving: (1) failure to pay IRRF on earnings of overseas residents remitted as international roaming and payments to unidentified beneficiaries, (2) failure to pay CIDE on payment of royalties on remittances abroad, as well as on remittances concerning international roaming, and (3) reductions on fiscal losses (IRPJ/CSLL) referring to the deduction of unproven expenses by way of technical services. These assessments were immediately challenged by TIM Celular and a decision in the administrative proceeding is pending.

ICMS

TIM Celular received assessment notices from the tax authorities in the State of Santa Catarina in 2003 and 2004, mainly relating to disputes regarding the levying of ICMS on telecommunications services provided by us and allegedly not paid, as well as in connection with the sale of phone sets. As a result of various favorable decisions in relation to the administrative proceedings the amount that is now being disputed is R\$41,066 thousand (the original tax assessment was for the sum of R\$95,449 thousand). TIM Celular is currently challenging these assessments at both the administrative as well as judicial levels. Based on the opinions of our internal and external counsel, management concluded that the processes still in progress may result in a possible loss for TIM Celular.

Over the past few years, the subsidiary TIM Celular has received tax assessment notices drawn up by the tax authorities of various Brazilian states in relation to the payment of ICMS regarding operating aspects with respect to our services, as well as the sale of goods. Some grounds or reasons for these tax assessments according to the allegations of the respective authorities include: (1) discussion regarding the requirement to pay the difference between the intrastate and interstate ICMS rate on the purchase of property, plant and equipment items for use and consumption and the determination of the ICMS basis of calculation for acquisition of goods intended for sale, (2) recording of the taxed services (according to the understanding of the tax authorities) as not taxed by the subsidiary in the Transfer Register, (3) alleged underpayment due to usage of the incorrect rate and the entry of telecommunications services as not taxed, (4) alleged failure to make payment due to differences between the amount actually paid and the amount declared, and (5) payment of tax outside of the terms established by the state legislation, among others. The aforementioned assessments are being challenged at both the administrative as well as the judicial level. The aggregate amount involved in those cases being disputed where the amount is in excess of R\$14,000 thousand totals R\$315,552 thousand.

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TIM Celular received tax assessment notices for ICMS from the tax authorities in the States of Rio de Janeiro for allegedly defaulting on payment of the tax on international roaming services provided, and in Bahia for failing to pay the additional contribution regarding the “Fundo de Combate à Pobreza e às Desigualdades Sociais” (Fund for Fighting Poverty and Social Inequalities) allegedly due on the provision of services to pre-paid customers. The aforementioned assessments are being challenged at the administrative and judicial levels and total R\$110,535 thousand.

TIM Celular received tax assessment notices drawn up by the tax authorities of the States of Bahia and São Paulo for the sums of R\$16,406 thousand and R\$46,923 thousand, respectively, in connection with the failure to proportionally reverse ICMS credits on shipment of exempt and non-taxed goods. The aforementioned assessments are being challenged at the administrative level and total of R\$63,329 thousand.

TIM Celular received assessment notices from the tax authorities of the State of São Paulo and the State of Minas Gerais for the sums of R\$329,471 thousand and R\$24,771 thousand, respectively, for allegedly having failed to include conditional discounts offered to clients in the ICMS basis of calculation. TIM Celular intends to challenge the aforementioned collection with the higher court.

In 2008, 2009 and 2010, TIM Celular received tax assessment notices in the aggregate amount of R\$77,760 thousand from the tax authorities of the States of Ceará, Pernambuco and Paraná in connection with a debit arising from taking ICMS credit on the purchase of electric energy. The aforementioned assessments are being challenged at the administrative level.

TIM Celular received assessment notices from the tax authorities of the States of Paraná and Paraíba, in the respective amounts of R\$24,047 thousand and R\$28,668 thousand involving the alleged failure to pay ICMS on telecommunication services provided to pre-paid customers on outgoing telephone card operations. These assessments are being challenged at the administrative level.

In November 2010 and December 2011, TIM Celular received three assessment notices from the tax authorities of the States of São Paulo, Rio Grande do Sul and Paraná for a total amount of R\$83,782 thousand involving the reversal of ICMS tax credits with respect to the acquisition of permanent assets allegedly without proof of origin of these entries in the CIAP (Control of ICMS Credits on Permanent Assets) Book. These assessments are being challenged at the administrative level.

In May 2011, TIM Celular received a tax assessment notice from the State of São Paulo in the amount of R\$367,860 thousand involving (1) a penalty for alleged non-compliance with an ancillary obligation by not presenting the 60i register of the SINTEGRA file for 2007 and 2008, and (2) the alleged failure to pay ICMS on discounts deemed by the tax inspector to be conditional. This assessment is being challenged at the administrative level.

In July and October 2011, TIM Celular received tax assessment notices from the tax authorities of the State of São Paulo in the amount of R\$216,472 thousand involving (1) the alleged failure to pay ICMS tax from having failed to include in the calculation tax on communication services referring to installments taxed as “non-taxable/exempt”, and (2) the alleged failure to pay ICMS tax for having included on tax receipts the negative base by way of financial credits granted to customers involving the services contested, leading to the reversal of debits without complying with the legislation. TIM Celular is challenging these assessments at the administrative level.

In December 2011, TIM Celular received two tax assessment notices from the State of Paraná, amounting to R\$100,462 thousand and involving improper crediting of ICMS tax for the periods from May 2010 to August 2011, and from September 2011 to November 2011. TIM Celular is challenging these assessments at the administrative level.

In December 2011, Intelig filed a legal action against the tax assessment notice from the State of São Paulo, in the amount of R\$ 20,285 thousand, involving the alleged improper appropriation of ICMS tax credits referring to the reversal of debits declared in the ancillary obligations of the state. Intelig is challenging this assessment at the administrative level.

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ISS

On December 20, 2007, TIM Celular received an assessment notice from the municipality of Rio de Janeiro for R\$94,359 thousand for allegedly failing to pay ISS on the following services: technical programming, administrative services on plan cancellation, telephone directory assistance services, provision of data and information and network infrastructure sharing. The aforementioned assessments are being challenged at the administrative level.

Telecommunications Services Universalization Fund (“FUST”)

On December 15, 2005, Anatel issued Abstract No. 07 aimed, among other things, at charging FUST contributions on interconnection revenue earned by telecommunications service providers, from the date upon which Law No. 9998 came into force. Based on the enacting legislation (including the provision in the sole paragraph of Article 6 of Law No. 9998), we believe the abovementioned revenue is not subject to the FUST charges. Management has taken the necessary measures to protect our interest and a writ of mandamus was filed to protect our interests in connection with the non-payment of FUST on interconnection revenue. Anatel’s intention to charge FUST on this revenue has been suspended, due to a judicial decision in our favor. A decision on the writ of mandamus by the appellate court is pending.

Since October 2006, Anatel has issued a number of assessment notices against TIM Celular, in connection with FUST charges that are allegedly due on interconnection revenue for the years from 2001 to 2009, together with a fine for arrears, on account of Abstract No. 07/05. The assessments for this period add up to a total of R\$529,823 thousand.

Intelig has received a number of assessment notices from Anatel, which add up to a total amount of R\$59,902 thousand, in connection with FUST charges that are allegedly due on interconnection revenue for the periods from January to December of 2001 to 2007. The aforementioned assessments are being challenged at administrative level.

Telecommunications Technological Development Fund (“FUNTTEL”)

The Ministry of Communications filed assessment notices against TIM Celular amounting to R\$213,212 thousand, in connection with FUNTTEL amounts due on interconnection revenue for the years from 2001 to 2007, as well as a fine for arrears. We believe that the above mentioned revenues are not subject to FUNTTEL. A writ of mandamus was filed to safeguard our interests in relation to the non-payment of FUNTTEL on interconnection revenue, on the same grounds as those used for the FUST process. The intention to charge FUNTTEL on interconnection revenue is under suspension, due to a favorable ruling obtained in relation to the writ of mandamus that was filed by TIM Celular.

Intelig has received a number of assessment notices from the Ministry of Communications, which add up to a total amount of R\$19,474 thousand in connection with FUNTTEL charges that are allegedly due on interconnection revenue for the periods from January to December 2002, March to December 2003, April to December 2004 and January to November 2005, respectively. The aforementioned assessments are being challenged at the administrative level.

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Dividend Policy

Under our bylaws, we are required to distribute an aggregate amount equal to at least 25% of our adjusted net income to our shareholders, either as dividends or as tax-deductible interest on shareholders' equity. We may also make additional distributions to the extent of available distributable profits and reserves. Our subsidiary TIM Celular is also subject to mandatory distribution requirements and, to the extent of distributable profits and reserves, is accordingly required to pay dividends to us. All of the aforementioned distributions may be made as dividends or as tax-deductible interest on shareholders' equity.

Brazilian corporations may make payments to shareholders characterized as interest on shareholders' equity (juros sobre capital próprio) as an alternative form of making dividend distributions to the shareholders. The rate of interest may not be higher than the Federal Government's long-term interest rate as determined by BNDES from time to time. Dividends are not subject to withholding income tax when paid. On the other hand, interest on shareholders' equity paid to shareholders is deductible from the corporation's net income for tax purposes, but the distributions are subject to withholding tax.

For the purposes of Brazilian corporate law, and in accordance with our bylaws, adjusted net income is an amount equal to net profit adjusted to reflect allocations to and from:

- the legal reserve; and
- contingency reserves.

We are required to maintain a legal reserve, to which we must allocate 5% of net income for each fiscal year until the amount for such reserve equals 20% of our capital. However, we are not required to make any allocations to our legal reserve in respect of any fiscal year in which our legal reserve, together with our other capital reserves, exceeds 30% of our capital. Losses, if any, may be charged against the legal reserve.

Brazilian corporate law also provides for two discretionary allocations of net income that are subject to approval by the shareholders at the annual meeting. First, a percentage of net income may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Any amount so allocated in a prior year must be either reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur, or written off in the event that the anticipated loss occurs. Second, if the mandatory distributable amount exceeds the sum of realized net income in a given year, such excess may be allocated to unrealized revenue reserve. Under Brazilian corporate law, realized net income is defined as the amount of net income that exceeds the net positive result of equity adjustments and profits or revenues from operations with financial results after the end of the next succeeding fiscal year.

Under Brazilian corporate law, any company may, as a term in its bylaws, create a discretionary reserve that authorizes the allocation of a percentage of a company's net income to the discretionary reserve and must also indicate the purpose, criteria for allocation and a maximum amount of the reserve. The company's bylaws authorize the allocation of the net income balance not allocated to the payment of the mandatory minimum dividend to a supplementary reserve for the expansion of corporate business, not to exceed 80% of the capital.

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We may also allocate a portion of our net income for discretionary appropriations for plant expansion and other capital investment projects, the amount of which would be based on a capital budget previously presented by our management and approved by shareholders. Under Brazilian corporate law, capital budgets covering more than one year must be reviewed at each annual shareholders' meeting. After completion of the relevant capital projects, we may retain the appropriation until the shareholders vote to transfer all or a portion of the reserve to capital realized.

The amounts available for distribution may be further increased by a decrease in the contingency reserve for anticipated losses anticipated in prior years but not realized. The amounts available for distribution are determined on the basis of financial statements prepared in accordance with Brazilian GAAP.

The legal reserve is subject to approval by the shareholders voting at the annual meeting and may be transferred to capital but is not available for the payment of dividends in subsequent years. Our calculation of net income and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with CVM rules and Brazilian GAAP.

Under Brazilian corporate law, a company is permitted to suspend the mandatory dividend in respect of common shares not entitled to a fixed or minimum dividend if:

- its management (board of directors and board of executive officers) and Statutory Audit Committee report to the shareholders' meeting that the distribution would be incompatible with the financial circumstances of that company; and the shareholders ratify this conclusion at the shareholders' meeting.

In this case,

- the management must forward to CVM within five days of the shareholders' meeting an explanation justifying the information transmitted at the meeting; and
- the profits which were not distributed are to be recorded as a special reserve and, if not absorbed by losses in subsequent fiscal years, are to be paid as dividends as soon as the financial situation permits.

For the purposes of Brazilian corporate law, the net income after income tax and social contribution for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to warrants and employees' and management's participation in a company's profits, shall be distributed as dividends.

Payment of Dividends

We are required by law and by our bylaws to hold an annual shareholders' meeting by April 30 of each year, at which, among other things, an annual dividend may be declared by decision of our shareholders on the recommendation of our executive officers, as approved by our Board of Directors. The payment of annual dividends is based on the financial statements prepared for the fiscal year ending December 31. Under Brazilian corporate law, dividends are required to be paid within 60 days following the date the dividend is declared to shareholders of record on such declaration date, unless a shareholders' resolution sets forth another date of payment, which in any event shall occur prior to the end of the fiscal year in which such dividend was declared.

A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which we have no liability for such payment. Because our shares are issued in book-entry form, dividends with respect to any share are credited to the account holding such share. We are not required to adjust the amount of paid-in capital for inflation. Annual dividends may be paid to shareholders on a pro rata basis according to the date when the subscription price is paid to us.

B. Significant Changes

None.

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Item 9. The Offer and Listing

A. Offer and Listing Details

Our common shares are listed on the Novo Mercado segment of the São Paulo Stock Exchange (BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros), or the BM&FBOVESPA, under the symbol “TIMP3” and our ADSs are listed on the New York Stock Exchange, or the NYSE, under the symbol “TSU.” The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on the NYSE, in U.S. dollars, and the common shares on the BM&FBOVESPA, in reais. On September 13, 2011, the last reported sales price of our common shares on the BM&FBOVESPA was R\$8.91 and the last reported sales price of our ADSs on the NYSE was U.S.\$26.45.

At an extraordinary shareholders meeting held on June 22, 2011 our shareholders approved, among other things: (1) the conversion of all of our preferred shares into common shares, at a ratio of 0.8406 common shares for each preferred share; (2) our adherence to the Novo Mercado rules and the transfer of trading of the shares issued by us to the Novo Mercado, and (3) amendments to our bylaws.

In order to join the Novo Mercado, we entered into a Novo Mercado Participation Agreement with the BM&FBOVESPA. Through this agreement, which became effective on July 27, 2011, we are required to adhere to heightened requirements relating to corporate governance and the disclosure of information to the market. Additionally, as of such date, our shares started trading on the Novo Mercado segment of the BM&FBOVESPA. Pursuant to the Novo Mercado Regulations, we are not permitted to issue preferred shares, participation bonuses or any kind of shares with restricted voting rights.

Prior to August 2, 2011 we had common shares and preferred shares listed on the BM&FBOVESPA under the symbols “TCSL3” and “TCSL4,” respectively. Our ADSs listed on the NYSE each represented 10 preferred shares. As part of our migration to the Novo Mercado listing segment of the BM&FBOVESPA, our preferred shares ceased to trade on August 2, 2011. On August 4, 2011, our ADSs representing preferred shares ceased to trade on the NYSE. From August 3, 2011, we only had common shares traded on the Novo Mercado listing segment of BM&FBOVESPA, by using the code “TIMP3” and as from August 5, 2011, our ADSs representing five common shares instead of ten preferred shares commenced trading on the NYSE.

Year ended	NYSE		BM&FBOVESPA		BM&FBOVESPA	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
	(in U.S.\$ per ADS)		(in reais per preferred share)		(in reais per common share)	
December 31, 2007	46.40	29.54	8.10	5.80	12.47	8.30
December 31, 2008	43.80	11.44	7.33	2.42	9.83	4.49
December 31, 2009	30.13	11.99	5.20	2.64	7.95	4.93
December 31, 2010	35.07	23.58	5.90	4.27	8.03	5.78
December 31, 2011	31.30	20.01	N/A	N/A	9.80	6.81
Year ended December 31, 2010						
First quarter	30.43	24.68	5.39	4.71	7.80	6.66
Second quarter	28.69	23.58	5.08	4.27	7.35	5.78
Third quarter	32.99	26.25	5.57	4.68	8.03	6.82
Fourth quarter	35.07	30.90	5.90	5.23	7.34	6.68
Year ended December 31, 2011						

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First quarter	26.01	20.02	7.12	5.63	8.60	6.84
Second quarter	29.87	25.98	7.81	6.88	9.00	8.10
Third quarter	31.30	23.08	N/A	N/A	9.80	7.60
Fourth quarter	37.31	22.14	N/A	N/A	9.60	8.20

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	NYSE		BM&FBOVESPA		BM&FBOVESPA	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
	(in U.S.\$ per ADS)		(in reais per preferred share)		(in reais per common share)	
Year ended December 31, 2012						
First quarter	32.47	25.80	N/A	N/A	11.66	9.33
Month ended						
November 30, 2011	26.56	22.14	N/A	N/A	9.10	8.21
December 31, 2011	26.05	23.70	N/A	N/A	9.60	8.51
January 31, 2012	28.85	25.80	N/A	N/A	9.90	9.40
February 29, 2012	30.71	27.62	N/A	N/A	10.44	9.33
March 31, 2012	32.47	28.72	N/A	N/A	11.66	9.97
April 30, 2012	32.99	29.66	N/A	N/A	11.95	11.00
May 31, 2012 (through May 11)	29.67	26.83	N/A	N/A	11.34	10.45

B. Plan of Distribution

Not applicable.

C. Markets

Trading on the Brazilian Stock Exchanges

The BM&FBOVESPA is the only Brazilian Stock Exchange on which equity and debt securities issued by Brazilian companies are traded.

Trading on the BM&FBOVESPA is conducted every business day, from 10:00 a.m. to 5:00 p.m., or from 11:00 a.m. to 6:00 p.m. during daylight saving time in Brazil, on an electronic trading system called “Megabolsa.” Trading is also conducted between 5:45 p.m. and 7:00 p.m., or between 6:45 p.m. and 7:30 p.m. during daylight saving time in Brazil. The “after-market” trading is the scheduled after the close of principal trading sessions, when investors may send purchase and sell orders and make trades through the home broker system. This after-market trading is subject to regulatory limits on price volatility of securities traded by investors operating on the Internet.

When shareholders trade shares or units on BM&FBOVESPA, the trade is settled in three business days after the trade date, without adjustments to the purchase price. The seller is ordinarily required to deliver the shares or units to the exchange on the second business day following the trade date. Delivery of and payment for shares or units are made through the facilities of Central Depositária BM&FBOVESPA, BM&FBOVESPA’s clearing house.

In order to maintain control over the fluctuation of BM&FBOVESPA index, BM&FBOVESPA has adopted a “circuit breaker” system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever BM&FBOVESPA index falls below 10% or 15%, respectively, in relation to the closing index levels of the previous trading session. The BM&FBOVESPA also implemented a 15% limit, up or down, on price fluctuations in shares traded on the spot market. The minimum and maximum price is based on a reference price for each asset, which will be the previous session’s closing quote, when considering the asset at the beginning of the day before the first trade, or the price of the day’s first trade. The asset’s reference price will be altered during the session if there is an auction sparked by the intraday limit being breached. In this case the reference price will become whatever results from the auction.

Although the Brazilian equity market is Latin America's largest in terms of market capitalization, it is smaller and less liquid than the major U.S. and European securities markets. Moreover, BM&FBOVESPA is less liquid than the New York Stock Exchange and other major exchanges in the world. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, governmental entities or one principal shareholder. Trading on Brazilian stock exchanges by non-residents of Brazil is subject to registration procedures.

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Trading on Brazilian stock exchanges by a holder not deemed to be domiciled in Brazil, for Brazilian tax and regulatory purposes (a “non-Brazilian holder”), is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock exchanges in accordance with the requirements of Resolution CMN 2,689. Resolution CMN 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions and be registered with a clearinghouse duly authorized by the Central Bank and the CVM. In addition, Resolution CMN 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution CMN 2,689 to other non-Brazilian holders through a private transaction. See “Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations” for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution CMN 2,689.

Differentiated Levels of Corporate Governance and the Novo Mercado

In order to increase the transparency of the Brazilian capital markets and protect minority shareholders’ rights, BM&FBOVESPA has implemented certain new initiatives, including:

- a classification system referred to as “Differentiated Levels of Corporate Governance” applicable to the companies already listed in BM&FBOVESPA; and
 - a new separate listing segment for qualifying issuers referred to as the Novo Mercado.

The Differentiated Levels of Corporate Governance, Level 1 and Level 2, are applicable to listed companies that voluntarily comply with special disclosure and corporate governance practices established by the BM&FBOVESPA. The companies may be classified into two different levels, depending on their degree of adherence to the BM&FBOVESPA’s practices of disclosure and corporate governance.

To become a Level 1 company, an issuer must voluntarily satisfy, in addition to the obligations imposed by Brazilian law, the following requirements:

- ensure that shares amounting to at least 25% of its capital are outstanding and available for trading in the market;
 - adopt procedures that favor the dispersion of shares into the market whenever making a public offering;
 - comply with minimum quarterly disclosure standards;
- follow stricter disclosure policies with respect to transactions with controlling shareholders, directors and officers involving the issuer’s securities;
 - submit any existing shareholders’ agreements and stock option plans to the BM&FBOVESPA; and
 - make a schedule of corporate events available to the shareholders.

We are currently considering complying with these requirements for Level 1 of Corporate Governance.

To become a Level 2 company, an issuer must, in addition to satisfying the Level 1 criteria and the obligations imposed by Brazilian law, satisfy the following requirements:

- require all directors to serve unstaggered one-year terms;

- prepare and publish annual financial statements in English and in accordance with U.S. GAAP or IFRS;
- create tag-along rights for minority shareholders, ensuring holders of common shares of the right to sell on the same terms as a controlling shareholder, and ensuring preferred shareholders a price equal to at least 80% of that received by the selling controlling shareholder;

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- grant preferred shareholders the right to vote in certain cases, including, without limitation, the transformation, spin-off or merger of the company, and approval of agreements with related parties;
- make a tender offer for all outstanding shares, for a price equal to fair market value, in the event of delisting from Level 2 qualification; and
- agree to submit any disputes between the company and its investors exclusively to the BM&FBOVESPA's Market Arbitration Chamber.

The Novo Mercado is a separate listing segment for the trading of shares issued by companies that voluntarily adopt certain additional corporate governance practices and disclosure requirements which are more demanding than those required by the current law in Brazil. Companies may qualify to have their shares traded in the Novo Mercado, if, in addition to complying with the Level 2 corporate governance practices referred to above, their capital stock consists only of voting common shares.

On May 20, 2011 the Board of Directors of TIM Participações recommended to the Extraordinary General Shareholders' Meeting of the Company its migration to the Novo Mercado listing segment of BM&FBOVESPA, which took place on June 22, 2011. With this migration TIM moves to the highest level of corporate governance. Only 26% of Brazilian listed companies are in the Novo Mercado and TIM will be the only telecommunications company stock among them.

BM&FBOVESPA Market Administration Panel

Pursuant to Law No. 9,307/96, a Market Arbitration Panel (the "Panel") has been established by the BM&FBOVESPA. The Panel was established to settle certain types of disputes, including disputes relating to corporate governance, securities issues, financial regulatory issues and other capital market matters, with respect to BM&FBOVESPA listed companies that have undertaken to voluntarily comply with Level 2 and Novo Mercado levels of corporate governance and disclosure. The Panel will provide a forum for dispute resolution involving, among others, the BM&FBOVESPA, the applicable listed company and the shareholders, directors and management of the applicable listed company.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are principally governed by Law No. 6,385, of December 7, 1976, and Brazilian corporate law, each as amended and supplemented, and by regulations issued by the CVM, which has authority over stock exchanges and the securities markets in general; the National Monetary Council; and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

These laws and regulations, among others, provide for licensing and oversight of brokerage firms, governance of the Brazilian stock exchanges, disclosure requirements applicable to issuers of traded securities, restrictions on price manipulation and protection of minority shareholders. They also provide for restrictions on insider trading. Accordingly, any trades or transfers of our equity securities by our officers and directors, our controlling shareholders or any of the officers and directors of our controlling shareholders must comply with the regulations issued by the CVM.

Under Brazilian corporate law, a corporation is either publicly held (companhia aberta), as we are, or closely held (companhia fechada). All publicly held companies are registered with the CVM and are subject to reporting requirements. We have the option to ask that trading in securities on BM&FBOVESPA be suspended in anticipation

of a material announcement. Trading may also be suspended on the initiative of BM&FBOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or BM&FBOVESPA.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

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Trading on BM&FBOVESPA by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for our preferred shares on behalf of the Depositary for the ADSs, has obtained registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereto. In the event that a holder of ADSs exchanges preferred shares for ADSs, the holder will be entitled to continue to rely on the custodian's registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of our preferred shares or upon distributions relating to our preferred shares, u