

TIM PARTICIPACOES SA  
Form 6-K  
March 06, 2007

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

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

**For the month of March, 2007**

**Commission File Number 001-14491**

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**TIM PARTICIPAÇÕES S.A.**

(Exact name of registrant as specified in its charter)

**TIM HOLDING COMPANY S.A.**

(Translation of Registrant's name into English)

**Av. das Américas, 3434, Bloco 1, 7º andar Parte  
22640-102 Rio de Janeiro, RJ, Brazil**

(Address of principal executive office)

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

Form 20-F  Form 40-F

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

Yes  No

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*TIM Participações S.A.*

**Financial Statements**

*December 31, 2006 and 2005  
Including the Independent Auditors'  
Report*

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**TIM PARTICIPAÇÕES S.A.**

FINANCIAL STATEMENTS

December 31, 2006 and 2005

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( Free translation from the original in Portuguese )

**INDEPENDENT AUDITORS' REPORT**

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The Management and Stockholders

**TIM S.A.**

Rio de Janeiro - RJ

1. We have examined the individual (parent company) and consolidated balance sheets of **TIM PARTICIPAÇÕES S.A.** and its subsidiaries as of December 31, 2006, and the related individual and consolidated statements of income, of changes in stockholders' equity and of changes in financial position for the year then ended, all prepared under the responsibility of the management. Our responsibility is to express an opinion on these financial statements. **TIM PARTICIPAÇÕES S.A.** wholly owns Tim Celular S.A., who in turn wholly owns Tim Nordeste S.A. The financial statements of these subsidiaries for the year ended December 31, 2006, which serve as a basis for investment evaluation on the equity method and also for consolidation, were audited by Ernst Young Auditores Independentes S.S., whose unqualified opinion dated February 23, 2007 emphasizes the same matter commented upon in paragraph 4. Our opinion concerning the carrying value of these investments and their effect on the income for the year and the consolidated amounts is based on the opinion of these auditors, and given the magnitude of the subsidiaries' figures involved, required a coordinated follow-up and review of that firm's auditing procedures.

2. We conducted our examinations in accordance with auditing standards applicable in Brazil, which included: a) work planning, taking into consideration the Company's relevant balances, volume of transactions and accounting and internal control systems; b) verification, on a test-basis, of evidences and records supporting the amounts and accounting information disclosed; included and c) evaluation of the most significant accounting practices used, and estimates made, by management, as well as the overall financial statements presentation;

3. In our opinion, and based on the opinion of the independent auditors of the direct subsidiary Tim Celular S.A. and the indirect subsidiary Tim Nordeste S.A., the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial position of **TIM PARTICIPAÇÕES S.A.** as of December 31, 2006, the results of its operations and the changes in its stockholders' equity and financial position, both individual and consolidated, for the year then ended, in accordance with accounting practices adopted in Brazil.

4. As mentioned in Note "3-b", in 2006 the Company and its subsidiaries adopted new accounting practices, concerning the following: i) recording of asset retirement obligations (ARO), retroactively calculated and presented in the adjusted financial statements as of December 31, 2005, and ii) the recognition of subsidized sale of handsets to customers under the post-paid subscriptions.

5. Our examinations were intended as a basis for an opinion on the financial statements referred to in paragraph 1. The supplementary information contained in Note "40" individual and consolidated statements of cash flow and value added for the year ended December 31, 2006 were subjected to additional auditing procedures and are properly presented, the data therein being consistent with that used for preparing the statutory financial statements.

6. Due to the corporate restructuring process described in Note "2", the financial statements as of December 31, 2005 are not comparable with those for 2006. For this reason, in Note "3.d", the Company presents pro forma, consolidated balance sheet and statement of income for 2005, including the corporate restructuring adjustments, as if occurred on January 1, 2005, thus improving comparability with 2006. We have reviewed the compilation of this data, which has been found adequate and consistent with the statutory financial statements of the companies.

7. The individual (parent company) and consolidated statutory financial statements for the year ended December 31, 2005 were examined by other independent auditors, whose opinion dated January 18, 2006 is unqualified. Also, the supplementary information, statements of cash flow and value added, both individual and consolidated, for the year ended December 31, 2005 were subjected to additional auditing procedures by other independent auditors, who concluded that they are properly presented and consistent with those used for preparing the statutory financial statements.

Rio de Janeiro, February 23, 2007

Original report in Portuguese was signed by

**CRC SP-013002/O-3F-RJ**  
**A SC International Member-Firm**

**Ernesto Rubens Gelbcke**  
**CTCRC SP-071189/O-6S-RJ**

**TIM PARTICIPAÇÕES S.A.**

BALANCE SHEETS  
December 31, 2006 and 2005  
( In thousands of Reais )

| ASSETS   | Parent Company   |                  | Consolidated      |                  |
|--|------------------|------------------|-------------------|------------------|
|  | 2006             | 2005<br>adjusted | 2006              | 2005<br>adjusted |
| <b>Current Assets</b>                                |                  |                  |                   |                  |
| Cash and bank  | 87               | 55               | 440,866           | 30,124           |
| Short-term inv. in the money market (note 5)         | 16,283           | 5,917            | 752,611           | 1,251,644        |
| Accounts receivable (note 6)                         | -                | -                | 2,505,833         | 723,335          |
| Inventories (note 7)                                 | -                | -                | 164,108           | 81,880           |
| Taxes and contributions recoverable (note 8)         | 348              | 18,167           | 292,542           | 114,065          |
| Deferred income tax and social contribution (note 9) | -                | 1,137            | 50,450            | 103,118          |
| Dividends and interest on own capital receivable     | -                | 146,776          | -                 | -                |
| Prepaid expenses (note 10)                           | -                | -                | 221,008           | 6,321            |
| Other assets   | 3                | 294              | 15,603            | 2,952            |
|  | <b>16,721</b>    | <b>172,346</b>   | <b>4,443,021</b>  | <b>2,313,439</b> |
| <b>Non-Current Assets</b>                            |                  |                  |                   |                  |
| Long-term  |                  |                  |                   |                  |
| Taxes and contributions recoverable (note 8)         | 5,656            | 6,873            | 285,681           | 69,946           |
| Deferred income tax and social contribution (note 9) | -                | 2,312            | 29,429            | 133,510          |
| Related-party transactions (note 11)                 | 58               | -                | 16,303            | 18,618           |
| Judicial deposits (note 12)                          | 1,182            | 447              | 57,420            | 14,499           |
| Prepaid expenses (note 10)                           | -                | -                | 13,257            | 1,976            |
| Other assets   | -                | 13               | 7,191             | 2,730            |
| Permanent Assets                                     |                  |                  |                   |                  |
| Investments (note 13)                                | 8,337,790        | 2,696,653        | 6,728             | 8,310            |
| Property, plant and equipment (note 14)              | -                | -                | 7,185,864         | 1,872,694        |
| Intangibles (note 15)                                | -                | -                | 1,922,621         | 21,651           |
| Deferred charges (note 16)                           | -                | -                | 232,590           | -                |
|  | <b>8,344,686</b> | <b>2,706,298</b> | <b>9,757,084</b>  | <b>2,143,934</b> |
| <b>Total Assets</b>                                  | <b>8,361,407</b> | <b>2,878,644</b> | <b>14,200,105</b> | <b>4,457,373</b> |

The accompanying notes are an integral part of these financial statements

**TIM PARTICIPAÇÕES S.A.**

BALANCE SHEETS  
December 31, 2006 and 2005  
( In thousands of Reais )

|   | <b>Parent Company</b> |                          | <b>Consolidated</b> |                          |
|---|-----------------------|--------------------------|---------------------|--------------------------|
| <b>LIABILITIES</b>                                | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2006</b>         | <b>2005<br/>adjusted</b> |
| <b>Current Liabilities</b>                        |                       |                          |                     |                          |
| Suppliers Trade payables (note 17)                | 1,960                 | 3,364                    | 2,642,858           | 1,047,820                |
| Loans and financing (note 18)                     | -                     | -                        | 340,762             | 25,707                   |
| Labor obligations (note 19)                       | 755                   | 1,379                    | 92,493              | 22,685                   |
| Taxes, charges and contributions (note 20)        | 65                    | 20,909                   | 370,264             | 157,666                  |
| Authorizations payable (note 21)                  | -                     | -                        | 38,275              | 8,741                    |
| Dividends and interest on own capital payable     | 464,526               | 131,178                  | 472,958             | 141,606                  |
| Related-party transactions (note 11)              | -                     | -                        | 84,064              | 53,943                   |
| Other   | -                     | 194                      | 93,448              | 21,909                   |
|   | <b>467,306</b>        | <b>157,024</b>           | <b>4,135,122</b>    | <b>1,480,077</b>         |
| <b>Non-current liabilities</b>                    |                       |                          |                     |                          |
| Long-term   |                       |                          |                     |                          |
| Loans and financing (note 18)                     | -                     | -                        | 1,879,679           | 105,076                  |
| Taxes, charges and contributions (note 20)        | -                     | -                        | -                   | 4,634                    |
| Provision for contingencies (note 22)             | 3,168                 | 3,215                    | 128,133             | 31,008                   |
| Actuarial Liabilities (note 36)                   | 4,555                 | 3,584                    | 6,083               | 3,584                    |
| Authorizations payable (note 21)                  | -                     | -                        | 6,542               | 2,962                    |
| Asset retirement obligations (ARO) (note 23)      | -                     | -                        | 158,168             | 115,211                  |
|   | <b>7,723</b>          | <b>6,799</b>             | <b>2,178,605</b>    | <b>262,475</b>           |
| <b>Stockholders' equity (note 24)</b>             |                       |                          |                     |                          |
| Capital   | 7,512,710             | 1,472,075                | 7,512,710           | 1,472,075                |
| Capital reserves                                  | 135,230               | 192,081                  | 135,230             | 192,081                  |
| Revenue reserves                                  | 238,438               | 1,050,665                | 238,438             | 1,050,665                |
|   | <b>7,886,378</b>      | <b>2,714,821</b>         | <b>7,886,378</b>    | <b>2,714,821</b>         |
| <b>Total liabilities and stockholders' equity</b> | <b>8,361,407</b>      | <b>2,878,644</b>         | <b>14,200,105</b>   | <b>4,457,373</b>         |



The accompanying notes are an integral part of these financial statements

**TIM PARTICIPAÇÕES S.A.**

## STATEMENTS OF INCOME

Years ended December 31, 2006 and 2005

( In thousands of Reais , except for earnings (losses) per share, which are expressed in Reais)

|   | Parent Company |                  | Consolidated     |                  |
|---|----------------|------------------|------------------|------------------|
|   | 2006           | 2005<br>adjusted | 2006             | 2005<br>adjusted |
| Gross operating revenue                               |                |                  |                  |                  |
| Telecommunications services (note 25)                 | -              | -                | 11,820,276       | 3,169,742        |
| Goods sold (note 25)                                  | -              | -                | 2,057,283        | 733,530          |
|   | -              | -                | 13,877,559       | 3,903,272        |
| Deductions from gross revenue (note 25)               | -              | -                | (3,761,446)      | (985,057)        |
| Net operating revenue (note 25)                       | -              | -                | 10,116,113       | 2,918,215        |
| Cost of services rendered (note 26)                   | -              | -                | (4,096,500)      | (846,102)        |
| Cost of goods sold (note 26)                          | -              | -                | (1,407,761)      | (536,470)        |
| <b>Gross income</b>                                   | -              | -                | <b>4,611,852</b> | <b>1,535,643</b> |
| Operating revenues (expenses):                        |                |                  |                  |                  |
| Selling (note 27)                                     | -              | -                | (3,250,951)      | (798,106)        |
| General and administrative (note 28)                  | (17,814)       | (18,328)         | (954,858)        | (185,946)        |
| Equity pickup   | (265,145)      | 453,781          | -                | -                |
| Amortization of goodwill on<br>privatization          | -              | -                | (50,450)         | (50,450)         |
| Amortization of concession                            | -              | -                | (248,238)        | (9,295)          |
| Other operating revenues (expenses) -<br>net(note 29) | 1,378          | (1,360)          | 100,217          | (16,014)         |
|   | (281,581)      | 434,093          | (4,404,280)      | (1,059,811)      |
| Operating income (loss) before financial<br>income    | (281,581)      | 434,093          | 207,572          | 475,832          |
| Financial revenues (expenses):                        |                |                  |                  |                  |
| Financial revenues (note 30)                          | 2,839          | 3,274            | 162,202          | 158,546          |
| Financial expenses (note 31)                          | (620)          | (11,175)         | (450,027)        | (93,218)         |
| Exchange variations, net (note 32)                    | 14             | 10               | (55,132)         | (2,482)          |
|   | 2,233          | (7,891)          | (342,957)        | 62,846           |

|   |                  |                |                  |                |
|---|------------------|----------------|------------------|----------------|
| <b>Operating income (loss)</b>  | <b>(279,348)</b> | <b>426,202</b> | <b>(135,385)</b> | <b>538,678</b> |
| Non-operating income (note 33)  | -                | -              | 2,526            | (2,260)        |
| Income (loss) before income tax, social contribution and minority participation | (279,348)        | 426,202        | (132,859)        | 536,418        |
| Provision for income tax and social contribution (note 34)                      | (6,194)          | (1,339)        | (168,824)        | (125,380)      |
| <b>Net income (loss) before minority participation</b>                          | <b>(285,542)</b> | <b>424,863</b> | <b>(301,683)</b> | <b>411,038</b> |
| Minority participation  | -                | -              | -                | (21,464)       |
|   | -                | -              | -                |                |
| <b>Net income (loss) for the year</b>   | <b>(285,542)</b> | <b>424,863</b> | <b>(301,683)</b> | <b>389,574</b> |
| Earnings (losses) per thousand-share lot (R\$)                                  | (0,12)           | 0,48           |                  |                |

The accompanying notes are an integral part of these financial statements

**TIM PARTICIPAÇÕES S.A.**

## STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (PARENT COMPANY)

Years ended December 31, 2006 and 2005

(In thousands of Reais)

|  | Capital Reserves |                         |                                     | Revenue Reserves |                             |                       | Retained Earnings/<br>(Accumulated Losses) | Total            |
|--|------------------|-------------------------|-------------------------------------|------------------|-----------------------------|-----------------------|--|------------------|
|  | Capital          | Special Premium Reserve | Reserve for future capital increase | Legal Reserve    | Unrealized Earnings Reserve | Reserve for expansion |  |                  |
| <b>At December 31, 2004</b>                          | <b>884,504</b>   | <b>240,634</b>          | -                                   | <b>77,017</b>    | <b>18,838</b>               | <b>799,514</b>        | -  | <b>2,020,507</b> |
| Prior years' adjustments (note 3-b)                  | -                | -                       | -                                   | -                | -                           | (21,496)              | -  | (21,496)         |
| <b>At December 31, 2004 (Adjusted - Note 3-b)</b>    | <b>884,504</b>   | <b>240,634</b>          | -                                   | <b>77,017</b>    | <b>18,838</b>               | <b>778,018</b>        | -  | <b>1,999,011</b> |
| Capital increase through reserve reclassification    | 170,496          | (54,954)                | -                                   | -                | -                           | (115,542)             | -  | -                |
| Aumento do capital social por incorporação de ações: |                  |                         |                                     |                  |                             |                       |  |                  |
| TIM Sul S.A  | 208,220          | -                       | -                                   | -                | -                           | -                     | -  | 208,220          |
| TIM Nordeste Telecomunicações S.A.                   | 206,849          | -                       | -                                   | -                | -                           | -                     | -  | 206,849          |
| Capital increase referring to stock option plan      | 2,006            | -                       | -                                   | -                | -                           | -                     | -  | 2,006            |
| Capital increase reserve                             | -                | -                       | 6,401                               | -                | -                           | -                     | -  | 6,401            |
| Realization of unrealized earnings reserve           | -                | -                       | -                                   | -                | (18,838)                    | -                     | -  | (18,838)         |
| Net income for the year:                             |                  |                         |                                     |                  |                             |                       |  |                  |
| Originally presented                                 |                  |                         |                                     |                  |                             |                       | 434,489                                    | 434,489          |

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|  |                  |                |              |               |          |                |           |                  |
|--|------------------|----------------|--------------|---------------|----------|----------------|-----------|------------------|
| Adjustments for<br>2005, recorded in<br>2006<br>(note-3.b)   |                  |                |              |               |          |                | (9,626)   | (9,626)          |
|  |                  |                |              |               |          |                | 424,863   | 424,863          |
| Appropriation of<br>net income for the<br>year   |                  |                |              |               |          |                |           |                  |
| Legal reserve  | -                | -              | -            | 21,724        | -        | -              | (21,724)  | -                |
| Interest on own<br>capital   | -                | -              | -            | -             | -        | -              | (70,000)  | (70,000)         |
| Dividends  | -                | -              | -            | -             | -        | -              | (43,691)  | (43,691)         |
| Reserve for<br>expansion   | -                | -              | -            | -             | -        | 289,448        | (289,448) | -                |
| <b>At December 31,<br/>2005 (adjusted)</b>   | <b>1,472,075</b> | <b>185,680</b> | <b>6,401</b> | <b>98,741</b> | <b>-</b> | <b>951,924</b> | <b>-</b>  | <b>2,714,821</b> |
| Prior years´<br>adjustments<br>referring to<br>subsidiaries TIM<br>Celular S.A. e TIM<br>Nordeste<br>S.A. (note 3-b) | -                | -              | -            | -             | -        | (75,922)       | -         | (75,922)         |
| Capital increase<br>through<br>incorporation of<br>shares of Tim<br>Celular S.A.                                     | 5,983,784        | -              | -            | -             | -        | -              | -         | 5,983,784        |
| Capital increase<br>through reserve<br>capitalization  | 56,851           | (50,450)       | (6,401)      | -             | -        | -              | -         | -                |
| Dividends  | -                | -              | -            | -             | -        | (450,763)      | -         | (450,763)        |
| Loss for the year  | -                | -              | -            | -             | -        | -              | (285,542) | (285,542)        |
| Absorption of loss<br>for the year using:  |                  |                |              |               |          |                |           |                  |
| Reserve for<br>expansion   | -                | -              | -            | -             | -        | (285,542)      | 285,542   | -                |
| <b>At December 31,<br/>2006</b>  | <b>7,512,710</b> | <b>135,230</b> | <b>-</b>     | <b>98,741</b> | <b>-</b> | <b>139,697</b> | <b>-</b>  | <b>7,886,378</b> |

The accompanying notes are an integral part of these financial statements



**TIM PARTICIPAÇÕES S.A.**

## STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2006 and 2005

(In thousands of Reais )

|   | Parent Company   |                  | Consolidated     |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2006             | 2005<br>adjusted | 2006             | 2005<br>adjusted |
| <b>RESOURCES WERE PROVIDED BY:</b>                            |                  |                  |                  |                  |
| Net income (loss) for the year                                | (285,542)        | 424,863          | (301,683)        | 389,574          |
| Items not affecting net working capital:                      |                  |                  |                  |                  |
| Exchange and monetary variation and interest                  | (245)            | (875)            | 14,697           | 1,748            |
| Provision for contingencies                                   | (47)             | 572              | (17,663)         | 6,676            |
| Equity pickup   | 265,145          | (453,781)        | -                | -                |
| Depreciation and amortization                                 | 1,582            | 1,582            | 2,284,889        | 537,358          |
| Residual value of property, plant and equipment written off   | -                | -                | 9,656            | 5,723            |
| Minority participation  | -                | -                | -                | 21,464           |
| Actuarial Liabilities   | 971              | (113)            | 2,499            | (113)            |
| <b>Total - operations</b>                                     | <b>(18,136)</b>  | <b>(27,752)</b>  | <b>1,992,395</b> | <b>962,430</b>   |
| Stockholders  |                  |                  |                  |                  |
| Capital payment   | 5,983,784        | 417,075          | 5,983,784        | 417,075          |
| Increase in capital reserve                                   | -                | 6,401            | -                | 6,401            |
| Subsidiaries  |                  |                  |                  |                  |
| Dividends receivable  | -                | 61,775           | -                | -                |
| Interest on own capital receivable                            | -                | 100,000          | -                | -                |
| <b>Total form stockholders</b>                                | <b>5,983,784</b> | <b>585,251</b>   | <b>5,983,784</b> | <b>423,476</b>   |
| Third parties   |                  |                  |                  |                  |
| Decrease in long-term assets                                  | 12,579           | 1,792            | 149,057          | 152,661          |
| Increase in long-term liabilities                             | -                | -                | 103,067          | 13,093           |
| New loans and financing                                       | -                | -                | 429,342          | 85,349           |
| Fiscal incentive - ADENE                                      | -                | -                | 16,141           | 35,289           |
| <b>Total form third parties</b>                               | <b>12,579</b>    | <b>1,792</b>     | <b>697,607</b>   | <b>286,392</b>   |
| <b>Total resources provided</b>                               | <b>5,978,227</b> | <b>559,291</b>   | <b>8,673,786</b> | <b>1,672,298</b> |
| <b>RESOURCES WERE USED FOR:</b>                               |                  |                  |                  |                  |
| Effect of merger with TIM Celular S.A. and TIM Nordeste S.A.: |                  |                  |                  |                  |
| Long-term assets  | -                | -                | 274,230          | -                |
| Property, plant and equipment                                 | -                | -                | 8,092,320        | -                |
| Deferred charges  | -                | -                | 274,925          | -                |

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|   |                  |                |                  |                  |
|---|------------------|----------------|------------------|------------------|
| Long-term liabilities                             | -                | -              | (1,956,619)      | -                |
| Stockholders' equity                              |                  |                | 75,922           |                  |
| <b>Total effect of merger</b>                     | <b>-</b>         | <b>-</b>       | <b>6,760,778</b> | <b>-</b>         |
| <br>  |                  |                |                  |                  |
| Additions to property, plant and equipment        | -                | -              | 1,609,156        | 684,474          |
| Increase in investment through business merger    | 5,983,784        | 415,069        | -                | -                |
| Increase in long-term assets                      | 9,587            | 7,957          | 86,776           | 202,575          |
| Decrease in long-term liabilities                 | -                | -              | 291,776          | 42,116           |
| Minority participation                            | -                | -              | -                | 415,069          |
| Dividends   | 450,763          | 62,529         | 450,763          | 62,529           |
| Interest on own capital                           | -                | 70,000         | -                | 70,000           |
|   | <b>6,444,134</b> | <b>555,555</b> | <b>2,438,471</b> | <b>1,476,763</b> |
| <b>Total resources used</b>                       | <b>6,444,134</b> | <b>555,555</b> | <b>9,199,249</b> | <b>1,476,763</b> |
| <br>  |                  |                |                  |                  |
| <b>Increase (decrease) in net working capital</b> | <b>(465,907)</b> | <b>3,736</b>   | <b>(525,463)</b> | <b>195,535</b>   |
| <br>  |                  |                |                  |                  |
| Changes in net working capital:                   |                  |                |                  |                  |
| Current assets                                    |                  |                |                  |                  |
| At the end of the year                            | 16,721           | 172,346        | 4,443,021        | 2,313,439        |
| At the beginning of the year                      | 172,346          | 142,909        | 2,313,439        | 1,716,347        |
|   | (155,625)        | 29,437         | 2,129,582        | 597,092          |
| <br>  |                  |                |                  |                  |
| Current liabilities                               |                  |                |                  |                  |
| At the end of the year                            | 467,306          | 157,024        | 4,135,122        | 1,480,077        |
| At the beginning of the year                      | 157,024          | 131,323        | 1,480,077        | 1,078,520        |
|   | 310,282          | 25,701         | 2,655,045        | 401,557          |
| <b>Increase (decrease) in net working capital</b> | <b>(465,907)</b> | <b>3,736</b>   | <b>(525,463)</b> | <b>195,535</b>   |

The accompanying notes are an integral part of these financial statements



**TIM PARTICIPAÇÕES S.A.**

## NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2006 and 2005

(In thousands of Reais, unless when otherwise stated)

**1 Operations**

TIM Participações S.A. headquartered at Avenida das Américas, 3434, block 1, 7<sup>th</sup> floor, Rio de Janeiro, RJ, is a publicly-held company directly controlled by TIM Brasil Serviços e Participações S.A., a Telecom Italia Group's company, who holds interests of 81.21% of its voting capital and 69.67% of its total capital.

TIM Participações S.A.'s operations comprise, among other things, the control of companies exploring telecommunications services, including cellular telephones, in its concession and/or authorization areas.

Once the transactions describe in Note 2 (Corporate Restructuring) have been completed, the Company will have full control of TIM Celular S.A., which in turn controls TIM Nordeste S.A. (formerly Maxitel S.A.). TIM Celular S.A. and its subsidiary TIM Nordeste S.A. jointly operate cellular personal telephony services in all Brazilian states.

The loss for the year 2006 arises from the subsidiary TIM Celular S.A. and is in line with the latter's management who expects positive results as from 2007.

Additionally, this subsidiary has negative working capital. The management's long-term economic-financial projections are based on prospects of resource inflow through borrowing until fiscal 2007, when the subsidiary is expected to have regained economic-financial balance, with a positive cash flow as a result.

The services provided by the subsidiaries and the respective tariffs are regulated by ANATEL - Brazilian Telecommunications Agency - in charge of regulating all Brazilian telecommunications. The subsidiaries authorizations mature as follows:

| <b>TIM Celular</b>   | <b>Expiry Date</b> |
|--|--------------------|
| <i>Region 1</i>  |                    |
| Amapá, Roraima, Pará, Amazonas, Rio de Janeiro e Espírito Santo  | March, 2016        |
| <i>Region 2</i>  |                    |
| Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás e Rio Grande do Sul (except for Pelotas) | March, 2016        |
| <i>Region 3</i>  |                    |
| São Paulo  | March, 2016        |
| <i>Region 4</i>  |                    |
| Paraná   | September, 2007    |
| Santa Catarina   | September, 2008    |
| Rio Grande do Sul (City of Pelotas)  | April, 2009        |

**TIM Nordeste**

*Region 1*

|                                       |                |
|---------------------------------------|----------------|
| Pernambuco                            | May, 2009      |
| Ceará                                 | November, 2008 |
| Paraíba, Rio Grande do Norte, Alagoas | December, 2008 |
| Piauí                                 | March, 2009    |

*Region 2*

|              |             |
|--------------|-------------|
| Minas Gerais | April, 2013 |
|--------------|-------------|

*Region 3*

|                   |              |
|-------------------|--------------|
| Bahia and Sergipe | August, 2012 |
|-------------------|--------------|

**2 Corporate Restructuring**

a. Merger of TIM Nordeste Telecomunicações S.A. into Maxitel S.A. and of TIM Sul S.A. into TIM Celular S.A.

On June 30, 2006, at their General Extraordinary Stockholders' Meetings, TIM Celular S.A., Maxitel S.A., TIM Nordeste Telecomunicações S.A. and TIM Sul S.A approved the merger of TIM Nordeste Telecomunicações S.A. into Maxitel S.A. and of TIM Sul S.A. into TIM Celular S.A. On the same date, Maxitel S.A.'s name changed to TIM Nordeste S.A., and its headquarters moved from Belo Horizonte (MG) to Jaboatão dos Guararapes (PE).

This operation was intended to proceed with the optimization of the companies' organizational structure, through further unification and rationalization of business and operations, concurrently with reduction of costs incurred in maintaining two separate entities. Additionally, all this enabled taking advantage of intercompany synergies, with the attendant tax and financial efficiency.

b. Merger of the companies CRC - Centro de Relacionamento com Clientes Ltda. and Blah! Sociedade Anônima de Serviços e Comércio

On March 30, 2006, at the General Extraordinary Stockholders Meeting of TIM Celular S.A. the incorporation of the net assets of CRC - Centro de Relacionamento com Clientes Ltda. and Blah! Sociedade Anônima de Serviços e Comércio, then wholly owned by TIM Celular S.A., was approved.

CRC - Centro de Relacionamento com Clientes Ltda. operated in the call center service provision area, rendering these services to TIM Celular S.A on an exclusive basis. Blah! Sociedade Anônima de Serviços e Comércio operated in the VAS (value-added services) provision area, working basically for the Telecom Italia Group's companies. .

c. Incorporation of shares of TIM Celular S.A.

On March 16, 2006, at the General Extraordinary Stockholders' Meetings of TIM Celular S.A. and TIM Participações S.A, the incorporation of all shares of TIM Celular S.A. by TIM Participações S.A was approved, thus converting TIM Celular S.A. into a wholly-owned subsidiary of TIM Participações S.A.

This operation aimed at optimizing the companies' and their subsidiaries' organizational structure, by unifying and rationalizing their business administration and consequently reducing the related costs and increasing value for the stockholders, while enabling better use of intercompany synergy through operational combination of cellular telephone service companies operating under the name TIM nationwide.

d. Incorporation of shares of TIM Sul S.A. and TIM Nordeste Telecomunicações S.A.

On May 30, 2005, at the General Extraordinary Stockholders' Meetings of TIM Sul S.A, TIM Nordeste Telecomunicações S.A and TIM Participações S.A, the incorporation of all shares of TIM Sul S.A. and TIM Nordeste Telecomunicações S.A. by TIM Participações S.A was approved, thus converting the companies into wholly-owned subsidiaries of TIM Participações S.A.

This operation was intended to concentrate the liquidity of the three companies' shares into those of one company, TIM Participações S.A. and to lower the expenses associated with controls and maintenance of the plurality of stockholders in separate entities.

### 3 Presentation of the Financial Statements

#### a. Preparation and disclosure criteria

The consolidated and individual financial statements were prepared in accordance with accounting practices adopted in Brazil, which are based on the Corporate Law (Law no. 6.404/76 and subsequent amendments); standards applicable to public telecommunications services; and CVM Brazilian Securities Commission accounting standards and procedures and accounting standards set by IBRACON Brazilian Institute of Independent Auditors.

As a publicly-held company, with American Depositary Receipts being traded on the New York Stock Exchange USA., TIM Participações S.A. is subject to the Securities and Exchange Commission (SEC)'s standards, and in order to meet market requirements, it simultaneously discloses Real-denominated financial information, prepared in accordance with Brazilian accounting practices in Portuguese and English, for both markets.

On February 23, 2007, the financial statements in questions were submitted to the Company's fiscal council and administrative council for approval.

#### b. Adoption of a news accounting practices

The Company and its subsidiaries decided to change their accounting practices, by adjusting them to those used even by other telecommunications companies.

#### ***Asset Retirement Obligations (ARO)***

The new accounting treatment consists in capitalizing estimated costs to be incurred on disassembly of towers and equipment in rented properties, the depreciation of which is calculated based on their useful lives. Against this capitalization, a provision for Asset retirement obligations (ARO) will be recorded and discounted to present value, so as to reflect the best current estimate.

This accounting practice is in accordance with CVM Deliberation no. 489 of October 3, 2005, which approved and made mandatory for publicly-held companies the NPC 22 Accounting Pronouncement, Standard and Procedure dealing with Provisions, and Contingent Liabilities and Assets, issued by IBRACON Brazilian Institute of Independent Auditors.

The practice adopted also complies with *SFAS 143 - Accounting for Asset Retirement Obligations* of *Financial Accounting Standards Board FASB*

The prior years' adjustments deriving from this new accounting practice are shown in the statement of changes in stockholders' equity in connection with the applicable years (2004 and 2005). Accordingly, for the sake of comparability, the financial statements for 2005 are adjusted as though said accounting practice had already been adopted in that year.

***Subsidies offered on the sale of handsets to postpaid subscribers***

In 2006, the subsidiaries changed their accounting treatment for costs associated with subsidies offered on the sale of handsets to postpaid subscribers who enter into a binding contract with exit penalties and minimum monthly charges for a period of twelve months. The Company believes that the deferral of such costs, which is allowable under certain conditions, most accurately reflects the performance of the postpaid business by matching costs with the related revenue.

Conditions for deferral of the cost include the following:

- A legally enforceable contractual arrangement exists;
- Costs are readily determinable;
- Company's management intends to enforce the terms of contract, and
- Objective evidence exists supporting that net revenues less related direct costs will exceed the amount of deferred costs recorded based on terms of the contractual arrangement.

This change was made taking into consideration the modification of the subsidiaries' sales strategy, which will be geared towards attracting high value-added customers, from 2006 on. In 2006 the integration of operating subsidiaries was completed and they are now claiming for strict compliance with contracted penalties for customers who cancel their subscriptions or migrate to prepaid system with the previous contract still in effect. Also, in 2006, the Company implemented systems that enable proper allocation of costs incurred on subsidized sales to post-paid system customers. The gross effect of this change in accounting practice on the income for 2006 was a R\$317,919 credit to the Cost of Handsets Sold account, as a counterentry to prepaid expenses. The net balance as of December 31, 2006 is R\$ 160,172 (Note 10)

In previous years, due to inconsistent enforcement of contractual penalties and the lack of managerial information and segregation of accounting data for properly determining costs, both quantification and deferral of costs were impossible.

c. Consolidated Financial Statements

The consolidated financial statements include assets, liabilities and the result of operations of the Company and its subsidiaries, as follows:

|                                    | % Participation |          |        |          |                |          |
|------------------------------------|-----------------|----------|--------|----------|----------------|----------|
|                                    | 2006            |          | 2005   |          | 2005 Pro forma |          |
|                                    | Direct          | Indirect | Direct | Indirect | Direct         | Indirect |
| TIM Participações                  |                 |          |        |          |                |          |
| TIM Celular                        | 100,00          | -        | -      | -        | 100,00         | -        |
| TIM Nordeste<br>(formerly Maxitel) | -               | 100,00   | -      | -        | -              | 100,00   |
| TIM Sul                            | -               | -        | 100,00 | -        | 100,00         | -        |
| TIM Nordeste<br>Telecomunicações   | -               | -        | 100,00 | -        | 100,00         | -        |
| CRC                                | -               | -        | -      | -        | -              | 100,00   |
| Blah                               | -               | -        | -      | -        | -              | 100,00   |

The main consolidation procedures are as follows:

Elimination of intercompany consolidated assets and liabilities accounts;

Elimination of participation in capital, reserves and retained earnings of the subsidiaries;

III. Elimination of intercompany revenues and expenses;

IV. Separate disclosure of the minority participation in the consolidated financial statements, when applicable.

The difference reconciled in the income for the period can be thus shown (Parent Company and Consolidated):

|   | 2006             | 2005<br>adjusted |
|---|------------------|------------------|
| Parent Company  | (285,542)        | 424,863          |
| Fiscal benefit and incentive - ADENE in 2006, recorded as stockholders' equity of the subsidiary TIM Nordeste S.A. and 2005, recorded as stockholders' equity of the subsidiary TIM Nordeste Telecomunicações S.A | (16,141)         | (35,289)         |
| Consolidated  | <b>(301,683)</b> | <b>389,574</b>   |

d. Comparability of the financial statements

For purposes of comparability, the pro forma consolidated balance sheet and statement of income are shown below, as if the incorporation of shares mentioned in Note 2-c had taken place on January 1, 2005:

The Company and its subsidiaries aim at improving their corporate governance levels, and the presentation of their financial statements and, especially at complying with the CVM Brazilian Securities Commission stipulated accounting practices or those laid down in international practices. To this end, the Company and its subsidiaries have analyzed the best accounting practices applicable to their field of activity, the result being some adjustments shown below and financial statements substantially different from those previously published and/or made available to the stockholders.

The adjustments in the financial statements are:

- (a) These are adjustments resulting from changes in accounting practices referring to asset retirement obligations (ARO) (Note 3-b).
- (b) This is an equity accounting adjustment based on the above mentioned adjustments.
- (c) In compliance with CVM Deliberation no. 489 of October 3, 2005, the Company reclassified judicial deposits, by deducting the related contingent liabilities.
- (d) This refers to reclassification of some discounts given on handsets sold, which in 2005 were appropriated to financial expenses.

Additionally, we inform that there has been no reclassification or adjustment of the statements for 2005, due to deferral of subsidized sale of handsets to subscribers under the the post-paid system (Note 3-b) and lack of information that enable cost quantification and deferral in 2005.

**PARENT COMPANY 2005**

|  | <b>Original</b>  | <b>(b)</b>      | <b>Adjusted</b>  |
|--|------------------|-----------------|------------------|
| <b>ASSETS</b>  |                  |                 |                  |
| <b>Current Assets</b>                                |                  |                 |                  |
| Cash and bank  | 55               | -               | 55               |
| Short-term inv. in the money market (note 5)         | 5,917            | -               | 5,917            |
| Taxes and contributions recoverable (note 8)         | 18,167           | -               | 18,167           |
| Deferred income tax and social contribution (note 9) | 1,137            | -               | 1,137            |
| Dividends and interest on own capital receivable     | 146,776          | -               | 146,776          |
| Other assets   | 294              | -               | 294              |
|  | 172,346          | -               | 172,346          |
| <b>Non-Current Assets</b>                            |                  |                 |                  |
| Long-term  |                  |                 |                  |
| Taxes and contributions recoverable (note 8))        | 6,873            | -               | 6,873            |
| Deferred income tax and social contribution (note 9) | 2,312            | -               | 2,312            |
| Judicial deposits (note 12)                          | 447              | -               | 447              |
| Other assets   | 13               | -               | 13               |
| Permanent Assets                                     |                  |                 |                  |
| Investments (note 13)                                | 2,727,775        | (31,122)        | 2,696,653        |
|  | 2,737,420        | (31,122)        | 2,706,298        |
| <b>Total Assets</b>                                  | <b>2,909,766</b> | <b>(31,122)</b> | <b>2,878,644</b> |
| <b>LIABILITIES</b>                                   |                  |                 |                  |
| <b>Current Liabilities</b>                           |                  |                 |                  |
| Suppliers Trade payables (note 17)                   | 3,364            | -               | 3,364            |
| Labor obligations (note 19)                          | 1,379            | -               | 1,379            |
| Taxes, charges and contributions (note 20)           | 20,909           | -               | 20,909           |
| Dividends and interest on own capital payable        | 131,178          | -               | 131,178          |
| Other  | 194              | -               | 194              |
|  | 157,024          | -               | 157,024          |
| <b>Non-current liabilities</b>                       |                  |                 |                  |
| Long-term  |                  |                 |                  |
| Provision for contingencies (note 22)                | 3,215            | -               | 3,215            |
| Actuarial Liabilities (note 36)                      | 3,584            | -               | 3,584            |



|   |           |          |           |
|---|-----------|----------|-----------|
|   | 6,799     | -        | 6,799     |
| <b>Stockholders' equity</b> (note 24)             |           |          |           |
| Capital   | 1,472,075 | -        | 1,472,075 |
| Capital reserves                                  | 192,081   | -        | 192,081   |
| Revenue reserves                                  | 1,081,787 | (31,122) | 1,050,665 |
|   | 2,745,943 | (31,122) | 2,714,821 |
| <b>Total liabilities and stockholders' equity</b> | 2,909,766 | (31,122) | 2,878,644 |

## PARENT COMPANY 2005

|   | Original       | (a) | (b)            | Adjusted       |
|---|----------------|-----|----------------|----------------|
| <b>STATEMENTS OF INCOME</b>                                   |                |     |                |                |
| General and administrative (note 28)                          | (18,328)       | -   | -              | (18,328)       |
| Equity pickup   | 463,407        | -   | (9,626)        | 453,781        |
| Other operating revenues (expenses) net<br>(note 29)          | (1,360)        | -   | -              | (1,360)        |
| Operating income (loss) before financial<br>income            | <b>443,719</b> | -   | <b>(9,626)</b> | <b>434,093</b> |
| Financial revenues (expenses):                                |                |     |                |                |
| Financial revenues (note 30)                                  | 3,274          | -   | -              | 3,274          |
| Financial expenses (note 31)                                  | (11,175)       | -   | -              | (11,175)       |
| Exchange variations, net (note 32)                            | 10             | -   | -              | 10             |
|   | (7,891)        | -   | -              | (7,891)        |
| Income before income tax, social contribution                 | 435,828        | -   | (9,626)        | 426,202        |
| Provision for income tax and social<br>contribution (note 34) | (1,339)        | -   | -              | (1,339)        |
| <b>Net income (loss) for the year</b>                         | <b>434,489</b> | -   | <b>(9,626)</b> | <b>424,863</b> |
| Earnings (losses) per thousand-share lot (R\$)                | 0.49           | -   | (0.01)         | 0.48           |

## CONSOLIDATED 2005

|  | Original         | (a)           | (c)             | Adjusted         |
|--|------------------|---------------|-----------------|------------------|
| <b>ASSETS</b>  |                  |               |                 |                  |
| <b>Current Assets</b>                                |                  |               |                 |                  |
| Cash and bank  | 30,124           | -             | -               | 30,124           |
| Short-term inv. in the money market (note 5)         | 1,251,644        | -             | -               | 1,251,644        |
| Accounts receivable (note 6)                         | 723,335          | -             | -               | 723,335          |
| Inventories (note 7)                                 | 81,880           | -             | -               | 81,880           |
| Taxes and contributions recoverable (note 8)         | 114,065          | -             | -               | 114,065          |
| Deferred income tax and social contribution (note 9) | 103,118          | -             | -               | 103,118          |
| Prepaid expenses (note 10)                           | 6,321            | -             | -               | 6,321            |
| Other assets   | 2,952            | -             | -               | 2,952            |
|  | <b>2,313,439</b> | -             | -               | <b>2,313,439</b> |
| <b>Non-Current Assets</b>                            |                  |               |                 |                  |
| Long-term  |                  |               |                 |                  |
| Taxes and contributions recoverable (note 8)         | 69,946           | -             | -               | 69,946           |
| Deferred income tax and social contribution (note 9) | 117,478          | 16,032        | -               | 133,510          |
| Related-party transactions (note 11)                 | 18,618           | -             | -               | 18,618           |
| Judicial deposits (note 12)                          | 26,278           | -             | (11,779)        | 14,499           |
| Prepaid expenses (note 10)                           | 1,976            | -             | -               | 1,976            |
| Other assets   | 2,730            | -             | -               | 2,730            |
| Permanent Assets                                     |                  |               |                 |                  |
| Investments (note 13)                                | 8,310            | -             | -               | 8,310            |
| Property, plant and equipment (note 14)              | 1,804,637        | 68,057        | -               | 1,872,694        |
| Intangibles (note 15)                                | 21,651           | -             | -               | 21,651           |
|  | <b>2,071,624</b> | <b>84,089</b> | <b>(11,779)</b> | <b>2,143,934</b> |
| <b>Total Assets</b>                                  | <b>4,385,063</b> | <b>84,089</b> | <b>(11,779)</b> | <b>4,457,373</b> |

## CONSOLIDATED 2005

|   | Original         | (a)            | (c)             | Adjusted         |
|---|------------------|----------------|-----------------|------------------|
| <b>LIABILITIES</b>                                |                  |                |                 |                  |
| <b>Current Liabilities</b>                        |                  |                |                 |                  |
| Suppliers Trade payables (note 17)                | 1,047,820        | -              | -               | 1,047,820        |
| Loans and financing (note 18)                     | 25,707           | -              | -               | 25,707           |
| Labor obligations (note 19)                       | 22,685           | -              | -               | 22,685           |
| Taxes, charges and contributions (note 20)        | 157,666          | -              | -               | 157,666          |
| Authorizations payable (note 21)                  | 8,741            | -              | -               | 8,741            |
| Dividends and interest on own capital payable     | 141,606          | -              | -               | 141,606          |
| Related-party transactions (note 11)              | 53,943           | -              | -               | 53,943           |
| Other   | 21,909           | -              | -               | 21,909           |
|   | <b>1,480,077</b> | -              | -               | <b>1,480,077</b> |
| <b>Non-current liabilities</b>                    |                  |                |                 |                  |
| Long Term Liabilities                             |                  |                |                 |                  |
| Loans and financing (note 18)                     | 105,076          | -              | -               | 105,076          |
| Taxes, charges and contributions (note 20)        | 4,634            | -              | -               | 4,634            |
| Provision for contingencies (note 22)             | 42,787           | -              | (11,779)        | 31,008           |
| Actuarial Liabilities (note 36)                   | 3,584            | -              | -               | 3,584            |
| Authorizations payable (note 21)                  | 2,962            | -              | -               | 2,962            |
| Asset retirement obligations (ARO) (note 23)      | -                | 115,211        | -               | 115,211          |
|   | <b>159,043</b>   | <b>115,211</b> | <b>(11,779)</b> | <b>262,475</b>   |
| <b>Stockholders' equity (note 24)</b>             |                  |                |                 |                  |
| Capital   | 1,472,075        | -              | -               | 1,472,075        |
| Capital reserves                                  | 192,081          | -              | -               | 192,081          |
| Revenue reserves                                  | 1,081,787        | (31,122)       | -               | 1,050,665        |
|   | 2,745,943        | (31,122)       | -               | 2,714,821        |
| <b>Total liabilities and stockholders' equity</b> | <b>4,385,063</b> | <b>84,089</b>  | <b>(11,779)</b> | <b>4,457,373</b> |

## CONSOLIDATED 2005

|   | Original         | (a)             | Adjusted         |
|---|------------------|-----------------|------------------|
| <b>STATEMENTS OF INCOME</b>   |                  |                 |                  |
| Gross operating revenue   |                  |                 |                  |
| Telecommunications services (note 25)   | 3,169,742        | -               | 3,169,742        |
| Goods sold (note 25)  | 733,530          | -               | 733,530          |
|   | 3,903,272        | -               | 3,903,272        |
| Deductions from gross revenue (note 25)   | (985,057)        | -               | (985,057)        |
| Net operating revenue (note 25)   | 2,918,215        | -               | 2,918,215        |
| Cost of services rendered (note 26)   | (841,102)        | (5,000)         | (846,102)        |
| Cost of goods sold (note 26)  | (536,470)        | -               | (536,470)        |
| <b>Gross income</b>   | <b>1,540,643</b> | <b>(5,000)</b>  | <b>1,535,643</b> |
| Operating revenues (expenses):  |                  |                 |                  |
| Selling (note 27)   | (798,106)        | -               | (798,106)        |
| General and administrative (note 28)  | (185,946)        | -               | (185,946)        |
| Equity pickup   | -                | -               | -                |
| Amortization of goodwill on privatization                                       | (50,450)         | -               | (50,450)         |
| Amortization of concession  | (9,295)          | -               | (9,295)          |
| Other operating revenues (expenses) - net (note 29)                             | (16,014)         | -               | (16,014)         |
|   | (1,059,811)      | -               | (1,059,811)      |
| Operating income (loss) before financial income                                 | 480,832          | (5,000)         | 475,832          |
| Financial revenues (expenses):  |                  |                 |                  |
| Financial revenues (note 30)  | 158,546          | -               | 158,546          |
| Financial expenses (note 31)  | (83,634)         | (9,584)         | (93,218)         |
| Exchange variations, net (note 32)  | (2,482)          | -               | (2,482)          |
|   | 72,430           | (9,584)         | 62,846           |
| <b>Operating income (loss)</b>  | <b>553,262</b>   | <b>(14,584)</b> | <b>538,678</b>   |
| Non-operating income (Note 33)  | (2,260)          | -               | (2,260)          |
| Income (loss) before income tax, social contribution and minority participation | 551,002          | (14,584)        | 536,418          |

|  |                |                |                |
|--|----------------|----------------|----------------|
| Provision for income tax and social contribution (note 34) | (130,338)      | 4,958          | (125,380)      |
| <b>Net income (loss) before minority participation</b>     | <b>420,664</b> | <b>(9,626)</b> | <b>411,038</b> |
| Minority participation                                     | (21,464)       | -              | (21,464)       |
| <b>Net income (loss) for the year</b>                      | <b>399,200</b> | <b>(9,626)</b> | <b>389,574</b> |

## Consolidated Pro-Forma 2005

|  | Original          | (a)            | (c)             | Adjusted          |
|--|-------------------|----------------|-----------------|-------------------|
| <b>ASSETS</b>  |                   |                |                 |                   |
| <b>Current Assets</b>                                |                   |                |                 |                   |
| Cash and bank  | 519,300           | -              | -               | 519,300           |
| Short-term inv. in the money market (note 5)         | 1,253,300         | -              | -               | 1,253,300         |
| Accounts receivable (note 6)                         | 2,071,631         | -              | -               | 2,071,631         |
| Inventories (note 7)                                 | 215,242           | -              | -               | 215,242           |
| Taxes and contributions recoverable (note 8)         | 242,168           | -              | -               | 242,168           |
| Deferred income tax and social contribution (note 9) | 103,118           | -              | -               | 103,118           |
| Prepaid expenses (note 10)                           | 43,730            | -              | -               | 43,730            |
| Other assets   | 13,090            | -              | -               | 13,090            |
|  | <b>4,461,579</b>  | -              | -               | <b>4,461,579</b>  |
| <b>Non-Current Assets</b>                            |                   |                |                 |                   |
| Long-term  |                   |                |                 |                   |
| Taxes and contributions recoverable (note 8)         | 297,634           | -              | -               | 297,634           |
| Deferred income tax and social contribution (note 9) | 117,478           | 16,032         | -               | 133,510           |
| Related-party transactions (note 11)                 | 8,836             | -              | -               | 8,836             |
| Judicial deposits (note 12)                          | 51,495            | -              | (11,779)        | 39,716            |
| Prepaid expenses (note 10)                           | 19,719            | -              | -               | 19,719            |
| Other assets   | 3,047             | -              | -               | 3,047             |
| Permanent Assets                                     |                   |                |                 |                   |
| Investments (note 13)                                | 8,310             | -              | -               | 8,310             |
| Property, plant and equipment (note 14)              | 7,541,457         | 274,351        | -               | 7,815,808         |
| Intangibles (note 15)                                | 2,170,858         | -              | -               | 2,170,858         |
| Deferred charges (note 16)                           | 274,925           | -              | -               | 274,925           |
|  | 10,493,759        | 290,383        | (11,779)        | 10,772,363        |
| <b>Total Assets</b>                                  | <b>14,955,338</b> | <b>290,383</b> | <b>(11,779)</b> | <b>15,233,942</b> |

## Consolidated Pro-Forma 2005

|   | Original          | (a)              | (c)             | Adjusted          |
|---|-------------------|------------------|-----------------|-------------------|
| <b>LIABILITIES</b>                                |                   |                  |                 |                   |
| <b>Current Liabilities</b>                        |                   |                  |                 |                   |
| Suppliers Trade payables (note 17)                | 3,419,596         | -                | -               | 3,419,596         |
| Loans and financing (note 18)                     | 216,147           | -                | -               | 216,147           |
| Labor obligations (note 19)                       | 94,428            | -                | -               | 94,428            |
| Taxes, charges and contributions (note 20)        | 357,328           | -                | -               | 357,328           |
| Authorizations payable (note 21)                  | 34,792            | -                | -               | 34,792            |
| Dividends and interest on own capital payable     | 141,606           | -                | -               | 141,606           |
| Related-party transactions (note 11)              | 73,902            | -                | -               | 73,902            |
| Other   | 54,442            | -                | -               | 54,442            |
|   | <b>4,392,241</b>  | -                | -               | <b>4,392,241</b>  |
| <b>Non-current liabilities</b>                    |                   |                  |                 |                   |
| Long-term   |                   |                  |                 |                   |
| Loans and financing (note 18)                     | 1,653,895         | -                | -               | 1,653,895         |
| Taxes, charges and contributions (note 20)        | 4,634             | -                | -               | 4,634             |
| Provision for contingencies (note 22)             | 157,501           | -                | (11,779)        | 145,722           |
| Supplementary retirement benefit (note 36)        | 3,584             | -                | -               | 3,584             |
| Authorizations payable (note 21)                  | 8,755             | -                | -               | 8,755             |
| Asset retirement obligations (ARO) (note 23)      | -                 | 397,427          | -               | 397,427           |
| Others liabilities                                | 5,001             | -                | -               | 5,001             |
|   | <b>1,833,370</b>  | <b>397,427</b>   | <b>(11,779)</b> | <b>2,219,018</b>  |
| <b>Stockholders' equity (note 24)</b>             |                   |                  |                 |                   |
| Capital   | 7,455,859         | -                | -               | 7,455,859         |
| Capital reserves                                  | 192,081           | -                | -               | 192,081           |
| Revenue reserves                                  | 1,081,787         | (107,044)        | -               | 974,743           |
|   | <b>8,729,727</b>  | <b>(107,044)</b> | -               | <b>8,622,683</b>  |
| <b>Total liabilities and stockholders' equity</b> | <b>14,955,338</b> | <b>290,383</b>   | <b>(11,779)</b> | <b>15,233,942</b> |



## Consolidated Pro-Forma 2005

|   | Original         | (a)             | (d)             | Adjusted         |
|---|------------------|-----------------|-----------------|------------------|
| <b>STATEMENTS OF INCOME</b>                         |                  |                 |                 |                  |
| Gross operating revenue                             |                  |                 |                 |                  |
| Telecommunications services (note 25)               | 8,962,547        | -               | -               | 8,962,547        |
| Goods sold (note 25)                                | 2,270,057        | -               | -               | 2,270,057        |
|   | 11,232,604       | -               | -               | 11,232,604       |
| Deductions from gross revenue (note 25)             | (2,821,551)      | -               | (43,001)        | (2,864,552)      |
| Net operating revenue (note 25)                     | 8,411,053        | -               | (43,001)        | 8,368,052        |
| Cost of services rendered (note 26)                 | (2,894,953)      | (13,538)        | -               | (2,908,491)      |
| Cost of goods sold (note 26)                        | (1,719,760)      | -               | -               | (1,719,760)      |
| <b>Gross income</b>                                 | <b>3,796,340</b> | <b>(13,538)</b> | <b>(43,001)</b> | <b>3,739,801</b> |
| Operating revenues (expenses):                      |                  |                 |                 |                  |
| Selling (note 27)                                   | (3,067,739)      | -               | -               | (3,067,739)      |
| General and administrative (note 28)                | (795,169)        | -               | -               | (795,169)        |
| Amortization of goodwill on privatization           | (50,450)         | -               | -               | (50,450)         |
| Amortization of concession                          | (248,238)        | -               | -               | (248,238)        |
| Other operating revenues (expenses) - net (note 29) | (7,240)          | -               | -               | (7,240)          |
|   | (4,168,836)      | -               | -               | (4,168,836)      |
| Operating income (loss) before financial income     | (372,496)        | (13,538)        | (43,001)        | (429,035)        |
| Financial revenues (expenses):                      |                  |                 |                 |                  |
| Financial revenues (note 30)                        | 181,362          | -               | -               | 181,362          |
| Financial expenses (note 31)                        | (376,591)        | (34,545)        | 43,001          | (368,135)        |
| Exchange variations, net (note 32)                  | (185,856)        | -               | -               | (185,856)        |
|   | (381,085)        | (34,545)        | 43,001          | (372,629)        |
| <b>Operating income (loss)</b>                      | <b>(753,581)</b> | <b>(48,083)</b> | <b>-</b>        | <b>(801,664)</b> |
| Non-operating income (note 33)                      | (5,500)          | -               | -               | (5,500)          |

|   |                  |                 |   |                  |
|---|------------------|-----------------|---|------------------|
| Income (loss) before income tax, social contribution and minority participation | (759,081)        | (48,083)        | - | (807,164)        |
| Provision for income tax and social contribution (note 34)                      | (165,891)        | 4,958           | - | (160,933)        |
| <b>Net income (loss) before minority participation</b>                          | <b>(924,972)</b> | <b>(43,125)</b> | - | <b>(968,097)</b> |
| Minority participation  | (21,464)         | -               | - | (21,464)         |
| <b>Net income (loss) for the year</b>   | <b>(946,436)</b> | <b>(43,125)</b> | - | <b>(989,561)</b> |

#### **4 Summary of the main accounting practices**

##### a. Short-term investments in the money market

These comprise short-term, readily realizable investments in the money market maturing in over 90 days, which are stated at cost, plus the related earnings up to the balance sheet date.

##### b. Accounts receivable

Accounts receivable from the telecommunications service costumers are calculated at the tariff rate on the date of service-rendering, including credits for services rendered but not billed until the balance sheet date, receivables from network use and receivables from sales of handsets and accessories.

##### c. Allowance for doubtful accounts

The allowance for doubtful accounts is recorded based on the customer base profile, the aging of past due accounts, the economic scenario and the risks involved in each case. The allowance amount is considered sufficient to cover possible losses on receivables.

##### d. Inventories

These refer to handsets and accessories, which are stated at the average acquisition cost, not exceeding replacement cost. A provision was set up to adjust the slow-moving and obsolete items balance to the related realizable value.

##### e. Prepaid expenses

The prepaid expenses are shown at the amount actually disbursed and not yet incurred.

##### f. Investments

The investments in subsidiaries are evaluated by the equity method, based on the subsidiaries' stockholders equity, which is determined on the same date and by the same accounting principles used by the parent company.

The other investments are shown at cost, reduced to the realizable value, when applicable.

##### g. Property, plant and equipment

The property, plant and equipment items are shown at the acquisition and/or construction cost net of accumulated depreciation, calculated on the straight-line method, over the useful life of assets involved. Any repair and maintenance costs incurred representing improvement, higher capacity or longer useful life are capitalized, whereas the others are recorded as income for the year.

Interest and other financial charges on financing taken for funding construction work in progress (assets and facilities under construction) are capitalized up to the startup date.

The estimated costs to disassembly of towers and equipment in rented properties are capitalized and depreciated over the useful life of the assets involved.

The long-term assets, especially property, plant and equipment, are periodically reviewed to determine the need for recording a provision for losses on any such items and recovery thereof.

The estimated useful lives of all property, plant and equipment items are regularly reviewed considering technological advances.

h. Intangibles

Intangibles are stated at the acquisition cost, net of accumulated amortization. Amortization expenses are calculated on the straight-line method over the useful term of respective contracts, i.e., five years for radio frequency bands and fifteen years for use authorization.

i. Deferred charges

The deferred charges comprise pre-operating expenses and financial costs of the required working capital at the subsidiaries' pre-operating stage, which are amortized in ten years from the date the subsidiaries become operative.

j. Income tax and social contribution

Income tax is calculated based on the income adjusted for legally stipulated additions and exclusions. The social contribution is calculated at the legally stipulated rates applied to pretax income.

Based on the Constitutive Reports nos. 0144/2003 and 0232/2003 issued by ADENE – Northeast Development Agency on March 31, 2003, the subsidiary TIM Nordeste Telecomunicações S.A., which was merged into TIM Nordeste S.A. (formerly Maxitel S.A.) became eligible to fiscal incentive consisting of: (i) 75% reduction of income tax and non-reimbursable surtaxes for a ten-year period, from fiscal 2002 through 2011, calculated based on the exploration income arising from implementation of its installed capacity for rendering digital cellular telephone services; and (ii) reduction of 37.5%, 25% and 12.5% of income tax and non-reimbursable surtaxes for fiscal 2003, 2004-2008 and 2009-2013, respectively, calculated based on the exploration income arising from implementation of its installed capacity for rendering of analogical cellular telephone services. The amount of the previously mentioned income-tax-reduction benefit is accounted for as a reduction of income tax payable, against the Capital Reserve – Fiscal Incentive, under the Stockholders' Equity of TIM Nordeste Telecomunicações S.A. which was merged into TIM Nordeste S.A. (formerly Maxitel S.A.)

k. Loans and financing

Loans and financing include interest accrued to the balance sheet date. The Company's subsidiaries enter into swap contracts whereby obligations in foreign currency are converted into Real-denominated obligations, with the objective of hedging them against risks associated with unexpected devaluation of the Real in relation to foreign currencies. Additionally, the Company's subsidiaries have swap contracts to cover changes in market Income tax is calculated based on the income adjusted for legally stipulated additions and exclusions interest rates. Gains and losses from such operations are recognized in the income statement under the accrual method, based on contracted rates.

l. Provision for contingencies

The provision for contingencies, recorded based on estimates which take into consideration the opinion of the Company's management and its legal advisors, is updated based on probable losses at the end of the litigations (Note 22).

m. Asset retirement obligations

The provision for costs to be incurred on the disassembly of towers and equipment in rented property, which is recorded against the property, plant and equipment, is discounted to present value so it can reflect the best current estimate.

n. Revenue recognition

Service revenues are recognized as services are provided. Billings are monthly recorded. Unbilled revenues from the billing date to the month end are measured and recognized during the month in which services are provided. Revenues from prepaid telecommunication services are recognized on the accrual basis in the period of utilization. Revenues from the sale of handsets and accessories are recognized as these products are delivered to, and accepted by, end-consumers or distributors.

o. Financial revenues and expenses

These are represented by interest and exchange and monetary variations on short-term investments in the money market, swap contracts, loans and financing taken and granted.

p. Derivative instruments

The subsidiaries have entered into swap agreements aimed at managing the risks involved in exchange rate variations, which are recorded on the accrual basis. Payments made or received are recognized as adjustment to exchange variations.

The subsidiaries derivative instrument agreements are signed with big financial institutions with great experience in this field. No derivative instrument agreements for commercial or speculation purposes are held by the subsidiaries.

q. Pension plans and others benefits

The Company and its subsidiaries record the adjustments connected with the employees' pension plans obligations and others benefits according to the rules established by NPC 26 of IBRACON, approved by CVM Deliberation 371, which defines the characteristics of the plans, obligations and events described in Note 36.

r. Minority participation

This is represented by the minority stockholders' interests in the subsidiaries TIM Sul S.A., which was merged into TIM Celular S.A., and TIM Nordeste Telecomunicações S.A., which was merged into TIM Nordeste S.A. (formerly Maxitel S.A.). In 2005 the subsidiaries were converted into wholly-owned subsidiaries of TIM Participações S.A.

s. Use of estimates

The preparation of the financial statements in conformity with accounting practices adopted in Brazil requires management to make estimates and assumptions concerning the amounts of recorded assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date, as well as the estimation of revenues and expenses for the year. The actual results may differ from those estimates.

t. Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the transaction date. Foreign currency-denominated assets and liabilities are translated into Reais using the balance sheet date exchange rate, which is reported by the Brazilian Central Bank. Exchange gains and losses are recognized in the statement of income as incurred.

u. Employees' profit-sharing

The Company and its subsidiaries record a provision for employees' profit-sharing, based on the targets disclosed to its employees and approved by the Administrative Council. These amounts are recorded as personnel expenses and allocated to profit and loss accounts considering each employee's original cost center.

v. Interest on own capital

Interest on own capital, paid and/or payable, is recorded against financial expenses, which, for financial reporting purposes, are reclassified and disclosed as appropriation of net income for the year in the statement of stockholders equity. Interest on own capital received and/or receivable is recorded against financial income, which are reclassified and disclosed as equity pick up. For presentation purposes, the income statements impacts are eliminated and a decrease in investments being presented instead.

w. Supplementary information

For additional information purposes, the following is presented: a) Statements of Cash Flow, prepared in accordance with the NPC no. 20 issued by the Institute of Independent Auditors of Brazil - IBRACON, ; and b) Value-Added Statements prepared in accordance with the CFC - Federal Accounting Council - Resolution no. 1010 - NBCT 37.

**5 Short-Term Investments in the Money Market**

|                           | <b>Parent Company</b> |                          |  |
|---------------------------|-----------------------|--------------------------|--|
|                           | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| Federal public securities | 16,283                | 5,917                    |  |
|                           | <b>Consolidated</b>   |                          |  |
|                           | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| CDB                       | 462,949               | 704,737                  | 706,393                                |
| Debêntures                | 141,338               | 140,002                  | 140,002                                |
| Federal public securities | 145,355               | 398,766                  | 398,766                                |
| Other                     | 2,969                 | 8,139                    | 8,139                                  |
|                           | 752,611               | 1,251,644                | 1,253,300                              |

The average return of TIM Participações's consolidated investments is 102.7% of Interbank Deposit Certificates - CDI.

These investments can be redeemed at any time, with no substance impact on the recorded yield.

**6 Accounts receivable**

|                                 | <b>Consolidated</b> |                          |  |
|---------------------------------|---------------------|--------------------------|--|
|                                 | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Billed services                 | 757,817             | 225,712                  | 652,364                                |
| Unbilled services               | 423,097             | 123,621                  | 358,969                                |
| Network use                     | 724,398             | 176,810                  | 474,428                                |
| Goods sold                      | 879,131             | 258,513                  | 794,128                                |
| Other receivables               | 30,821              | 8,236                    | 29,116                                 |
|                                 | 2,815,264           | 792,892                  | 2,309,005                              |
| Allowance for doubtful accounts | (309,431)           | (69,557)                 | (237,374)                              |
|                                 | 2,505,833           | 723,335                  | 2,071,631                              |

The changes in the allowance for doubtful accounts can be summarized as follows:

|                           | <b>Consolidated</b> |                          |  |
|---------------------------|---------------------|--------------------------|--|
|                           | <b>2006</b>         | <b>2005<br/>Adjusted</b> | <b>2005 Pro<br/>forma<br/>Adjusted</b> |
| Opening balance           | 69,557              | 64,307                   | 193,356                                |
| Merged companies' balance | 167,817             | -                        | -                                      |
| Provision set up          | 451,976             | 117,978                  | 334,462                                |
| Write offs                | (379,919)           | (112,728)                | (290,444)                              |
| Closing balance           | 309,431             | 69,557                   | 237,374                                |

**7 Inventories**

|          | <b>Consolidated</b> |                          |  |
|----------|---------------------|--------------------------|--|
|          | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Handsets | 156,986             | 78,435                   | 205,588                                |



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|  |          |         |          |
|--|----------|---------|----------|
| Accessories and prepaid card kits            | 3,558    | 1,770   | 4,657    |
| TIM chips                                    | 22,806   | 9,100   | 24,006   |
|  | 183,350  | 89,305  | 234,251  |
| Provision for adjustment to realizable value | (19,242) | (7,425) | (19,009) |
|  | 164,108  | 81,880  | 215,242  |

**8 Taxes and contributions recoverable**

|  | <b>Parent Company</b> |                          |  |
|--|-----------------------|--------------------------|--|
|  | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| Income tax   | 5,656                 | 9,609                    |  |
| Social contribution  | -                     | 9                        |  |
| IRRF on interest on own capital  | -                     | 15,000                   |  |
| IRRF recoverable   | 346                   | 422                      |  |
| Other  | 2                     | -                        |  |
|  | 6,004                 | 25,040                   |  |
| Current portion  | (348)                 | (18,167)                 |  |
| Long-term portion  | 5,656                 | 6,873                    |  |
|  | <b>Consolidated</b>   |                          |  |
|  | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Income tax   | 34,739                | 18,761                   | 41,542                                 |
| Social contribution  | 4,654                 | 3,691                    | 4,765                                  |
| ICMS (value-added sales tax)   | 422,216               | 111,841                  | 397,910                                |
| PIS / COFINS (Social Integration Program and Contributions to Social Security Funding) | 96,858                | 18,080                   | 63,717                                 |
| IRRF on interest on own capital  | -                     | 15,000                   | 15,000                                 |
| IRRF recoverable   | 9,809                 | 14,657                   | 14,984                                 |
| Other  | 9,947                 | 1,981                    | 1,884                                  |
|  | 578,223               | 184,011                  | 539,802                                |
| Current portion  | (292,542)             | (114,065)                | (242,168)                              |
| Long-term portion  | 285,681               | 69,946                   | 297,634                                |

The parent company's long-term portion refers to income tax recoverable, whereas the consolidated figure also includes ICMS on the subsidiaries' Property, plant and equipment.

On March 13, 2006, a final sentence not subject to further appeal was given in connection with a suit filed by the indirectly controlled subsidiary TIM Nordeste S.A (formerly Maxitel S.A) against Law 9.718 of 11/27/1998, on alleged unconstitutionality for expanding the basis of calculation of taxes dealt with therein In view of this legal

decision, the subsidiary's Management recorded R\$ 52,317 of monetarily restated PIS and COFINS credits for the periods from February 1999 through December 2002 (PIS) and February 1999 through January 2004 (COFINS) against the Other Operating Revenues account.

**9 Deferred income tax and social contribution**

Below, the composition of deferred income tax and social contribution:

|  | <b>Parent<br/>Company</b> |  |                          |
|--|---------------------------|--|--------------------------|
|  | <b>2005<br/>adjusted</b>  |  |                          |
| Tax loss   | 650                       |  |                          |
| Negative social contribution basis                                 | 234                       |  |                          |
| Provision for contingencies  | 1,093                     |  |                          |
| Provision for supplementary pension fund                           | 1,218                     |  |                          |
| Provision for the employees' profit sharing                        | 254                       |  |                          |
|  | 3,449                     |  |                          |
| Current portion  | (1,137)                   |  |                          |
| Long-term portion  | 2,312                     |  |                          |
|  |                           | <b>Consolidated</b>                    |                          |
|  |                           | <b>2006</b>                            | <b>2005<br/>adjusted</b> |
|  |                           | <b>2005<br/>Pro forma<br/>adjusted</b> |                          |
| Goodwill paid upon privatization                                   | 234,939                   | 383,322                                | 383,322                  |
| Provision for maintaining the stockholders' equity integrity       | (155,060)                 | (252,992)                              | (252,992)                |
| Merger-generated tax credit  | 79,879                    | 130,330                                | 130,330                  |
| Tax loss   | -                         | 5,912                                  | 5,912                    |
| Negative social contribution basis                                 | -                         | 2,149                                  | 2,149                    |
| Depreciation of assets assigned on a loan-for-use basis            | -                         | 21,832                                 | 21,832                   |
| Allowance for doubtful accounts                                    | -                         | 23,649                                 | 23,649                   |
| Provision for contingencies  | -                         | 14,548                                 | 14,548                   |
| Accelerated depreciation of TDMA equipment                         | -                         | 14,682                                 | 14,682                   |
| Provision for supplementary retirement plan                        | -                         | 1,218                                  | 1,218                    |
| Provision for the employees' profit sharing                        | -                         | 3,158                                  | 3,158                    |
| Provision for of Obligations arising from discontinuance of assets | -                         | 16,032                                 | 16,032                   |
| Other provisions   | -                         | 3,118                                  | 3,118                    |
|  | 79,879                    | 236,628                                | 236,628                  |

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|                   |          |           |           |
|-------------------|----------|-----------|-----------|
| Current portion   | (50,450) | (103,118) | (103,118) |
| Long-term portion | 29,429   | 133,510   | 133,510   |

***Merger-related tax credit***

The deferred tax asset represented by the merger-generated tax credit refers to future tax benefit under the restructuring plan started in 2000. As a counterentry to said tax is a special reserve composed of goodwill on stockholders' equity. The tax is realized ratably to estimated future income, over the duration of the authorization granted, which is due to end by 2008. The goodwill amortization is recorded as Other operating expenses .

In 2006, R\$ 50,450 of tax benefits were realized in connection with the above mentioned goodwill (2005 - R\$ 50,450). Also, under the terms of the restructuring plan, the actual tax benefit for each fiscal year will be subsequently capitalized in the name of the controlling stockholder (Note 24-b).

As projected by the Management, deferred, long-term income tax and social contribution remaining from merger-related tax credit will be realized in 2008.

***Other tax credits***

Because the merged companies TIM Celular S.A. and TIM Nordeste S.A. (formerly Maxitel S.A.) have a history of operating losses and unused tax credits they did not recognized deferred tax assets.

Before the mergers described in Note 2-a, the Company and its subsidiaries with a history of profits used to recognized tax credits on goodwill paid on privatization, tax losses and negative social contribution basis, and temporary differences.

As described in Note 2-a, the Company and its subsidiaries underwent a corporate reorganization process, and accordingly, the Management's analyses and projections of tax credit realization were made pursuant to the companies' new corporate structure. The Company's Management decided to fully write off the deferred tax relating to temporary differences and tax losses and negative social contribution basis reflected in the balance sheet.

**10 Prepaid expenses**

|                                  | <b>Consolidated</b> |                          |  |
|----------------------------------|---------------------|--------------------------|--|
|                                  | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Subsidized sales of handsets (a) | 160,172             | -                        | -                                      |
| Rentals                          | 11,004              | 1,028                    | 12,757                                 |
| Advertising (b)                  | 51,860              | 5,242                    | 35,929                                 |
| Financial charges in loan        | 8,814               | 1,416                    | 12,436                                 |
| Other                            | 2,415               | 611                      | 2,327                                  |
|                                  | 234,265             | 8,297                    | 63,449                                 |
| Current portion                  | (221,008)           | (6,321)                  | (43,730)                               |
| Long-term portion                | 13,257              | 1,976                    | 19,719                                 |

(a) As mentioned in Note 3.b, in 2006, since January 1, 2006, the Management changed the accounting treatment of subsidized sale of handset under the post-paid system, which began to be deferred and amortized over the minimum duration of the service contract signed by customers (12 months). The penalties stipulated for customers who cancel their subscription or migrate to the prepaid system before the end of their previous contracts are invariably higher than the subsidy granted for each handset sold.

(b) The advertising expenses are basically composed of Formula 1 sponsorship on TV.

**11 Related-party transactions**

The related-party transactions (Telecom Italia Group), which are performed under regular market conditions, similarly to those with third parties, are thus composed:

**Parent Company**

|                                | <b>Expense 2005<br/>adjusted</b> |
|--------------------------------|----------------------------------|
| TIM Nordeste Telecom. S.A. (a) | 246                              |
| TIM Sul S.A. (a)               | 356                              |
| Total                          | 602                              |

(a) In January 2005 the loan agreements with subsidiaries were settled. These agreements were subject to charges in the equivalent to 104.22% of the monthly exchange variation of the Bank Deposit Certificates CDI.



**Consolidated**

|   | <b>Assets</b> |                          |  |
|---|---------------|--------------------------|--|
|   | <b>2006</b>   | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| TIM Celular S.A. (1)                      | -             | 18,529                   | -                                      |
| TIM Nordeste S.A. (1)                     | -             | 89                       | -                                      |
| Entel Bolívia (2)                         | 838           | -                        | 753                                    |
| Telecom Personal Argentina (2)            | 5,135         | -                        | 285                                    |
| Telecom Sparkle (2)                       | 5,649         | -                        | 1,464                                  |
| Telecom Italia S.p.A. (3)                 | 4,609         | -                        | 539                                    |
| TIM Brasil Serv. e Participações S.A. (5) | -             | -                        | 2,943                                  |
| Telecom Italia LATAM                      | -             | -                        | 1,605                                  |
| Other                                     | 72            | -                        | 1,247                                  |
| <b>Total</b>                              | <b>16,303</b> | <b>18,618</b>            | <b>8,836</b>                           |

|   | <b>Liabilities</b> |                          |  |
|---|--------------------|--------------------------|--|
|   | <b>2006</b>        | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| TIM Celular S.A. (1)                      | -                  | 36,415                   | -                                      |
| TIM Nordeste S.A. (1)                     | -                  | 905                      | -                                      |
| Blah! S.A.                                | -                  | 1,102                    | -                                      |
| Telecom Italia S.p.A. (3)                 | 34,765             | 5,285                    | 31,440                                 |
| IT Telecom Italia (4)                     | 284                | 1,335                    | 1,939                                  |
| Entel Bolívia (2)                         | 89                 | -                        | 58                                     |
| Telecom Personal Argentina (2)            | 2,951              | -                        | 1,193                                  |
| Telecom Sparkle (2)                       | 6,739              | -                        | 3,417                                  |
| TIM Brasil Serv. e Participações S.A. (5) | -                  | -                        | 10,956                                 |
| Italtel (4)                               | 38,928             | 8,901                    | 23,688                                 |
| Other                                     | 308                | -                        | 1,211                                  |
| <b>Total</b>                              | <b>84,064</b>      | <b>53,943</b>            | <b>73,902</b>                          |

|  | <b>Revenue</b> |                          |  |
|--|----------------|--------------------------|--|
|  | <b>2006</b>    | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |

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|   |        |         |         |
|---|--------|---------|---------|
| TIM Celular S.A. (1)                      | -      | 118,147 | -       |
| TIM Nordeste S.A. (1)                     | -      | 93      | -       |
| TIM Brasil Serv. e Participações S.A. (5) | 98     | -       | 604     |
| Telecom Italia S.p.A. (3)                 | 8,645  | -       | 386,328 |
| Telecom Personal Argentina (2)            | 6,556  | -       | -       |
| Telecom Sparkle (2)                       | 4,501  | -       | -       |
| Other                                     | 1,317  | -       | 69      |
| <br>                                      |        |         |         |
| Total                                     | 21,117 | 118,240 | 387,001 |

|   | <b>Cost/Expenses</b> |                          |  |
|---|----------------------|--------------------------|--|
|   | <b>2006</b>          | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| TIM Celular S.A. (1)                      | -                    | 28                       | -                                      |
| TIM Nordeste S.A. (1)                     | -                    | 217                      | -                                      |
| Blah! S.A                                 | -                    | 4,771                    | -                                      |
| Telecom Italia S.p.A. (3)                 | 23,314               | -                        | 560,542                                |
| TIM Brasil Serv. e Participações S.A. (5) | 285                  | -                        | 851                                    |
| Italtel (4)                               | 1,042                | 95                       | 2,301                                  |
| Telecom Sparkle (2)                       | 17,747               | -                        | -                                      |
| Telecom Personal Argentina (2)            | 8,376                | -                        | -                                      |
| Other                                     | 1,101                | -                        | 9                                      |
| <b>Total</b>                              | <b>51,865</b>        | <b>5,111</b>             | <b>563,703</b>                         |

(1) These agreements refer to telecommunications service operation covering interconnection, roaming, media assignment and co-billing agreements, as well as long-distance-related relationship.

(2) These refer to roaming, value-added services - VAS and media assignment.

(3) These refer to international roaming, technical post-sales assistance, and VAS. Revenues and expenses recorded in 2005 refer to exchange variation on loans repaid in September 2005 too.

(4) This refers to the development and maintenance of software pieces used in the telecommunications service billing.

(5) TIM Brasil Serviços e Participações S.A.'s receivables and payables arose from loan agreements with its subsidiaries TIM Celular S.A. and TIM Nordeste S.A. (formerly Maxitel S.A.), bearing interest at the equivalent to 100% of the Bank Deposit Certificates - CDI.

## 12 Judicial deposits

|             | <b>Consolidated</b> |                          |
|-------------|---------------------|--------------------------|
|             | <b>2006</b>         | <b>2005<br/>adjusted</b> |
| Labor       | 903                 | 168                      |
| tax-related | 279                 | 279                      |
|             | 1,182               | 447                      |



|                      | <b>Consolidated</b> |                          |  |
|----------------------|---------------------|--------------------------|--|
|                      | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Civil                | 13,172              | 1,654                    | 8,163                                  |
| Labor                | 16,395              | 3,383                    | 4,974                                  |
| ICMS 69/98 Agreement | 2,331               | 2,294                    | 2,294                                  |
| Other - tax-related  | 25,522              | 7,168                    | 24,285                                 |
|                      | 57,420              | 14,499                   | 39,716                                 |

**13 Investments**

|              | <b>Parent Company</b> |                          |
|--------------|-----------------------|--------------------------|
|              | <b>2006</b>           | <b>2005<br/>adjusted</b> |
| Investments  |                       |                          |
| Subsidiaries | 8.331.082             | 2.688.365                |
| Goodwill     | 6.708                 | 8.288                    |
|              | 8.337.790             | 2.696.653                |

|             | <b>Consolidated</b> |                          |   |
|-------------|---------------------|--------------------------|---|
|             | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005 pro-<br/>forma<br/>adjusted</b> |
| Investments |                     |                          |   |
| Goodwill    | 6,708               | 8,288                    | 8,288                                   |
| Others      | 20                  | 22                       | 22                                      |
|             | 6,728               | 8,310                    | 8,310                                   |

(a) Participation in subsidiaries:

|                                | <b>2006</b>        |                      |              |
|--------------------------------|--------------------|----------------------|--------------|
|                                | <b>TIM Celular</b> | <b>TIM</b>           |              |
|                                | <b>S.A.</b>        | <b>Nordeste</b>      |              |
|                                |                    | <b>Telecom. S.A.</b> | <b>Total</b> |
|                                |                    | <b>(i)</b>           |              |
| <b>- Subsidiary</b>            |                    |                      |              |
| Number of shares held          | 31,506,833,561     |                      |              |
| Participation in total capital | 100%               |                      |              |
| Stockholders' equity           | 8,331,082          |                      |              |
| Loss for the year              | (328,004)          |                      |              |
| Equity pickup                  | (328,004)          | 62,859               | (265,145)    |
| Investment amount              | 8,264,662          |                      | 8,264,662    |
| Special goodwill reserve (*)   | 66,420             |                      | 66,420       |
| Investment amount              | 8,331,082          |                      | 8,331,082    |

(i) The investment in TIM Nordeste Telecomunicações S.A., merged into Maxitel S.A. (Note 2-a), was valued on the equity method for the period from January 1 through May 31, 2006.

(\*) The special goodwill reserve recorded at TIM Nordeste Telecomunicações S.A. (merged into Maxitel S.A.) and TIM Sul S.A. (merged into TIM Celular S.A.) represents the parent company's rights in future capitalizations. These tax benefits are connected with goodwill paid upon privatization of Tele Nordeste Celular Participações S.A. (merged into TIM Participações S.A. in August 2004) and Tele Celular Sul Participações S.A. (TIM Participações S.A.'s former name). This goodwill was recorded against the special goodwill reserve, under Stockholders' equity. Based on projected income and the concession duration, in the first two years, amortization was at 4% p.a., the remainder being amortized on the straight-line basis over the left, through 2008.

|                                | <b>2005 adjusted</b>                              |                     |              |
|--------------------------------|---|---------------------|--------------|
|                                | <b>TIM Nordeste<br/>Telecomunicações<br/>S.A.</b> | <b>TIM Sul S.A.</b> | <b>Total</b> |
| <b>- Subsidiaries</b>          |   |                     |              |
| Number of shares held          | 29,749,763,679                                    | 15,747,586,938      |              |
| Participation in total capital | 100%  | 100%                |              |
| Stockholders' equity           | 1,344,174   | 1,344,191           |              |
| Net income for the year        | 210,383   | 229,573             |              |
| Equity pickup (**)             | 233,507   | 220,274             | 453,781      |
| Investment amount              | 1,249,871   | 1,252,500           | 2,502,371    |
| Special goodwill reserve (*)   | 94,303  | 91,691              | 185,994      |
| Investment amount              | 1,344,174   | 1,344,191           | 2,688,365    |

(\*\*) The interest on own capital received by the subsidiary R\$ 100,000 was initially recorded as financial revenue, and subsequently reclassified as realized investments in subsidiaries, which are valued on the equity method.

(b) Changes in investments in subsidiaries:

|  | <b>TIM<br/>Celular<br/>S.A.</b> | <b>TIM<br/>Nordeste<br/>Telecom.<br/>S.A.</b> | <b>TIM Sul<br/>S.A.</b> | <b>Total</b> |
|--|---------------------------------|---|-------------------------|--------------|
| Investment balance as of December 31, 2004       | -                               | 991,456                                       | 1,011,330               | 2,002,786    |
| Prior years' adjustments                         | -                               | (11,953)                                      | (9,543)                 | (21,496)     |
| Capital increase                                 | -                               | 206,849                                       | 208,220                 | 415,069      |
| Interest on own capital and dividends            | -                               | (75,685)                                      | (86,090)                | (161,775)    |
| Equity pickup                                    | -                               | 233,507                                       | 220,274                 | 453,781      |
| Investment balance as of December 31, 2005       | -                               | 1,344,174                                     | 1,344,191               | 2,688,365    |
| Prior years' adjustments                         | (107,044)                       | 17,314  | 13,808                  | (75,922)     |
| Capital increase through incorporation of shares | 5,983,784                       | -   | -                       | 5,983,784    |
| Capital increase through incorporation of shares | 1,424,347                       | (1,424,347)                                   | -                       | -            |
| Capital increase through business merger         | 1,357,999                       | -   | (1,357,999)             | -            |
| Equity pickup                                    | (328,004)                       | 62,859  | -                       | (265,145)    |
| Investment balance as of December 31, 2006       | 8,331,082                       | -   | -                       | 8,331,082    |

(c) Goodwill

|   | <b>Parent Company and Consolidated</b> |                          |   |
|---|--|--------------------------|---|
|   | <b>2006</b>                            | <b>2005<br/>Adjusted</b> | <b>2005 Pro-<br/>forma<br/>Adjusted</b> |
| Goodwill on acquisition of minority shareholding in the indirect subsidiary TIM Sul S.A. (ii) | 16,918                                 | 16,918                   | 16,918                                  |
| Accumulated amortization  | (10,210)                               | (8,630)                  | (8,630)                                 |
|   | 6,708                                  | 8,288                    | 8,288                                   |



(ii) Goodwill at TIM Sul S.A. was set up for amortization in ten years, through 2010, based on the prospects of future economic profitability.

**14 Property, plant and equipment**

|                                  | <b>Consolidated</b>                                     |             |                                     |            |                          |  |
|----------------------------------|---|-------------|-------------------------------------|------------|--------------------------|--|
|                                  |   |             | <b>2006</b>                         |            | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro<br/>forma<br/>adjusted</b> |
|                                  | <b>Annual<br/>average<br/>depreciat.<br/>rate<br/>%</b> | <b>Cost</b> | <b>Accumulated<br/>Depreciation</b> | <b>Net</b> | <b>Net</b>               | <b>Net</b>                                 |
| Switching/transmission equipment | 14.29   | 6,562,135   | (3,599,425)                         | 2,962,710  | 932,648                  | 3,524,525                                  |
| Loan-for-use handsets            | 50  | 768,627     | (441,300)                           | 327,327    | 65,772                   | 294,840                                    |
| Infrastructure                   | 33.33   | 1,478,373   | (572,788)                           | 905,585    | 177,794                  | 946,255                                    |
| Leasehold improvements           | 33.33   | 96,345      | (51,845)                            | 44,500     | 27,302                   | 81,058                                     |
| Software and hardware            | 20  | 968,415     | (491,183)                           | 477,232    | 94,086                   | 551,609                                    |
| Assets for general use           | 10  | 283,750     | (81,144)                            | 202,606    | 21,690                   | 190,489                                    |
| Software licensing               | 20  | 3,196,316   | (1,377,698)                         | 1,818,618  | 348,221                  | 1,677,746                                  |
| Assets and installations in use  |   | 13,353,961  | (6,615,383)                         | 6,738,578  | 1,667,513                | 7,266,522                                  |
| Plots of land                    |   | 24,326      | -                                   | 24,326     | 6,397                    | 22,351                                     |
| Construction work in progress    |   | 422,960     | -                                   | 422,960    | 198,784                  | 526,935                                    |
|                                  |   | 13,801,247  | (6,615,383)                         | 7,185,864  | 1,872,694                | 7,815,808                                  |

The construction work in progress basically refers to the construction of new transmission units (Base Radio Broadcast Station - ERB) for network expansion.

In the year 2006, R\$16,564 of property, plant and equipment was capitalized, (2005 R\$ 1,352 and 2005 pro-forma R\$ 5,041) relating to financial charges on loans taken to finance the construction. According to CVM Deliberation 193.

**New technology implementation**

The subsidiaries' operate their service network using TDMA and GSM. At December 31, 2006, with the introduction of the GSM technology, no provision for devaluation of fixed assets due to obsolescence was deemed necessary, as both technologies are to remain in operation at the companies until 2008, at least. The assets related to TDMA technology have been subject to accelerated depreciation and must be fully depreciated by 2008.

**15 Intangibles**

The Radiofrequency and SMP (Personal Mobile Service) exploitation rights can be thus shown:

|   |   | <b>Consolated</b> |                          |  |
|---|---|-------------------|--------------------------|--|
|   | <b>Annual<br/>average<br/>amortization<br/>rate - %</b> | <b>2006</b>       | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Radiofrequency and SMP<br>exploitation rights | 7.20  | 2,811,713         | 43,527                   | 2,811,713                              |
| Capitalized charges                           | 7.37  | 411,356           | -                        | 411,356                                |
|   |   | 3,223,069         | 43,527                   | 3,223,069                              |
| Accumulated amortization                      |   | (1,300,448)       | (21,876)                 | (1,052,211)                            |
|   |   | 1,922,621         | 21,651                   | 2,170,858                              |

**SMP authorizations and radiofrequency**

The subsidiaries SMP (Personal Mobile Service) authorizations are granted under the terms signed in the years from 2001 through 2004 with ANATEL, for exploration of this service. Previously, the subsidiaries TIM Sul S.A. (merged into TIM Celular S.A.) and TIM Nordeste S.A. and TIM Nordeste Telecomunicações S.A. (merged into TIM Nordeste S.A.) had been granted a fifteen-year concession for the SMC (Mobile Communication Service), granted by ANATEL, which was changed into authorization for the SMP in 2002. The remaining SMC authorization period, initially associated with the 800 MHz radiofrequency license is the SMP authorization period.

From 2001 through 2004, the subsidiaries were authorized by ANATEL to use radio frequency blocs connected with the provision of SMP at 900 MHz and 1800 MHz.

Our radio frequency authorizations for 800MHz, 900MHz and 1800MHz radio frequency bands begin to expire in September 2007, being renewable only once for 15 years. ANATEL may reject the Company's requests to renew these authorizations, if it finds that the latter is using the allocated spectrum in an inappropriate or irrational way, and has severely or repeatedly violated the applicable legislation, or if it finds it necessary to redistribute the spectrum.

**16 Deferred charges**

|                          | <b>Consolidated</b> |  |
|--------------------------|---------------------|--|
|                          | <b>2006</b>         | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Pre-operating expenses:  |                     |  |
| Third parties' services  | 228,665             | 228,665                                |
| Personnel expenses       | 79,367              | 79,367                                 |
| Rentals                  | 48,914              | 48,914                                 |
| Materials                | 3,439               | 3,439                                  |
| Depreciation             | 10,202              | 10,202                                 |
| Financial charges, net   | 46,774              | 46,774                                 |
| Other expenses           | 5,990               | 5,990                                  |
|                          | 423,351             | 423,351                                |
| Accumulated amortization | (190,761)           | (148,426)                              |
|                          | 232,590             | 274,925                                |

**17 Suppliers Trade payables**

|                                     | <b>Parent Company</b> |                          |  |
|-------------------------------------|-----------------------|--------------------------|--|
|                                     | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| <b>Local currency</b>               |                       |                          |  |
| Suppliers of materials and services | 1,960                 | 3,364                    |  |
|                                     | 1,960                 | 3,364                    |  |
|                                     | <b>Consolidated</b>   |                          |  |
|                                     | <b>2006</b>           | <b>2005</b>              | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| <b>Local currency</b>               |                       |                          |  |
| Suppliers of materials and services | 2,108,470             | 972,307                  | 3,150,254                              |
| Interconnection (a)                 | 293,700               | 25,673                   | 89,216                                 |
| Roaming (b)                         | 14,444                | -                        | 1,377                                  |
| Co-billing (c)                      | 137,886               | 39,329                   | 105,874                                |

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|                                     |           |           |           |
|-------------------------------------|-----------|-----------|-----------|
|                                     | 2,554,500 | 1,037,309 | 3,346,721 |
| <b>Foreign currency</b>             |           |           |           |
| Suppliers of materials and services | 56,010    | 10,401    | 50,457    |
| Roaming (b)                         | 32,348    | 110       | 22,418    |
|                                     | 88,358    | 10,511    | 72,875    |
|                                     | 2,642,858 | 1,047,820 | 3,419,596 |

(a) This refers to use of the network of other fixed and mobile cell telephone operators, where calls are initiated at TIM network and end in the network of other operators.

(b) This refers to calls made when customers are outside their registration area, being therefore considered visitors in the other network (roaming);

(c) This refers to calls made by customers when they choose another long-distance call operator.

## 18 Loans and Financing

|  |                   | <b>Consolidated</b> |                          |  |
|--|-------------------|---------------------|--------------------------|--|
|  | <b>Guarantees</b> | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| <b>Foreign currency US dollar</b>                |                   |                     |                          |  |
| <b>Compaq Financial Services Corporation</b>     | Telecom           |                     |                          |  |
| -debit balance                                   | Italia's          |                     |                          |  |
| restated based on exchange variation plus        | surety and        |                     |                          |  |
| interest at 6.5%                                 | Equipment         |                     |                          |  |
|  | (book value       |                     |                          |  |
|  | R\$5.599          |                     |                          |  |
| p.a. above LIBOR.                                | in 2005).         | -                   | -                        | 2,378                                  |
| <b>Local currency</b>                            |                   |                     |                          |  |
| <b>Banco BBA Creditanstalt S.A</b>               |                   |                     |                          |  |
| debit balance                                    |                   |                     |                          |  |
| restated   |                   |                     |                          |  |
| based on CDI variation plus interest at 3.3%     |                   |                     |                          |  |
| p.a.   | N.A               | 1,694               | -                        | 5,198                                  |
| <b>Banco do Nordeste:</b> financing subject to   |                   |                     |                          |  |
| pre-fixed  |                   |                     |                          |  |
| interest of 14% p.a. and a 15% - 25% bonus on    |                   |                     |                          |  |
| payment  |                   |                     |                          |  |
| on maturity, the subject matter of a hedging     |                   |                     |                          |  |
| operation for                                    |                   |                     |                          |  |
| which the rate is 69.8% and 76.90% of the CDI    |                   |                     |                          |  |
| monthly  |                   |                     |                          |  |
| variation .                                      | Bank surety       | 196,933             | 106,982                  | 206,929                                |
| <b>BNDES (Banco Nacional do</b>                  |                   |                     |                          |  |
| <b>Desenvolvimento</b>                           |                   |                     |                          |  |
| <b>Econômico e Social):</b> this financing bears |                   |                     |                          |  |
| interest at 6%                                   |                   |                     |                          |  |

|  |  |          |               |               |
|--|--|----------|---------------|---------------|
| <p>p.a. plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank . or of the "UMBNDDES" of the Basket of Currencies plus res. Rate 635/87 (average BNDES external funding rate). The Basket of Currencies financing was the subject matter of a swap to CDI operation at the rate of 65.75%</p> | <p>Portions of revenue from personal, mobile telephony services up to the debit balance, and TIM Participações S.A.'s surety</p> | <p>-</p> | <p>18,989</p> | <p>18,989</p> |
|--|--|----------|---------------|---------------|

## Consolidated

|   | Guarantees  | 2006      | 2005<br>adjusted | 2005 Pro<br>forma<br>adjusted |
|---|---|-----------|------------------|-------------------------------|
| <b>Local currency</b>   |   |           |                  |                               |
| <b>BNDES (Banco Nacional do Desenvolvimento Econômico e Social):</b> this financing bears interest at 3.85% p.a plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank . or of the "UMBNDDES" of the Basket of Currencies. plus res. Rate 635/87 (average BNDES external funding rate). The Basket of Currencies financing was the subject matter of a swap to some 128% of the CDI monthly variation. | Direct portion:<br>bank<br>surety.<br>Indirect<br>portion: TIM<br>Brasil Serviços<br>e<br>Participações<br>S.A.'s<br>surety, with<br>part of the<br>service<br>collection<br>blocked up to<br>the<br>debit balance<br>amount. | 119,664   | -                | 237,866                       |
| <b>BNDES (Banco Nacional de Desenvolvimento Econômico e social):</b> this financing bears interest at an average rate of 4.20% p.a., plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank.   | TIM Brasil<br>Serviços e<br>Participações<br>S.A.'s<br>surety with<br>part of the<br>service<br>collection<br>blocked up to<br>the<br>debit balance<br>amount.  | 1,137,182 | -                | 715,597                       |
| <b>BNDES (Banco Nacional de Desenvolvimento Econômico e social):</b> this financing bears interest at an average rate of 3.0% p.a., plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank.  | Bank surety   | 51,095    | -                | 20,054                        |



**Syndicated Loan** (a) the debit balance is restated based on the CDI rate variation plus a 0.90% p.a. margin until

12/31/06, and from then on a margin established in accordance with the Net Consolidated Debt/Consolidated EBITDA ratio

TIM Brasil  
Serviços e  
Participações  
S.A.  
surety

|         |   |         |
|---------|---|---------|
| 628,199 | - | 638,361 |
|---------|---|---------|

**Compror:** Bank financing for payment of goods and services suppliers, linked to foreign currency variations.

64% of the agreements denominated in US dollars

(average coupon of 4.50% p.a.) and 36% of the

agreements denominated in Yen (average coupon of

0.10% pa.a.) These agreements are under swap protection

which result in cost of some 109.0% of the CDI daily rate.

|     |        |   |   |
|-----|--------|---|---|
| N.A | 63,320 | - | - |
|-----|--------|---|---|

Swap contracts relating to the above financing.

|        |       |        |
|--------|-------|--------|
| 22,354 | 4,812 | 24,670 |
|--------|-------|--------|

|           |         |           |
|-----------|---------|-----------|
| 2,220,441 | 130,783 | 1,870,042 |
|-----------|---------|-----------|

Current portion

|           |          |           |
|-----------|----------|-----------|
| (340,762) | (25,707) | (216,147) |
|-----------|----------|-----------|

Long-term portion

|           |         |           |
|-----------|---------|-----------|
| 1,879,679 | 105,076 | 1,653,895 |
|-----------|---------|-----------|

(a) The syndicated loan taken by the subsidiary TIM Celular S.A. has restrictive clauses concerning certain financial indices, all fully complied with by the borrower at December 31, 2006. The following Financial Institutions are part of this loan agreement: HSBC Bank Brasil S.A., Banco Múltiplo, Banco ABN AMRO Real S.A., Banco BNP Paribas Brasil S.A., Banco Bradesco S.A., Banco do Brasil S.A., Banco Itaú BBA S.A., Banco Santander Brasil S.A., Banco Société Générale Brasil S.A., Banco Votorantim S.A., Unibanco União de Bancos Brasileiros S.A.

The BNDES loan to TIM Celular S.A. for financing the mobile telephone network has restrictive clauses concerning certain financial indices, all fully complied with by the borrower at December 31, 2006.

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The subsidiaries entered into swap transactions as a safeguard against devaluation of the Brazilian currency ( Real ) in relation to foreign currencies, and changes in the fair value of financing bearing prefixed interest rates under the same terms as the financing agreement. The terms of these swap operations are the same as those of the respective loans.

The long-term portions of loans and financing at December 31, 2006 mature as follows:

**Consolidated**

|              |           |
|--------------|-----------|
| 2008         | 537,151   |
| 2009         | 534,541   |
| 2010         | 234,445   |
| 2011         | 232,272   |
| 2012 onwards | 341,270   |
|              | 1,879,679 |

**19 Labor obligations**

**Parent Company**

|                              | <b>2006</b> | <b>2005<br/>adjusted</b> |
|------------------------------|-------------|--------------------------|
| Payroll taxes                | 101         | 250                      |
| Vacation and bonuses payable | 653         | 1,077                    |
| Employees' withholding       | 1           | 52                       |
|                              | 755         | 1,379                    |

**Consolidated**

|                              | <b>2006</b> | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
|------------------------------|-------------|--------------------------|--|
| Salaries and fees            | 2           | 1,743                    | 1,782                                  |
| Payroll taxes                | 23,514      | 3,901                    | 20,233                                 |
| Vacation and bonuses payable | 68,314      | 16,120                   | 68,301                                 |
| Employees' withholding       | 663         | 921                      | 4,112                                  |
|                              | 92,493      | 22,685                   | 94,428                                 |



**20 Taxes, rates and contributions**

|                   | <b>Parent Company</b> |                          |  |
|-------------------|-----------------------|--------------------------|--|
|                   | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| IRPJ and CSL      | -                     | 1,121                    |  |
| COFINS            | -                     | 7,600                    |  |
| PIS               | -                     | 1,650                    |  |
| IRRF              | -                     | 10,538                   |  |
| ICMS              | 6                     | -                        |  |
| Other             | 59                    | -                        |  |
|                   | 65                    | 20,909                   |  |
|                   | <b>Consolidated</b>   |                          |  |
|                   | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| IRPJ and CSL      | 5,830                 | 3,444                    | 5,149                                  |
| ICMS              | 268,203               | 99,796                   | 225,838                                |
| COFINS            | 36,838                | 16,569                   | 35,924                                 |
| PIS               | 7,982                 | 3,594                    | 7,787                                  |
| FISTEL            | 14,652                | 8,292                    | 30,790                                 |
| FUST/FUNTTTEL     | 7,895                 | 1,780                    | 5,939                                  |
| IRRF              | 2,851                 | 25,641                   | 27,938                                 |
| ISS               | 20,366                | 2,006                    | 15,242                                 |
| Other             | 5,647                 | 1,178                    | 7,355                                  |
|                   | 370,264               | 162,300                  | 361,962                                |
| Current portion   | (370,264)             | (157,666)                | (357,328)                              |
| Long-term portion | -                     | 4,634                    | 4,634                                  |

**21 Authorizations payable**

|                         | <b>2006</b> | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
|-------------------------|-------------|--------------------------|--|
| SMP exploitation rights |             |                          |  |

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|                         |           |          |           |
|-------------------------|-----------|----------|-----------|
| Authorizations acquired | 164,560   | 39,451   | 164,560   |
| Payments                | (157,219) | (36,968) | (157,219) |
| Monetary restatement    | 37,476    | 9,220    | 36,206    |
|                         | 44,817    | 11,703   | 43,547    |
| Current portion         | (38,275)  | (8,741)  | (34,792)  |
| Long-term portion       | 6,542     | 2,962    | 8,755     |

Payables are restated based on the variation of IGP-DI variation plus interest at 1% p.m.

**22 Provision for contingencies**

The Company and its subsidiaries are parties to certain lawsuits (labor, tax, regulatory and civil) arising in the normal course of their business, and have recorded provisions when management understands that the risk of loss is deemed probable, based on the opinion of their legal advisors.

The provisions for contingent liabilities, net of the related judicial deposits, are thus composed:

|            | <b>Parent Company</b> |                          |  |
|------------|-----------------------|--------------------------|--|
|            | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| Civil      | 402                   | 200                      |  |
| Labor      | 2,766                 | 3,015                    |  |
|            | 3,168                 | 3,215                    |  |
|            | <b>Consolidated</b>   |                          |  |
|            | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Civil      | 46,895                | 15,893                   | 36,920                                 |
| Labor      | 37,930                | 8,360                    | 27,097                                 |
| Tax        | 38,927                | 3,852                    | 76,618                                 |
| Regulatory | 4,381                 | 2,903                    | 5,087                                  |
|            | 128,133               | 31,008                   | 145,722                                |

The changes in the provision for contingencies can be summarized as follows:

|       | <b>Parent Company</b>    |                  |                                       |             |
|-------|--------------------------|------------------|---------------------------------------|-------------|
|       | <b>2005<br/>adjusted</b> | <b>Additions</b> | <b>Reversals<br/>and<br/>payments</b> | <b>2006</b> |
| Civil | 200                      | 202              | -                                     | 402         |
| Labor | 3,015                    | 238              | (487)                                 | 2,766       |
|       | 3,215                    | 440              | (487)                                 | 3,168       |



|            | <b>Consolidated</b>      |  |                  |                                       |             |
|------------|--------------------------|--|------------------|---------------------------------------|-------------|
|            | <b>2005<br/>adjusted</b> | <b>Merged<br/>companies'<br/>balance</b> | <b>Additions</b> | <b>Reversals<br/>and<br/>payments</b> | <b>2006</b> |
| Civil      | 15,893                   | 21,027                                   | 9,975            | -                                     | 46,895      |
| Labor      | 8,360                    | 18,737                                   | 11,320           | (487)                                 | 37,930      |
| Tax        | 3,852                    | 72,766                                   | (648)            | (37,043)                              | 38,927      |
| Regulatory | 2,903                    | 2,184                                    | 1,518            | (2,224)                               | 4,381       |
|            | 31,008                   | 114,714                                  | 22,165           | (39,754)                              | 128,133     |

### Civil contingencies

Several legal and administrative processes have been filed against the Company and its subsidiaries by consumers, suppliers, service providers and consumer protection agencies, dealing with various issues arising in the regular course of business. It is the Company's policy to analyze each legal or administrative process to determine whether it involves probable, possible or remote risk of contingencies. In doing so, the Company always takes into account the opinion of lawyers engaged to conduct the processes. The evaluation is periodically reviewed, with the possibility of being modified over the processes due to facts of events such as case law changes.

### *Consumer lawsuits*

Approximately 23,800 individual lawsuits (2005 15,000) have been filed against the subsidiaries, mostly by consumers claiming for settlement of matters arising from their relationship with the Company. Among these, the allegedly undue collection, contract cancellation, defects of equipment and non-compliance with delivery deadlines stand out. Provisions have been set up for those processes involving probable losses.

### *Collective actions*

There are three collective actions against subsidiaries involving the risk of probable loss, which can be summarized as follows: (i) a suit against TIM Celular S.;A. claiming for the installation of a service unit for personal assistance in Rio Branco, AC.; (ii) a suit against TIM Nordeste S.A. in the state of Pernambuco questioning the Company's policy for replacements of defective handsets, allegedly in disagreement with the manufacturer's warranty terms; and (iii) a suit against TIM Nordeste S.A. in the state of Ceará, claiming for the Company's obligation to replace handsets which have been the subject of fraud in that state. No provisions have been recorded for these contingencies, given the obligations involved therein and the impossibility of accurately quantifying the possibility of losses at the current stage of the processes.



*Other Actions and Proceedings*

The indirect subsidiary TIM Nordeste S.A. has been sued by the Federal Audit Court at administrative level , with the possibility of being submitted to a court of justice, for allegedly defaulting on payment of R\$ 25,000 representing interest and monetary restatement on the second installment due on acquisition the Area 9 (Bahia and Sergipe) license. As the risk of an unfavorable outcome for the Company is deemed possible by both internal and external advisors, no provision has been set up.

The indirect subsidiary TIM Nordeste S.A. is also defendant in an action filed by the former legal services providers, the law firm Mattos & Callumby Lisboa Advogados, in Rio de Janeiro. They claim for success fees allegedly due under a service agreement for filing court injunctions against interest and monetary restatement on purchase prices of Maxitel S.A.'s Band B .As the risk of an unfavorable outcome for the Company is deemed possible by both internal and external advisors, no provision has been set up.

Labor contingencies

These refer to claims filed by both former employees in connection with salaries, salary differences and equalization, overtime, variable compensation/commissions, and former employees of service providers who, based on pertinent legislation, claim for the Company's and/or its subsidiaries' accountability for labor obligations defaulted on by their outsourced employers.

*Labor claims*

Over 60% of the 1,627 labor suits filed against the Company and its subsidiaries (2005 - 1,091) involve claims against service providers, concentrated on certain companies from São Paulo, Rio de Janeiro and Recife.

Still on third parties' claims, part of these relate to specific projects of service agreement review, often ended in rescission in 2006 and winding up of the companies and termination of employees involved. A further significant portion of contingencies refers to organizational restructuring, among which the discontinuance of the Client Relationship Centers in Fortaleza, Salvador and Belo Horizonte, and the termination of 800 own employees and outsourced personnel stand out. All processes involving the risk of loss have been provided for.

*Occupational Accidents*

With the enactment of the Constitutional Amendment no. 45/2004, the litigations involving occupational accidents that resulted in claims for damages, previously judged by the State Court began to be judged by the Labor Courts. Given the issues under litigation and the fact that indemnification is determined by arbitration , thus involving high subjectiveness, provisions for these suits were set up, based on estimated losses totaling R\$ 1,800.

*DRT (Regional Labor Offices)*

The indirect subsidiary TIM Nordeste S.A. was assessed for R\$ 778 by the Regional Labor Office from Minas Gerais, on charges of allegedly irregular engagement of third parties. The risk of loss was deemed probable by the Parent Company advisors, and provision was recorded.

Tax Contingencies

*IR (income tax) and CSSL (social contribution on net income)*

In 2005, the indirect subsidiary TIM Nordeste S.A. (formerly Maxitel S.A.) was assessed by the Internal Revenue Secretariat of the State of Minas Gerais for R\$ 126,933, for the following reasons: (i) taxation of monetary variations on swap operations and exchange variation on unsettled loans; (ii) a separate fine for default on payment of social contribution on an estimated monthly basis for the year 2002 and part of 2001; (iii) default on payment of corporate income tax on an estimated monthly basis for the year 2002; and (iv) remittance of interest (IRRF) a voluntary denunciation without payment of arrears charges. The subsidiary is currently discussing these assessments with the taxing authorities, and based on its internal and external advisors' opinion, the Management concluded that probable losses on these processes amount to R\$ 32,750. This amount has been provided for, against income tax and social contribution expenses.

*ICMS*

In 2003 and 2004 the subsidiary TIM Sul S.A. (merged into TIM Celular S.A.) was assessed by the Internal Revenue Secretariat of the State of Santa Catarina for R\$ 85,114 (current value), mainly relating to dispute on the levying of ICMS on certain services provided. The Company is currently discussing these assessments with the tax authorities. According to its internal and external lawyers, the probable losses thereon, duly provided for, amount to R\$ 2,650.

In October 2006, the subsidiary TIM Sul S.A. (merged into TIM Celular S.A.) adhered to the Revigorar II State of Santa Catarina Economic Recovery Program whereby it was agreed to settle the tax debt arising from reversed ICMS rate differences on acquisition of handsets from other Brazilian states. With the termination of this process, the previous judicial deposit in the amount of R\$ 11,779, for which a provision had been recorded, was reversed.

The subsidiary TIM Celular S.A. was fined by the taxing authorities of the state of Rio de Janeiro for R\$ 3,678, for delaying voluntary payment that included understated arrears interest. The Management concluded that the action will probably be lost, having, therefore, set up a provision. Early in 2006, based on the opinion of its internal and external advisors, the subsidiary paid the amounts due, with reduction of interest and fine, under the tax amnesty scheme then implemented.

*PIS and COFINS*

In 2004, the subsidiary TIM Nordeste S.A. (formerly Maxitel S.A.) was assessed in connection with PIS and COFINS due on exchange variation arising from revenue generated in 1999. Both assessment notices amounted to R\$ 30,913. Because this is a controversial matter involving interpretation of applicable legislation, a provision in the same amount was set up in 2004. On March 13, 2006 the decision was issued on the action filed by the company against Law 9718 of November 27, 1998, with no right to further appeal. The company alleged that this law was unconstitutional concerning the expansion of the tax basis of calculation, preventing the collection of PIS and COFINS on non-operating revenue. In view of the final decision, the Management requested extinction of the tax assessment against the subsidiary, concerning PIS and COFINS on exchange variation and reversed, in 2006, the provision set up in 2004 (Note 29).

Regulatory Contingencies

Due to an alleged default on some SMP's provisions and quality targets defined under the PGMQ-SMP General SMP Quality Goals Plan ANATEL started some procedures for determining Default on Obligations PADO, involving the subsidiaries.

The subsidiaries have endeavored to avoid being assessed, with arguments, mostly of technical and legal nature, that may contribute to reduce significantly the initial fine charged or event definitively file the PADO, with no sanctions. The related provision was set up based on the amount of fines charged, the risk of loss involved being classified probable (Note 37).

Possible contingencies not provided for

Civil, Labor, Regulatory and Tax-related actions have been filed against the Company and its subsidiaries involving risk of loss that is classified as possible or remote by the management and the Company's lawyers. No provision has been set up for these contingencies.

|            | <b>Consolidated</b> |                          |  |
|------------|---------------------|--------------------------|--|
|            | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Civil      | 67,785              | 11,892                   | 35,979                                 |
| Labor      | 42,137              | 13,927                   | 20,222                                 |
| Tax        | 625,265             | 69,721                   | 189,948                                |
| Regulatory | 22,868              | 9,806                    | 26,368                                 |
|            | 758,055             | 105,346                  | 272,517                                |

Below, a description of the main suits involving probable loss:

*IR and CSSL*

On October 30, 2006, the indirect subsidiary TIM Nordeste S.A. was assessed for R\$ 331,171, for various reasons, the respective tax assessment notices being part of the same administrative process referring to IRPJ, CSL and a separate fine. Most of these tax assessment notices refer to amortization of goodwill on the Telebrás System privatization and the related tax deductions. Under art. 7 of Law 9,532/97, the proceeds of goodwill amortization are to be included in the income of the company resulting from merger, split or acquisition, where a company holds investment in the other, and pays for it using goodwill based on the investee's prospective profitability. Also, this usually performed in the market, in compliance with CVM Instruction no. 319/99. After timely impugning the tax assessment notices, the subsidiary now awaits the taxing authorities' decision thereon

In September 2003 the subsidiary TIM Nordeste Telecomunicações S.A. (merged into TIM Nordeste S.A., formerly Maxitel S.A.) was assessed by the Internal Revenue Secretariat of the State of Ceará for R\$ 12,721 referring to: (i) disallowance of R\$ 8,402 expenses included in the IRPJ determination for the period from 1999 through 2001; (ii) R\$ 3,208 of differences in CSSL payments for the years from 1998 through 2001; (iii) differences of R\$ 334 and R\$ 777, respectively, in the payment of PIS and COFINS for the years from 1998 through 2002. The Company filed an impugnation and a voluntary appeal against this assessment.

FUST Telecommunications Service Universalization Fund

On December 15, 2005, ANATEL issued its Summary no. 07 aimed at collecting contributions to the FUST out of interconnection revenues earned by providers of telecommunications services, as from the date of enactment of Law 9998 of August 17, 2000. The Company still believes that based on applicable legislation (including the sole paragraph of article 6 of Law 9998/00), the above revenues are not subject to the FUST charges, and accordingly, the Management has taken the necessary measures to protect their interests. In October and November 2006, ANATEL assessed the Company's subsidiaries for R\$ 82,096 referring to FUST on interconnection revenues and arrears fine, all because of Súmula 07/05. Currently ANATEL's intended collection of FUST on interconnection revenues earned by the Company is suspended, because of the temporary order issued by the Federal District Regional Court in March 2006.

*ICMS*

In 2006 the indirect subsidiary TIM Nordeste S.A. was assessed by the taxing authorities from the State of Piauí for R\$ 7,308, in connection with the payment of a difference between intrastate and interstate ICMS rate on fixed assets items for use and consumption and the determination of ICMS basis of calculation for acquisition of goods intended for sale. The Company is impugning these assessments at administrative level

**23 Asset retirement obligations**

As mentioned in Note 3-b, as from fiscal 2006, the Companies have recognized asset retirement obligations.

In December 2006, the subsidiaries reviewed the assumptions underlying provisions for asset retirement obligations, the impact of which, as shown bellow, caused these provisions to be reduced. The main reason for this review was the reduction of average costs of disassembly of network equipment.

In 2006, the changes therein can be thus shown:

|   | <b>Consolidated</b> |
|---|---------------------|
|   | <b>2006</b>         |
| Balance at December 31, 2005  | 115,211             |
| Balance at January 1, 2006 referring to TIM Celular and Maxitel (mergers in 2006) | 282,216             |
| Additions in 2006 net   | 50,232              |
| Revision of estimate in December 2006   | (289,491)           |
| Balance at December 31, 2006  | 158,168             |

Pursuant to Circular CVM/SNC/SP no. 01/2007, the asset retirement obligations (ARO) were recorded at present value, and consequently, financial expenses totaling R\$ 26,594 were recorded in the consolidated statement of income for 2006 (2005 pro forma R\$ 34,545).

**24 Stockholders' equity**a. Capital

As authorized by the Administrative Council, regardless of the statutory reform, the Company's capital is authorized to increase its capital by up to 2,500,000,000,000 (two trillion and five hundred billion) common or preferred shares.

Capital subscribed and paid-in as of December 31 comprises shares without par value, thus distributed:

|                            | 2006              | 2005            |
|----------------------------|-------------------|-----------------|
| Number of common shares    | 793,544,276,988   | 299,610,631,068 |
| Number of preferred shares | 1,536,170,582,578 | 579,965,856,092 |
|                            | 2,329,714,859,566 | 879,576,487,160 |

b. Capital reserves*Special Goodwill Reserve*

This reserve was set up during the corporate reorganization process in 2000. The portion of the special reserve corresponding to the tax benefit obtained may be capitalized at the end of each fiscal year for the benefit of the controlling stockholder, with no need for issuance of new shares. The respective capital increase will be subject to preemptive rights of the minority stockholders, in proportion to their shareholdings, by type and class, at the time of new issuance, and the amounts payable during the year in connection with this right must be delivered directly to the controlling stockholder, in accordance with Instruction No. 319/99 of the Brazilian Securities Commission (CVM).

*Reserve for Future Capital Increase*

In March 2005, capital increases were approved at the subsidiaries TIM Nordeste Telecomunicações S.A. (merged into TIM Nordeste S.A., formerly Maxitel S.A.) and TIM Sul S.A.(merged into TIM Celular S.A.) as a result of capitalization of part of the special goodwill reserve, as above mentioned. The period for the minority stockholders to exercise their preference rights expired in April 2005, when TIM Participações S.A. received R\$6,401 from the stockholders that have exercised their preferential rights. When such amount was received, the exchange of shares mentioned in note 2.d, in which the subsidiaries became wholly owned companies of TIM Participações S.A., and the related capital increases of the parent company had already been established. Therefore, the amount received from minority stockholders (now stockholders of TIM Participações S.A.) was recorded against the Reserve for Future Capital Increase.

On September 29, 2006, at the General Extraordinary Stockholders' Meeting, a R\$6.401 capital increase was approved, without issuance of new shares, and in benefit of all stockholders.

c. Revenue Reserves

*Legal Reserve*

This refers to the 5% (five percent) of net income for each year ended December 31 to be appropriated to the legal reserve, which should not exceed 20% (twenty percent) of capital. Also, the Company is not authorized to set up a legal reserve when it exceeds 30% (thirty percent) of capital plus capital reserves. This reserve can be used only for capital increase or compensation of accumulated losses.

*Unrealized Revenue Reserve*

The unrealized revenue reserve is originated from the portion of equity pickup to be financially realized, substantially represented by the capital reserve from income tax incentive set up by the subsidiary. In conformity with Law No. 10,303/01, the reserve, amounting to R\$ 18,838, was set up for the amount of compulsory dividends, which exceeded the realized portion of net income for the year 2003.

As proposed by the Management at the closing of the financial statements for the year ended December 31, 2005, and ratified at the General Stockholders' Meeting held on March 7, 2006, this amount was distributed as dividends.

*Reserve for Expansion*

This reserve, which is set up based on paragraph 2, article 46 of the by-laws and article 194 of Law 6.404/76, is intended to fund investment and network expansion projects.

The R\$285.542 loss for the year ended December 31, 2006, was fully absorbed by the Reserve for Expansion, as required by Law no. 6.404/76, art. 189 and CVM Instruction 59/86.

Additionally, the Company's management now proposes realizing part of the Reserve for Expansion, in the amount of R\$450.763, by way of dividend distribution (Note 24-d).

The R\$139.697 balance after the above mentioned deductions will be kept under the Reserve for Expansion, in terms of by-laws purposes.

d. Dividends

Dividends are calculated in accordance with the Bylaws and Brazilian Corporate Law ( *Lei das Sociedades por Ações* ).

As stipulated in its by-laws, the Company shall 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.

Preferred shares are non-voting but have the following advantages (i) priority in capital reimbursement, with no goodwill; and (ii) payment of a minimum non-cumulative dividend of 6% p.a. calculated based on the result of subscribed capital divided by the total number of shares issued by the Company.

In order to comply with Law 10.303/01, the Company's bylaws were amended, including the First Paragraph of Section 10, which ensures the holders of preferred shares the right to receive, every year, stock dividends corresponding to 3% (three percent) of net earnings per share as shown by the latest balance sheet, whenever the dividend established according to this criterion exceeds the dividend thus established exceeds that calculated under the criteria described in the preceding paragraph.

Despite the Company's losses for the year ended December 31, 2006, the Management now proposes realizing part of the Reserve for Expansion in the amount of R\$ 450,762, by way of dividend distribution. The preferred dividends proposed were calculated based on 6% payment, which in turn is the result of the preferred-share-portion of the capital divided by the total number of shares issued by the Company. Additionally, under art. 47 of the Company's bylaws, the Company proposes to adopt the same payment criterion for common shares, as follows:

|  | <b>2006</b> |
|--|-------------|
| Capital                                  | 7,512,710   |
| Dividends: 6%                            | 450,763     |
| Preferred share dividends                | 297,225     |
| Common share dividends                   | 153,538     |
| Total dividends proposed                 | 450,763     |
| Dividends per thousand shares (in Reais) |             |
| Common shares                            | 0.1935      |
| Preferred shares                         | 0.1935      |



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Dividends proposed as of December 31, 2005, which correspond to the highest minimum amounts determined by each of the statutorily stipulated methods, were calculated as follows:

|  | <b>2005</b> |
|--|-------------|
| Net income for the year (original)   | 434,489     |
| (-) Legal reserve set up   | (21,724)    |
| Adjusted net income  | 412,765     |
| Statutory dividends: 25%   | 103,191     |
| Proposed distribution of interest on own capital, net of 15% withholding tax | 59,500      |
| Supplementary dividends  | 43,691      |
|  | 103,191     |
| Realization of unrealized revenue reserves/dividends payable                 | 18,838      |
| Total proposed dividends and interest on own capital                         | 122,029     |
| Dividends and interest on own capital per thousand-share lot (in Reais)      |             |
| Common shares  | 0.1387      |
| Preferred shares   | 0.1387      |

The dividends in December 31, 2006 and interest on own capital payable includes R\$13,763 relating to prior years (2005 - R\$9,149) in Parent company and R\$ 22,195 (2005 - R\$ 19,577) in Consolidated.

e. Stock option plan

On May 2, 2001, the stockholders of the Company approved a remuneration plan through the granting of stock option plans, with the following objectives:

- (i) Retain key employees' services and opinions, on which the Company depends in terms of judgment, initiatives and efforts;
- (ii) Make available to key employees a mix of remunerations based on the appreciation of the Company's market value; and
- (iii) Bring the employees' general interests into line with those of stockholders.

On April 26, 2005, the Administrative Council approved a R\$ 2,006 capital increase through issuance of 595,198 lots of 1,000 preferred shares each, for R\$3.37 (in Reais) the price per thousand-share lot resulting from stock options exercised by 24 employees, under the stock option plan.

The market value of the Company's preferred shares on the date of capital increase was R\$3.84 (in Reais) per thousand-share lot.



The term for exercising previously granted options expired in 2005, and no other stock options were granted.

## 25 Net operating revenue

|                                    | <b>Consolidated</b> |                          |  |
|------------------------------------|---------------------|--------------------------|--|
|                                    | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Telecommunications service revenue |                     |                          |  |
| Subscription                       | 580,277             | 258,610                  | 531,764                                |
| Utilization                        | 5,476,107           | 1,664,512                | 4,406,139                              |
| Network use                        | 3,439,305           | 940,251                  | 2,484,748                              |
| Long distance                      | 1,351,150           | 32,797                   | 851,984                                |
| VAS Additional services            | 886,181             | 218,965                  | 584,298                                |
| Other                              | 87,256              | 54,607                   | 103,614                                |
|                                    | 11,820,276          | 3,169,742                | 8,962,547                              |
| Goods sold                         | 2,057,283           | 733,530                  | 2,270,057                              |
| Gross operating revenue            | 13,877,559          | 3,903,272                | 11,232,604                             |
| Deductions from gross revenue      |                     |                          |  |
| Taxes levied                       | (2,921,833)         | (813,302)                | (2,414,445)                            |
| Discounts given                    | (665,342)           | (150,624)                | (355,161)                              |
| Returns and other                  | (174,271)           | (21,131)                 | (94,946)                               |
|                                    | (3,761,446)         | (985,057)                | (2,864,552)                            |
|                                    | 10,116,113          | 2,918,215                | 8,368,052                              |

## 26 Cost of services rendered and goods sold

|                               | <b>Consolidated</b> |                          |  |
|-------------------------------|---------------------|--------------------------|--|
|                               | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Personnel                     | (106,825)           | (26,868)                 | (123,692)                              |
| Third parties' services       | (280,165)           | (71,581)                 | (255,226)                              |
| Interconnection charges       | (2,229,060)         | (340,323)                | (1,255,697)                            |
| Depreciation and amortization | (1,324,843)         | (383,351)                | (1,121,152)                            |

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|  |             |             |             |
|--|-------------|-------------|-------------|
| Telecommunications surveillance fund (FISTEL)  | (10,618)    | (2,643)     | (12,462)    |
| Other  | (144,989)   | (21,336)    | (140,262)   |
| Cost of services rendered                      | (4,096,500) | (846,102)   | (2,908,491) |
| Cost of goods sold                             | (1,407,761) | (536,470)   | (1,719,760) |
| Total cost of services rendered and goods sold | (5,504,261) | (1,382,572) | (4,628,251) |

**27 Selling expenses**

|                                      | <b>Consolidated</b> |                          |  |
|--------------------------------------|---------------------|--------------------------|--|
|                                      | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Personnel                            | (300,389)           | (66,515)                 | (226,881)                              |
| Third parties' services              | (1,347,196)         | (375,353)                | (1,460,065)                            |
| advertising                          | (317,534)           | (41,740)                 | (338,385)                              |
| Allowance for doubtful accounts      | (451,976)           | (117,978)                | (334,462)                              |
| Telecommunications surveillance fund | (410,756)           | (123,858)                | (356,964)                              |
| Depreciation and amortization        | (325,038)           | (49,194)                 | (239,065)                              |
| Other                                | (98,062)            | (23,468)                 | (111,917)                              |
|                                      | (3,250,951)         | (798,106)                | (3,067,739)                            |

**28 General and administrative expenses**

|                               | <b>Parent Company</b> |                          |  |
|-------------------------------|-----------------------|--------------------------|--|
|                               | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| Personnel                     |                       | (5,646)                  | (5,919)                                |
| Third parties' services       |                       | (11,757)                 | (12,047)                               |
| Other                         |                       | (411)                    | (362)                                  |
|                               |                       | (17,814)                 | (18,328)                               |
|                               | <b>Consolidated</b>   |                          |  |
|                               | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Personnel                     | (187,676)             | (31,781)                 | (154,858)                              |
| Third parties' services       | (362,173)             | (98,489)                 | (318,913)                              |
| Depreciation and amortization | (332,825)             | (43,486)                 | (249,026)                              |
| Other                         | (72,184)              | (12,190)                 | (72,372)                               |
|                               | (954,858)             | (185,946)                | (795,169)                              |



**29 Other operating revenues (expenses) - net**

|   | <b>Parent Company</b> |                          |
|---|-----------------------|--------------------------|
|   | <b>2006</b>           | <b>2005<br/>adjusted</b> |
| Revenues                                |                       |                          |
| Statutorily prescribed dividends        | 2,757                 | 1,907                    |
| Reversal of provision for contingencies | 487                   | 489                      |
| Other operating revenues                | 491                   | -                        |
|   | 3,735                 | 2,396                    |
| Expenses                                |                       |                          |
| Taxes, rates and contributions          | (301)                 | (805)                    |
| Goodwill amortization                   | (1,582)               | (1,582)                  |
| Provision for contingencies             | (440)                 | (1,063)                  |
| Loss on legal suits                     | (34)                  | (306)                    |
|   | (2,357)               | (3,756)                  |
| Other operating revenues (expenses) net | 1,378                 | (1,360)                  |

|   | <b>Consolidated</b> |                          |  |
|---|---------------------|--------------------------|--|
|   | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Revenues                                    |                     |                          |  |
| Telecommunications service fines            | 50,913              | 11,274                   | 31,030                                 |
| Reversal of provision for contingencies (a) | 39,754              | 3,566                    | 23,709                                 |
| PIS/COFINS recovery (Note 8)                | 52,317              | -                        | -                                      |
| ICMS recovery                               | 10,611              | -                        | -                                      |
| Statutorily prescribed dividends            | 4,522               | 3,165                    | 3,165                                  |
| Other operating revenues                    | 18,035              | 595                      | 13,110                                 |
|   | 176,152             | 18,600                   | 71,014                                 |
| Expenses                                    |                     |                          |  |
| Amortization of deferred charges            | (1,913)             | -                        | (4,285)                                |
| Others Amortization                         | -                   | -                        | (1,093)                                |
| Taxesm rates and contributions              | (29,130)            | (16,660)                 | (19,484)                               |
| Goodwill amortization                       | (1,582)             | (1,582)                  | (1,582)                                |

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|   |          |          |          |
|---|----------|----------|----------|
| Provision for contingencies             | (22,165) | (10,242) | (32,897) |
| Loss on legal suits                     | (21,145) | (6,130)  | (18,338) |
| Other operating expenses                | -        | -        | (575)    |
|   | (75,935) | (34,614) | (78,254) |
| Other operating revenues (expenses) net | 100,217  | (16,014) | (7,240)  |

(a) In 2006, it mainly refers to reversal of the provision for PIS and COFINS in subsidiary TIM Nordeste S.A. (Note 22).



**30 Financial revenues**

|  | <b>Parent Company</b> |                          |  |
|--|-----------------------|--------------------------|--|
|  | <b>2006</b>           | <b>2005<br/>adjusted</b> |  |
| Interest on short-term investments in the money market | 1,812                 | 2,107                    |  |
| Monetary restatement                                   | 995                   | 951                      |  |
| Other revenues   | 32                    | 216                      |  |
|  | 2,839                 | 3,274                    |  |
|  | <b>Consolidated</b>   |                          |  |
|  | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Interest on short-term investments in the money market | 117,028               | 137,701                  | 138,496                                |
| Monetary restatement                                   | 14,623                | 6,716                    | 6,980                                  |
| Interest on trade receivables                          | 13,620                | 9,985                    | 18,037                                 |
| Other revenues   | 16,931                | 4,144                    | 17,849                                 |
|  | 162,202               | 158,546                  | 181,362                                |

**31 Financial expenses**

|   | <b>Parent Company</b> |                          |
|---|-----------------------|--------------------------|
|   | <b>2006</b>           | <b>2005<br/>adjusted</b> |
| Interest on related-party loan agreements               | -                     | (602)                    |
| PIS/COFINS on financial revenue                         | -                     | (9,602)                  |
| CPMF (Temporary contribution on financial transactions) | (604)                 | (617)                    |
| Other expenses  | (16)                  | (354)                    |
|   | (620)                 | (11,175)                 |
|   | <b>Consolidated</b>   |                          |
|   |                       | <b>2005</b>              |

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|                                    | <b>2006</b> | <b>2005<br/>adjusted</b> | <b>Pro forma<br/>adjusted</b> |
|------------------------------------|-------------|--------------------------|-------------------------------|
| Interest on loans and financing    | (240,221)   | (10,454)                 | (125,940)                     |
| Interest on trade payables         | (29,314)    | (3,671)                  | (17,137)                      |
| Taxes on financial revenue         | (25,749)    | (12,821)                 | (50,507)                      |
| Monetary restatement               | (47,313)    | (10,356)                 | (50,881)                      |
| Interest on taxes and rates        | (10,035)    | (2,581)                  | (13,966)                      |
| CPMF                               | (48,568)    | (16,251)                 | (49,725)                      |
| Discounts given                    | (7,880)     | (3,747)                  | (14,201)                      |
| Charges on payment in installments | (20,017)    | (27,942)                 | (27,942)                      |
| Other expenses                     | (20,930)    | (5,395)                  | (17,836)                      |
|                                    | (450,027)   | (93,218)                 | (368,135)                     |

**32 Exchange variation - net**

|                          | <b>2006</b> | <b>2005<br/>adjusted</b> |
|--------------------------|-------------|--------------------------|
| Revenues                 |             |                          |
| Suppliers Trade payables | 23          | 10                       |
|                          | 23          | 10                       |
| Expenses                 |             |                          |
| Suppliers                | (6)         | -                        |
| Other                    | (3)         | -                        |
|                          | (9)         | -                        |
| Exchange variation net   | 14          | 10                       |

**Consolidated**

|                            | <b>2006</b> | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
|----------------------------|-------------|--------------------------|--|
| Revenues                   |             |                          |  |
| Loans and financing        | 121,304     | 6,530                    | 27,615                                 |
| Suppliers Trade payables   | 38,180      | 1,262                    | 26,013                                 |
| Swap                       | 83,972      | 1,607                    | 5,258                                  |
| Related-party transactions | -           | -                        | 374,093                                |
| Other                      | 11,413      | 10                       | 10,309                                 |
|                            | 254,869     | 9,409                    | 443,288                                |
| Expenses                   |             |                          |  |
| Loans and financing        | (112,157)   | (1,296)                  | (7,726)                                |
| Clients Trade receivables  | (26,213)    | -                        | (13,104)                               |
| Swap                       | (158,619)   | (10,595)                 | (41,659)                               |
| Related-party transactions | -           | -                        | (553,108)                              |
| Other                      | (13,012)    | -                        | (13,547)                               |
|                            | (310,001)   | (11,891)                 | (629,144)                              |
| Exchange variation net     | (55,132)    | (2,482)                  | (185,856)                              |



**33 Non-operating income**

|   | <b>Consolidated</b> |                          |  |
|---|---------------------|--------------------------|--|
|   | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Revenues  |                     |                          |  |
| Disposal of property, plant and equipment         | 12.182              | 3.463                    | 5.561                                  |
| Expenses  |                     |                          |  |
| Cost of property, plant and equipment disposed of | (9.656)             | (5.723)                  | (10.534)                               |
| Other operating expenses                          | -                   | -                        | (527)                                  |
|   | (9.656)             | (5.723)                  | (11.061)                               |
| Non-operating income                              | 2.526               | (2.260)                  | (5.500)                                |

**34 Income tax and social contribution expenses and tax losses**

|  | <b>Parent Company</b> |                          | <b>Consolidated</b> |                          |  |
|--|-----------------------|--------------------------|---------------------|--------------------------|--|
|  | <b>2006</b>           | <b>2005<br/>adjusted</b> | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
| Income tax for the year  | (2,736)               | (818)                    | (60,972)            | (95,208)                 | (97,257)                               |
| Social contribution for the year                               | (9)                   | (302)                    | (20,945)            | (34,355)                 | (35,109)                               |
|  | (2,745)               | (1,120)                  | (81,917)            | (129,563)                | (132,366)                              |
| Deferred income tax  | (2,536)               | (161)                    | (63,887)            | 3,075                    | 3,075                                  |
| Deferred social contribution                                   | (913)                 | (58)                     | (23,020)            | 1,108                    | 1,108                                  |
|  | (3,449)               | (219)                    | (86,907)            | 4,183                    | 4,183                                  |
| Provision for income tax and social contribution contingencies | -                     | -                        | -                   | -                        | (32,750)                               |

(6,194) (1,339) (168,824) (125,380) (160,933)

Below, the reconciliation of income tax and social contribution expenses calculated at the applicable tax rates plus the amounts reflected in the income for the year:

|   | <b>Parent Company</b> |                          |
|---|-----------------------|--------------------------|
|   | <b>2006</b>           | <b>2005<br/>adjusted</b> |
| Pretax income (loss)  | (279,348)             | 426,202                  |
| Combined tax rate   | 34%                   | 34%                      |
| Income tax and social contribution at the combined tax rate           | 94,978                | (144,909)                |
| (Additions)/Exclusions:   |                       |                          |
| Equity pickup (net of JSCP interest on own capital)                   | (90,149)              | 144,085                  |
| Amortization of goodwill reserve                                      | (537)                 | (537)                    |
| Unrecognized tax losses and temporary differences                     | (10,486)              | -                        |
| Other   | -                     | 22                       |
|   | (101,172)             | 143,570                  |
| Income tax and social contribution charged to the income for the year | (6,194)               | (1,339)                  |
| Tax rate in effect  | -2.22%                | 0.31%                    |

|  | <b>Consolidated</b> |                          |  |
|--|---------------------|--------------------------|--|
|  | <b>2006</b>         | <b>2005<br/>adjusted</b> | <b>2005<br/>Pro forma<br/>adjusted</b> |
| Pretax income (loss)   | (132,859)           | 536,418                  | (807,164)                              |
| Combined tax rate  | 34%                 | 34%                      | 34%                                    |
| Income tax and social contribution at the combined tax rate                | 45,172              | (182,382)                | 274,436                                |
| (Additions)/Exclusions:  |                     |                          |  |
| Realization of provision for maintenance of stockholders' equity integrity | 33,297              | 33,297                   | 33,297                                 |
| Interest on own capital  | -                   | 23,800                   | 23,800                                 |
| Amortization of goodwill reserve   | (537)               | (537)                    | (537)                                  |
| Unrecorded tax losses and temporary differences                            | (246,756)           | -                        | (457,481)                              |
| Provision for income tax and social  |                     |                          |  |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| contribution contingencies  | -         | -         | (32,750)  |
| Provision balances added  | -         | 442       | 442       |
| Other   | -         | -         | (2,140)   |
|   | (213,996) | 57,002    | (435,369) |
| Income tax and social contribution charged to the income for the year | (168,824) | (125,380) | (160,933) |
| Tax rate in effect  | -127.07%  | 24.30%    | -19.94%   |



**Accumulated tax losses**

The accumulated tax losses and negative social contribution basis, the credits on which will not be recognized until there are concrete prospects of realization, can be summarized as follows:

|   | <b>2006</b> | <b>2005<br/>adjusted</b> | <b>2005 Pro<br/>forma<br/>adjusted</b> |
|---|-------------|--------------------------|--|
| TIM Celular S.A.                            | 3,684,140   | -                        | 3,258,348                              |
| TIM Sul S.A. (merged into TIM Celular S.A.) | -           | 28,611                   | 28,611                                 |
| TIM Nordeste S.A. (formerly Maxitel S.A.)   | 2,397,426   |                          | 2,414,979                              |
| TIM Participações S.A.                      | 14,523      | 2,598                    | 2,598                                  |
|   | 6,096,089   | 31,209                   | 5,704,536                              |

**35 Financial instruments and risk management**

The following are the main risks to which the Company and its subsidiaries are exposed:

**(i) Exchange rate risks**

The exchange rate risk relates to the possibility of the subsidiaries to compute losses resulting from fluctuations in exchange rates, thus increasing debt balances of loans obtained in the market and the corresponding financial charges. In order to mitigate this kind of risk, the Company carries out swap contracts with financial institutions.

As of December 31, 2006 the subsidiaries loans and financing indexed to the UMBNDES exchange variance of a basket of currencies are covered by swap contracts. Income or loss resulting from these swap contracts is charged to the income.

There are no significant financial assets indexed to foreign currencies.

**(ii) Interest rate risks**

The interest rate risks relate to:

- Possibility of changes in the fair value of financing indexed to prefixed interest rates, in the event the latter do not reflect the actual market conditions. In order to reduce this type of risk the subsidiaries sign swap contracts with financial institutions, the income or loss on these contracts is recorded to the income;

- Possibility of an unfavorable change in interest rates, with a resulting increase in financial expenses incurred by the subsidiaries, due to the fact that the interest rate of part of their swap debt and obligations is floating. As of December 31, 2006, the subsidiaries' financial resources are mostly invested in CDI, which considerably reduces this risk.

(iii) Credit risk inherent in services rendered

This risk is related to the possibility of the subsidiaries computing losses originating from the difficulty in collecting the amounts billed to customers. In order to mitigate this risk, the Company and its subsidiaries perform credit analysis that assist the management of risks related to collection problems, and monitor accounts receivable from subscribers, blocking the telephone, in case customers default on payment of their bills.

(iv) Credit risk related to the sale of handsets and prepaid telephone cards

The policy adopted by the Company's subsidiaries for the sale of handsets and distribution of prepaid telephone cards is directly related to credit risk levels accepted during the normal course of business. The choice of partners, the diversification of the accounts receivable portfolio, the monitoring of loan conditions, the positions and limits defined for orders placed by traders, the adoption of guarantees are procedures adopted by the subsidiaries to minimize possible collection problems with its commercial partners. There is no single client who accounts for more than 10% of net receivables from sales of goods as of December 31, 2006 and 2005, or sales revenues during the years ended 2006 and 2005.

(v) Financial credit risk

This risk relates to the possibility of the Company and its subsidiaries computing losses originating from the difficulty in realizing its short-term investments and swap contracts. The Company and its subsidiaries minimize the risk associated to these financial instruments by investing in well-reputed financial institutions.

There is no concentration of available resources in connection with work, service, concessions or rights that have not been mentioned above that could, if eliminated suddenly, severely impact the operations of the subsidiaries.

Market value of financial instruments

The estimated market value of financial instruments, especially cash and cash equivalents, accounts receivable and short-term financial instruments approximates their book value, given their short duration. Below, the financial instruments with market value different from their book value:

|                     | <b>2006</b> |              | <b>2005 adjusted</b> |              | <b>2005 Pro forma adjusted</b> |              |
|---------------------|-------------|--------------|----------------------|--------------|--------------------------------|--------------|
|                     | Book value  | Market value | Book value           | Market value | Book value                     | Market value |
| Loans and financing | 2,198,087   | 2,198,466    | 125,971              | 123,133      | 1,845,372                      | 1,826,665    |
| Swap contracts      | 22,354      | 13,103       | 4,812                | 4,206        | 24,670                         | 26,251       |
|                     | 2,220,441   | 2,211,569    | 130,783              | 127,339      | 1,870,042                      | 1,852,916    |

The market value of loans and financing and swap contracts was determined based on future discounted cash flow and at interest rates applicable to similar instruments which involve the same risks and conditions or are based on their market quotations.

The market values were estimated at a specific time, using available information and the Company's own evaluation methods. Any change in the underlying assumptions may significantly affect the estimates.

### **36 Pension plans and other post-employment benefits**

The provision for pension and medical care plans as of December 31, 2006 and 2005 is thus composed:

|   | <b>Parent Company</b> |                      |                                |
|---|-----------------------|----------------------|--------------------------------|
|   | <b>2006</b>           | <b>2005 adjusted</b> |                                |
| Term of atypical contractual relationship | 4,245                 | 3,584                |                                |
| PAMA                                      | 310                   | -                    |                                |
|   | 4,555                 | 3,584                |                                |
| <b>Consolidated</b>                       |                       |                      |                                |
|   | <b>2006</b>           | <b>2005 adjusted</b> | <b>2005 Pro forma adjusted</b> |
| Term of atypical contractual relationship | 4,245                 | 3,584                | 3,584                          |
| PAMA                                      | 1,838                 | -                    | -                              |
|   | 6,083                 | 3,584                | 3,584                          |

***Supplementary Social Security Plan***

On August 7, 2006, TIM Participações S.A.'s Administrative Council approved the implementation of Itaú Vida e Previdência's Supplementary Social Security Plans of the types PGBL and VGBL for the Company and its subsidiaries TIM Celular S.A. and TIM Nordeste S.A. All employees not yet entitled to social security benefits sponsored by the Company and its subsidiaries are eligible to the Supplementary Social Security Plan.

***Atypical Contractual Agreement***

The Company is the succeeding sponsoring company arising from the partial spin-off of Telecomunicações do Paraná S.A. TELEPAR, of the private pension supplementation plans introduced in 1970 under a Collective Agreement, approved by the Atypical Contractual Agreement entered into by said company and the Unions representing the professional categories then existing.

This agreement covers 86 employees hired before December 31, 1982, and grants them a supplementary pension. This pension is granted only if they retire after a minimum service length (30 years for men and 25 years for women).

Given the Telebrás split in June 1998, the Company opted for extinguishing this supplementary retirement plan. As a consequence, the participants of this plan could either be paid in cash for accumulated benefits or transfer these benefits to the PBS-A-Sistel plan, most of them having opted for payment in cash. The remainder of the provision will be used for payment of benefits to those employees who have not yet made their choice (4 employees as of December 31, 2006 and 2005).

***TIMPREV and SISTEL***

TIM Participações S.A. and its subsidiaries TIM Nordeste Telecomunicações S.A (merged into Maxitel S.A.) and TIM Sul S.A (merged into TIM Celular S.A.), 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, in compliance with the legal provisions applicable to the privatization process of these companies in July 1998.

If one considers 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 per sponsoring company and maintenance of joint liability only in relation to the participants already assisted on January 31, 2000, the Company and their subsidiaries in 2002, like other companies resulting from the former TELEBRÁS system, started the creation of a pension plan for defined contributions meeting the most modern social security standards adopted by private companies and allowing the possibility of migration to this plan of the employee groups linked to SISTEL.

On November 13, 2002, the Brazilian Secretariat for Supplemental Pension Plans, through official ruling No. 1917 CGAJ/SPC, approved the statutes of the new pension plan, denominated Statutes of the TIMPREV Benefits Plan, defined contributions, which provide for new conditions for benefits granting and maintenance, as well as the rights and obligations of the Plan Management Entity, the sponsoring companies, participants and the beneficiaries thereof.

Under the new plan, the contribution on the part of the sponsoring company shall be 100% of the basic participants' contribution, and TIMPREV's management entity shall ensure, under the approved statutory terms and conditions, the benefits listed below, not being held liable for granting any other, even if the government-sponsored social security agency starts granting them to beneficiaries:

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

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

**PBS:** benefits plan of SISTEL for defined benefits, which includes the employees paying contributions to the plan (active) who participated in the plans sponsored by the companies of the former TELEBRÁS system;

**PBS Assistidos** : private pension plan for employees receiving benefits (inactive), for multi-sponsored benefits;

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

**PAMEC:** health care plan granted to pensioners of the predecessors of the subsidiary companies;

**PBT:** plan for defined benefits for pensioners of the predecessors of the company and its subsidiaries;

**PAMA:** health care plan for retired employees and their dependents, on a shared cost basis.

In accordance with the rules established by NPC-26 issued by the Institute of Independent Auditors of Brazil IBRACON, as approved by CVM Deliberation No. 371, the actuarial position of plans with a surplus are not recorded by the Company in view of the impossibility to recover such amounts, and also considering that the amount of contributions will not be reduced for the future sponsor.

At December 31, 2006 the medical care plan (PAMA) reflected the following deficit positions: R\$ 310 deficit (individual) and R\$ 1,838 (consolidated), which require the recording of actuarial liabilities.

The sponsoring company opted for prompt recognition of the full gains/losses for the period against net actuarial liabilities/assets, as stipulated in the Pronouncement, item 55. This procedure is to be repeated consistently repeated for an indefinite period, whether gains (losses) are recorded in subsequent years.

On January 31, 2006, TIM Participações S.A.'s Administrative Council approved the proposed migration of pension plans sponsored by TIM Sul S.A. (merged into TIM Celular S.A. ) and TIM Nordeste Telecomunicações S.A. (merged into Maxitel S.A.) at Fundação Sistel de Seguridade Social to a multisponsored plan linked to the HSBC Fundo de Pensão. Through 2006, the entities in question conducted migration studies , having registered the respective Terms of Transfer with the Ministry of Social Security's Secretariat of Supplementary Social Security in December 2006.

In fiscal 2006, the contributions to the pension and other post-employment benefits totaled R\$ 272 (R\$ 296 in 2005)

Below, a statement of the actuarial assets and liabilities position under the pension and medical care plans as of December 31, 2006, in accordance with NPC-26 issued by the Institute of Independent Auditors of Brazil IBRACON, as approved by CVM Deliberation No. 371. These rules apply to plans sponsored prior to the implementation of TIMPREV, which still have active participants.

**Parent Company**

a) Effects recognized as of December 31:

|   | <b>Plans</b> |             | <b>Total</b> |             |
|---|--------------|-------------|--------------|-------------|
|   | <b>PBS</b>   | <b>PAMA</b> | <b>2006</b>  | <b>2005</b> |
| Reconciliation of assets and liabilities as of 12/31/06         | (*)          |             |              |             |
| Present value of actuarial obligations                          | 6,793        | 668         | 7,461        | 6,957       |
| Fair value of the plan's assets                                 | (12,192)     | (358)       | (12,550)     | (10,733)    |
| Present value of obligations exceeding the fair value of assets | (5,399)      | 310         | (5,089)      | (3,776)     |
| Net actuarial liabilities (assets)                              | (5,399)      | 310         | (5,089)      | (3,776)     |

(\*) No assets have been recognized by the sponsoring company, given the impossibility of surplus reimbursement and reduction of its contributions in the future.

b) Changes in net actuarial liabilities (assets)

|   | <b>Plans</b> |             |
|---|--------------|-------------|
|   | <b>PBS</b>   | <b>PAMA</b> |
| Net actuarial liabilities (assets) as of 12/31/05       | (3,914)      | 138         |
| Expense (revenue) recognized as the prior year's income | (690)        | 9           |
| Sponsoring company's contributions                      | -            | -           |
| Actuarial (gains) losses recognized                     | (795)        | 163         |
| Net actuarial liabilities (assets) as of 12/31/06       | (5,399)      | 310         |

c) Statement of loss (gain) calculation

| <b>Plans</b> |             |
|--------------|-------------|
| <b>PBS</b>   | <b>PAMA</b> |



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|                                     |       |      |
|-------------------------------------|-------|------|
| Losses on actuarial obligations     | 82    | 180  |
| (Gains) losses on the plans' assets | (882) | (17) |
| Losses on employees' contributions  | 5     | -    |
| <br>                                |       |      |
| (Gains) losses as of 12/31/06       | (795) | 163  |

## d) Reconciliation of present value of obligations

|                                   | <b>Plans</b> |             |
|-----------------------------------|--------------|-------------|
|                                   | <b>PBS</b>   | <b>PAMA</b> |
| Obligations as of 12/31/05        | 6,490        | 467         |
| Cost of current service           | 7            | 1           |
| Interest on actuarial obligations | 705          | 52          |
| Benefits paid in the year         | (491)        | (32)        |
| Obligations                       | 82           | 180         |
| <br>                              |              |             |
| Obligations as of 12/31/06        | 6,793        | 668         |

## e) Reconciliation of fair value of assets

|                                     | <b>Plans</b> |             |
|-------------------------------------|--------------|-------------|
|                                     | <b>PBS</b>   | <b>PAMA</b> |
| Fair value of assets as of 12/31/05 | 10,404       | 329         |
| Benefits paid in the year           | (491)        | (32)        |
| Participants' contributions         | -            | -           |
| Sponsoring company's contributions  | -            | -           |
| Actual yield on assets in the year  | 2,279        | 61          |
| <br>                                |              |             |
| Value of assets as of 12/31/06      | 12,192       | 358         |

## f) Expense forecast for 2007

|  | <b>Plans</b> |             |
|--|--------------|-------------|
|  | <b>PBS</b>   | <b>PAMA</b> |
| Cost of current service (including interest)       | -            | -           |
| Interest on actuarial obligations                  | 670          | 67          |
| Yield on assets forecast                           | (1,255)      | (37)        |
| <br>   |              |             |
| Total expenses recognized                          | (585)        | 30          |
| <br>   |              |             |
| Participants' contributions forecast for next year | -            | -           |

|  |       |    |
|--|-------|----|
| Total unrecognized expenses (revenues) net | (585) | 30 |
|--|-------|----|

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**Consolidated**

a) Effects as of December 31:

|   | <b>Consolidated</b> |                |                           |       |         |         | <b>Total</b> |             |
|---|---------------------|----------------|---------------------------|-------|---------|---------|--------------|-------------|
|   | <b>Plans</b>        |                |                           |       |         |         | <b>2006</b>  | <b>2005</b> |
|   | PBS                 | PBS Assistidos | Convênio de Administração | PAMEC | PBT     | PAMA    |              |             |
| <b>Reconciliation of assets and liabilities as of 12/31/06</b>  | (*)                 | (*)            | (*)                       | (*)   | (*)     |         |              |             |
| Present value of actuarial obligations                          | 23,842              | 4,782          | 898                       | 123   | 1,420   | 3,958   | 35,023       | 32,540      |
| Fair value of the plans' assets                                 | (40,688)            | (7,074)        | (1,808)                   | (215) | (1,812) | (2,120) | (53,717)     | (46,924)    |
| Present value of obligations exceeding the fair value of assets | (16,846)            | (2,292)        | (910)                     | (92)  | (392)   | 1,838   | (18,694)     | (14,384)    |
| Net actuarial liabilities/ (assets)                             | (16,846)            | (2,292)        | (910)                     | (92)  | (392)   | 1,838   | (18,694)     | (14,384)    |

(\*) No assets have been recognized by the sponsoring company, given the impossibility of surplus reimbursement and reduction of its contributions in the future.

b) Changes in net actuarial liabilities (assets)

|   | <b>Plans</b> |                |                           |       |       |      |
|---|--------------|----------------|---------------------------|-------|-------|------|
|   | PBS          | PBS Assistidos | Convênio de Administração | PAMEC | PBT   | PAMA |
| Actuarial liabilities (assets) as of 12/31/05 | (12,629)     | (1,331)        | (814)                     | (110) | (336) | 836  |

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|   |          |         |       |      |       |       |
|---|----------|---------|-------|------|-------|-------|
| Expense (revenue) recognized as the prior year's income | (2,260)  | (289)   | (133) | (17) | (78)  | 72    |
| Sponsoring company's contributions                      | (56)     | -       | -     | -    | -     | (1)   |
| Actuarial (gains) losses recognized                     | (1,901)  | (672)   | 37    | 35   | 22    | 931   |
| Net actuarial liabilities (assets) as of 12/31/06       | (16,846) | (2,292) | (910) | (92) | (392) | 1,838 |

## c) Statement of loss (gain) calculation

|   | <b>Plans</b> |                |                           |       |      |      |
|---|--------------|----------------|---------------------------|-------|------|------|
|   | PBS          | PBS Assistidos | Convênio de Administração | PAMEC | PBT  | PAMA |
| (Gains) losses on actuarial obligations | (26)         | 143            | 8                         | 37    | (12) | 928  |
| (Gains) losses on the plans' assets     | (1,896)      | (815)          | 29                        | (2)   | 34   | 3    |
| Losses on employees' contributions      | 21           | -              | -                         | -     | -    | -    |
| (Gains) losses as of 12/31/06           | (1,901)      | (672)          | 37                        | 35    | 22   | 931  |

## d) Reconciliation of present value of obligations

|                                   | <b>Plans</b> |                |                           |       |       |       |
|-----------------------------------|--------------|----------------|---------------------------|-------|-------|-------|
|                                   | PBS          | PBS Assistidos | Convênio de Administração | PAMEC | PBT   | PAMA  |
| Obligations as of 12/31/05        | 22,879       | 4,507          | 863                       | 79    | 1,389 | 2,823 |
| Cost of current service           | 89           | -              | -                         | -     | -     | 25    |
| Interest on actuarial obligations | 2,497        | 489            | 93                        | 8     | 151   | 314   |
| Benefits paid in the year         | (1,597)      | (357)          | (66)                      | (1)   | (108) | (132) |
| Obligations                       | (26)         | 143            | 8                         | 37    | (12)  | 928   |
| Obligations as of 12/31/06        | 23,842       | 4,782          | 898                       | 123   | 1,420 | 3,958 |

## e) Reconciliation of fair value of assets

|                                     | <b>Plans</b> |                |                           |       |       |       |
|-------------------------------------|--------------|----------------|---------------------------|-------|-------|-------|
|                                     | PBS          | PBS Assistidos | Convênio de Administração | PAMEC | PBT   | PAMA  |
| Fair value of assets as of 12/31/05 | 35,508       | 5,838          | 1,677                     | 189   | 1,725 | 1,987 |
| Benefits paid in the year           | (1,597)      | (357)          | (66)                      | (1)   | (108) | (132) |
| Participants' contributions         | 39           | -              | -                         | -     | -     | -     |
| Sponsoring company's contributions  | 56           | -              | -                         | -     | -     | 1     |
| Actual yield on assets in the year  | 6,682        | 1,593          | 197                       | 27    | 195   | 264   |

|                                |        |       |       |     |       |       |
|--------------------------------|--------|-------|-------|-----|-------|-------|
| value of assets as of 12/31/06 | 40,688 | 7,074 | 1,808 | 215 | 1,812 | 2,120 |
|--------------------------------|--------|-------|-------|-----|-------|-------|

**f) Expense forecast for 2007**

|   | <b>Plans</b> |                   |                              |       |       |       |
|---|--------------|-------------------|------------------------------|-------|-------|-------|
|   | PBS          | PBS<br>Assistidos | Convênio de<br>Administração | PAMEC | PBT   | PAMA  |
| Cost of current service<br>(including interest)       | 49           | -                 | -                            | -     | -     | 23    |
| Interest on actuarial<br>obligations                  | 2,357        | 471               | 89                           | 12    | 140   | 399   |
| Yield on assets forecast                              | (4,199)      | (909)             | (104)                        | (23)  | (198) | (219) |
| Total expenses recognized                             |              |                   |                              |       |       |       |
|   | (1,793)      | (438)             | (15)                         | (11)  | (58)  | 203   |
| Participants' contributions<br>forecast for next year | (42)         | -                 | -                            | -     | -     | -     |
| Total unrecognized expenses<br>(revenue) Net          | (1,835)      | (438)             | (15)                         | (11)  | (58)  | 203   |

**Actuarial calculation assumptions**

The main actuarial assumptions underlying calculations are as follows:

|   |   |
|---|---|
| Actuarial obligation - nominal discount rate:     | 10.24% p.a.   |
| Expected nominal yield rate on the plans' assets: | 10.51% p.a.   |
| Estimated nominal salary increase ratio:          | 6.08% p.a.  |
| Estimated nominal benefit increase ratio:         | 4.00% p.a.  |
| General mortality biometric table:                | AT83 segregated by sex                                |
| Disability commencement biometric table:          | Mercer Disability Table                               |
| Expected turnover rate:                           | Nihil   |
| Probability of retirement commencement            | 100% upon first entitlement to benefit under the Plan |
| Estimated long-term inflation rate                | 4.00%   |
| Determination method                              | Projected Credit Unit Method                          |

**37 Management fees**

The Company's and its subsidiaries' management fees for 2006 amounted to R\$8,014, which is less than the amount approved at the General Extraordinary Stockholders' Meeting of September 2006.

**38 Insurance (unaudited)**

It is the Company's and its subsidiaries' policy to monitor risks inherent in their operations, which is why as of December 31, 2006, they have insurance coverage against operating risks, third party liability, health, among others. The Management of the Company and its subsidiaries find the insurance coverage sufficient to cover any losses. The table below shows the main assets, liabilities or interests insured and the respective amounts:





| <b>Types</b>                            | <b>Amounts insured</b>                                   |
|---|--|
| Operating Risks                         | R\$ 7,516,825  |
| General Third Party Liability RCG       | R\$ 4,600  |
| Cars (Executive and Operational Fleets) | 100% Fiipe Table,<br>R\$ 1,000 for Third Party Liability |

### **39 Commitments**

#### **ANATEL**

Under the terms of the Authorization for Mobile Personal Service (SMP) Exploitation, the subsidiaries have committed to implement mobile personal telecommunications cover for the assigned area, on a phased basis, within the quality standards established by such authorization. Should said terms fail to be met, the subsidiaries are subject to penalties.

ANATEL has brought administrative proceedings against the subsidiaries for: (i) noncompliance with certain quality service indicators in 2003, 2004, 2005 and 2006 as established by the licenses for Personal Mobile Service (SMP); and (ii) noncompliance with other obligations assumed under the Terms of Authorization.

The subsidiaries contested with ANATEL that (i) noncompliance with quality indicators was mainly due to the migration from the Cellular Mobile Service (SMC) to the Personal Mobile Service (SMP), the change in the long-distance system, and the implementation of the GSM network; and (ii) in certain cases the obligations assumed under the Terms of Authorization were not met, whereas in others, this was due to several factors, many of which involuntary and unrelated to the companies' activities and actions. The provision for regulatory contingencies reflected in the balance sheet corresponds to losses expected by the Management (Note 22)

#### **RENTALS**

The Company and its subsidiaries rent equipment and properties under several contracts maturing on different dates. Below, a statement of minimum future payments made under these rental contracts:

|                  |           |
|------------------|-----------|
| 2007             | 203,571   |
| 2008             | 212,324   |
| 2009             | 220,695   |
| 2010             | 229,432   |
| 2011 (and after) | 238,520   |
|                  | 1,104,542 |

### **40 Supplementary information**

For comparability purposes, the statement of cash flows for the year ended December 31, 2006 is presented below, as though the incorporation of shares described in Note 2-c had occurred before January 1, 2006.



**a. Statements of Cash Flow**

|  | Parent Company |                  | Consolidated |                  |                               |
|--|----------------|------------------|--------------|------------------|-------------------------------|
|  | 2006           | 2005<br>adjusted | 2006         | 2005<br>adjusted | 2005<br>Pro forma<br>adjusted |
| <b>Operating activities</b>  |                |                  |              |                  |                               |
| Net Income (Loss) for the period                                       | (285,542)      | 424,863          | (301,683)    | 389,574          | (989,561)                     |
| Adjustments for reconciliation of income to cash and cash equivalents: |                |                  |              |                  |                               |
| Depreciation and amortization  | 1,582          | 1,582            | 2,284,889    | 537,358          | 1,914,891                     |
| Equity pickup  | 265,145        | (453,781)        | -            | -                | -                             |
| Residual value of permanent assets written off                         | -              | -                | 9,656        | 5,723            | 10,534                        |
| Deferred income tax and social contribution                            | 3,449          | 219              | 86,907       | (4,183)          | (4,183)                       |
| Statutorily prescribed dividends                                       | (2,757)        | (1,907)          | (4,522)      | (3,165)          | (3,165)                       |
| Minority shareholding  | -              | -                | -            | 21,464           | 21,464                        |
| Interest, monetary and exchange variation on loans                     | -              | -                | 327,324      | 16,396           | 336,781                       |
| Actuarial Liabilities  | 971            | (113)            | 2,499        | (113)            | (113)                         |
| Monetary variation on asset retirement obligations                     | -              | -                | 26,594       | 9,584            | 34,545                        |
| Interest on short term investments                                     | (1,812)        | (2,107)          | (117,028)    | (137,701)        | (138,496)                     |
| Allowance for doubtful accounts  | -              | -                | 451,976      | 117,978          | 334,462                       |
| Decrease (increase) in operating assets                                |                |                  |              |                  |                               |
| Trade receivables  | -              | -                | (886,177)    | (233,191)        | (869,299)                     |
| Taxes and contributions recoverable                                    | 19,037         | 3,547            | (19,028)     | (31,107)         | (94,313)                      |
| Inventories  | -              | -                | 51,133       | (34,680)         | (24,154)                      |
| Related-party transactions   | (58)           | 108              | (7,467)      | (18,221)         | (3,839)                       |
| Prepaid expenses   | -              | -                | (170,815)    | (6,258)          | 15,692                        |
| Interest on own capital received                                       | 146,776        | 126,037          | -            | -                | -                             |
| Other current assets   | 291            | 180              | (2,514)      | 687              | 1,714                         |
| Other long-term assets   | (721)          | (119)            | (21,849)     | 5,635            | (2,092)                       |
| Increase (decrease) in operating liabilities                           |                |                  |              |                  |                               |
| Labor obligations  | (624)          | 624              | (1,935)      | 1,843            | 13,767                        |
| Suppliers Trade payables   | (1,404)        | 2,567            | (120,556)    | 8,438            | (524,479)                     |
| Taxes, rates and contributions   | (20,844)       | (5,397)          | 24,444       | (7,479)          | 121,694                       |
| Provision for contingencies  | (47)           | 572              | (17,589)     | 6,492            | 41,397                        |
| Related-party transactions   | -              | (34,948)         | 10,162       | 50,999           | 21,640                        |
| Other short-term liabilities   | (197)          | 807              | 34,004       | 1,616            | 1,007                         |
| Net cash and cash equivalents generated by operating activities        | 123,245        | 62,734           | 1,638,425    | 697,689          | 215,894                       |

**Investment activities:**

|  |         |         |             |           |             |
|--|---------|---------|-------------|-----------|-------------|
| Short-term investments                     | (8,554) | (3,544) | 617,717     | (347,483) | (323,811)   |
| Additions to property, plant and equipment | -       | -       | (2,227,467) | (334,762) | (1,462,115) |
|  | (8,554) | (3,544) | (1,609,750) | (682,245) | (1,785,926) |

**Financial activities**

|   |           |          |             |          |             |
|---|-----------|----------|-------------|----------|-------------|
| Capital increase referring to stock option plan | -         | 2,006    | -           | 2,006    | 2,006       |
| Capital increase reserve                        | -         | 6,401    | -           | 6,401    | 6,401       |
| Capital increase                                | -         | -        | -           | -        | 1,695,176   |
| New loans                                       | -         | -        | 1,078,445   | 85,319   | 1,405,319   |
| Loan amortization                               | -         | -        | (1,070,665) | (76,034) | (275,728)   |
| New related-party loans                         | -         | -        | -           | -        | 1,092,019   |
| Amortization of related-party loans             | -         | -        | -           | -        | (1,870,812) |
| Dividends and interest on own capital paid      | (114,659) | (68,575) | (114,889)   | (92,885) | (92,885)    |
|   | (114,659) | (60,168) | (107,109)   | (75,193) | 1,961,496   |

**Increase (decrease) in cash and cash equivalents**

|           |              |                 |                 |                |
|-----------|--------------|-----------------|-----------------|----------------|
| <b>32</b> | <b>(978)</b> | <b>(78,434)</b> | <b>(59,749)</b> | <b>391,464</b> |
|-----------|--------------|-----------------|-----------------|----------------|

**cash and cash equivalents at beginning of the period**

|    |       |         |        |         |
|----|-------|---------|--------|---------|
| 55 | 1,033 | 519,300 | 89,873 | 127,836 |
|----|-------|---------|--------|---------|

**cash and cash equivalents at ending of the period**

|    |    |         |        |         |
|----|----|---------|--------|---------|
| 87 | 55 | 440,866 | 30,124 | 519,300 |
|----|----|---------|--------|---------|

|  | Parent Company |                  | Consolidated |                  |                               |
|--|----------------|------------------|--------------|------------------|-------------------------------|
|  | 2006           | 2005<br>adjusted | 2006         | 2005<br>adjusted | 2005<br>Pro forma<br>adjusted |
| <b>Supplementary cash flow information:</b>                                      |                |                  |              |                  |                               |
| Income tax and social contribution paid  | -              | -                | 25,966       | 71,743           | 73,574                        |
| Interest paid  | -              | -                | 260,150      | 10,067           | 64,099                        |
| Capitalized interest   | -              | -                | 16,564       | 1,352            | 5,041                         |
| Accounts payable referring to additions to property, plant and equipment         | -              | -                | 937,468      | 348,360          | 1,089,175                     |
| TIM Nordeste Telecomunicações S.A. e TIM Sul S.A.'s share incorporation project. | -              | 415,069          | -            | 415,069          | 415,069                       |

**b. Value-Added Statements**

|  | Parent Company |                  | Consolidated |                  |                               |
|--|----------------|------------------|--------------|------------------|-------------------------------|
|  | 2006           | 2005<br>adjusted | 2006         | 2005<br>adjusted | 2005<br>Pro forma<br>adjusted |
| <b>Revenues</b>                                      |                |                  |              |                  |                               |
| Gross operating revenue                              | -              | -                | 13,877,559   | 3,903,272        | 11,232,604                    |
| Allowance for doubtful accounts and losses           | -              | -                | (451,976)    | (117,978)        | (334,462)                     |
| Discounts given, devolution and others               | -              | -                | (839,613)    | (171,755)        | (450,107)                     |
| Non-operating revenues (expenses) net                | -              | -                | 2,526        | (2,260)          | (5,500)                       |
|  | -              | -                | 12,588,496   | 3,611,279        | 10,442,535                    |
| <b>Input acquired from third parties</b>             |                |                  |              |                  |                               |
| Cost of services rendered and goods sold             | -              | -                | (3,925,732)  | (950,678)        | (3,239,515)                   |
| Materials, energy, third parties' services and other | (8,572)        | (11,171)         | (1,992,709)  | (536,874)        | (2,217,245)                   |
|  | (8,572)        | (11,171)         | (5,918,441)  | (1,487,552)      | (5,456,760)                   |
| <b>Withholding</b>                                   |                |                  |              |                  |                               |
| Depreciation and amortization                        | (1,582)        | (1,582)          | (2,284,889)  | (537,358)        | (1,914,891)                   |
| <b>Value-added produced net</b>                      | (10,154)       | (12,753)         | 4,385,166    | 1,586,369        | 3,070,884                     |
| <b>Value added received through reclassification</b> |                |                  |              |                  |                               |
| Equity Pick-up                                       | (265,145)      | 453,781          | -            | -                | -                             |
| Financial revenues                                   | 2,862          | 3,274            | 417,071      | 167,716          | 624,650                       |

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|  |                  |                |                  |                  |                  |
|--|------------------|----------------|------------------|------------------|------------------|
|  | (262,283)        | 457,055        | 417,071          | 167,716          | 624,650          |
| <b>Total undistributed value-added</b> | <b>(272,437)</b> | <b>444,302</b> | <b>4,802,237</b> | <b>1,754,085</b> | <b>3,695,534</b> |
| <b>Value-added distributed</b>         |                  |                |                  |                  |                  |
| Personnel and related charges          | 4,954            | 5,091          | 507,071          | 107,394          | 429,321          |
| Taxes, rates and contributions         | 7,972            | 13,318         | 3,695,888        | 1,131,485        | 3,133,567        |
| Interest and rentals                   | 179              | 1,030          | 900,961          | 104,168          | 1,100,743        |
| Minority shareholding                  | -                | -              | -                | 21,464           | 21,464           |
| Interest on own capital and dividends  | -                | 132,529        | -                | 132,529          | 132,529          |
| Retained earnings (accumulated losses) | (285,542)        | 292,334        | (301,683)        | 257,045          | (1,122,090)      |
|  | <b>(272,437)</b> | <b>444,302</b> | <b>4,802,237</b> | <b>1,754,085</b> | <b>3,695,534</b> |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIM PARTICIPAÇÕES S.A.

Date: March 6, 2007

By: /s/ Stefano De Angelis

Name: Stefano De Angelis

Title: Chief Financial Officer

**FORWARD-LOOKING STATEMENTS**

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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