

TIM PARTICIPACOES SA

Form 20-F/A

February 22, 2011

As filed with the Securities and Exchange Commission on February 22, 2011

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

FORM 20-F/A
Amendment No. 1

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
- OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number: 001-14491

TIM PARTICIPAÇÕES S.A.
(Exact name of Registrant as specified in its charter)

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

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

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

Claudio Zezza

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Preferred Shares, without par value*	New York Stock Exchange
American Depositary Shares, as evidenced by American Depositary Receipts, each representing 10 Preferred Shares	New York Stock Exchange

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Item 17 Item 18

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

Yes No

EXPLANATORY NOTE

This Amendment No. 1 (“the Amendment”) to our annual report for the year ended December 31, 2009, filed with the U.S. Securities and Exchange Commission (the “SEC”) on June 30, 2010 (the “Original 20-F Filing”), is being filed for the purpose of amending our Original 20-F Filing to provide additional disclosure in relation to deferred tax assets valuation allowance, which has been included in Part I of the Amendment under Item 5, “Operating and Financial Review and Prospects–Critical Accounting Policies–Deferred Income Tax and Social Contribution,” and further, to correct our disclosure on Earnings (loss) per share, which has been included in the consolidated financial statements in the F-Pages of the Amendment, Note 37i “Reconciliation between Brazilian GAAP and US GAAP – Earnings (loss) per share.”

We are including in this Amendment currently-dated certifications by our Chief Financial Officer and our Chief Executive Officer, as applicable. Other than the foregoing items, no part of the Original 20-F Filing is being amended. Accordingly, this Amendment does not reflect events occurring after the filing of our Original 20-F Filing and does not modify or update the disclosure therein in any way other than as discussed above. As a result, this Amendment continues to speak as of June 30, 2010, except for the certifications referenced above, which speak as of the filing date of this Amendment.

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PRESENTATION OF INFORMATION

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

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

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

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

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

Market Share Data

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

Presentation of Financial Information

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

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

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

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

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

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

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

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

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

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

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FORWARD LOOKING INFORMATION

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

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

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

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

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

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

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Selected Financial Data

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

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

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Common shares (in millions)	n/a	843	798	795	793,544	299,611	n/a
Preferred shares (in millions)	n/a	1,632	1,545	1,539	1,536,171	579,965	n/a
Dividends per share in 2009 to 2007 and per 1,000 shares in 2006 to 2005 – reais(6)	n/a	0.10	0.11	0.14	0.19	0.14	n/a
Dividends per share in 2009 to 2007 and per 1,000 shares in 2006 to 2005 – in U.S. dollars (7)	n/a	0.06	0.05	0.08	0.09	0.06	n/a

U.S. GAAP(8)

Net operating revenues	7,497.4	13,054.4	13,150.0	12,536.1	10,165.4	8,329.9	-
Operating income (expense)	150.6	262.3	52.1	208.4	130.2	(510.4)	-
Net income (loss)	161.5	281.2	151.5	68.3	(217.9)	(929.2)	-

Balance Sheet Data:

Brazilian GAAP

Property, plant, equipment and software, net	4,238.3	7,379.7	6,971.4	7,021.8	7,185.9	1,872.7	7,815.9
Total assets	10,021.7	17,449.7	16,239.5	14,564.0	14,206.7	4,457.4	15,233.9
Loans, financing and debentures	2,349.0	4,090.1	3,497.7	2,097.4	2,156.3	129.0	1,819.6
Shareholders' equity	4,779.9	8,322.7	7,790.5	7,771.8	7,910.3	2,714.8	8,622.7
Capital stock	4,680.2	8,149.1	7,613.6	7,550.5	7,512.7	1,472.1	7,455.9

U.S. GAAP(8) (9)

Property, plant, equipment and software, net	4,099.5	7,138.1	6,781.6	6,916.9	7,028.8	7,714.0	-
Total assets	10,246.2	17,840.7	16,339.9	14,667.6	14,271.9	15,417.2	-
Loans and financing	2,349.0	4,090.1	3,497.7	2,113.5	2,140.9	1,808.8	-
Shareholders' equity	4,995.5	8,698.1	7,876.6	7,886.6	8,154.9	8,665.5	-

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

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

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Brazilian Economic Environment

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

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

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

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

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

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

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

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

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

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

Exchange Rates

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

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

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

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

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

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

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

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

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

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

Source: Central Bank/Bloomberg

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may face difficulties responding to new telecommunications technologies.

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

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

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

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

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

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

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

operating results.

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

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

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

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

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

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

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

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

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

We face risks associated with litigation.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to the Brazilian Telecommunications Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Brazil

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

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

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

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

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

Tax reforms may affect our prices.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our ADSs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Enforcement of rights in Brazil may be difficult.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Item 4. Information on the Company

A. History and Development of the Company

Basic Information

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

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

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

Historical Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Acquisition of Olimpia S.p.A.

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

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

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

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

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

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

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

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

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

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

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

Recent Developments

Acquisition of Intelig

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

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

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

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

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

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

Capital Expenditures

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

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

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

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

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

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

B. Business Overview

Market Characteristics

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

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

Our Business

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

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

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

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

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

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Regional Overview

Operations under TIM's trademark

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

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

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

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

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

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

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

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

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

(5) Average monthly revenue earned per TIM subscriber.

Mobile Service Rates and Plans

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

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

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

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

Our postpaid plans include the following charges:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sources of Revenue

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

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

Revenue from mobile telephone services includes revenue from:

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

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

Monthly Subscription Charges

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

Network Usage Charges

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

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

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

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

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

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

Roaming Fees

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

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

Interconnection Charges

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

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

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

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

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

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

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

Long Distance

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

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

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

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

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

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

Value-Added Services

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

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

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

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

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

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

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

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

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

Sales of Mobile Handsets and BlackBerry

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

Co-Billing Services

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

Sales and Marketing

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

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

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

Our Network

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

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

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

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

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Site-Sharing Agreements

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

Customer Service

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

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

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

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

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

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

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

Billing and Collection

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

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

- billing and collection.

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

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

Fraud Detection and Prevention

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

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

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

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

Competition

Mobile Competitors

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

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

We have two major competitors in Brazil:

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

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

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

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

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

Other Competition

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

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

Seasonality

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

Our Operational Contractual Obligations

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

Interconnection Agreements

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

Roaming Agreements

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

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

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

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

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International Roaming Agreements

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

Site-Sharing Agreement

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

Co-billing

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

Taxes on Telecommunications Goods and Services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulation of the Brazilian Telecommunications Industry

General

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

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

Authorizations and Concessions

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

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

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

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

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

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

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

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

Obligations of Telecommunications Companies

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

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

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

PCS Regulation

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

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

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

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

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

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

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

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

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

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

Interconnection Regulation

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

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

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

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

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

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

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

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

Significant Market Power

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

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

Rate Regulation

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

could be adversely affected.

Number Portability

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

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Value-Added Services and Internet Regulation

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

The new 3G environment

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

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C. Organizational Structure

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

The following chart illustrates our current ownership structure:

*“CS” refers to our common shares.

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

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

D. Property, Plants and Equipment

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

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

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

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Merger of TIM Nordeste S.A. into TIM Celular

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

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

Acquisition of Holdco/Intelig

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

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

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

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

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

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

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

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

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

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

Acquisition of TIM Celular by TIM Participações

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

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

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

Ownership Restructuring of the Companies controlled by TIM Participações

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

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

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

Merger of Tele Nordeste Celular Participações into Tele Celular Sul Participações

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

Critical Accounting Policies

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

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

Depreciation and Impairment of Long-Lived Assets

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

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

Allowance for Doubtful Accounts

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

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

Deferred Income Tax and Social Contribution

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

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

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

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

The taxable income projections used in determining the recoverability of our deferred tax assets as of December 31, 2009 were derived from our 2010-2012 Industrial Plan. Our Industrial Plan forecasts our income for the next three fiscal years, with assumptions reflecting conditions we expect to exist and the course of actions we expect to take. Based on the three-year projections included in the Industrial Plan, we projected income out for a further seven years (i.e. to 2019). However, we did not extend the Industrial Plan projections

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beyond the basic three years for the valuation allowance of our deferred tax assets because we believe that the uncertainties described below made any extension of our projections beyond year three difficult to support at the more likely-than-not level, required for projections in this context. We limited our projections to three years in determining the amount of the valuation allowance for deferred tax assets at each of December 31, 2007, 2008 and 2009.

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

- TIM Celular had a history of losses.
- at the end of 2009, Brazil was expecting a presidential election in 2010, generating uncertainties in relation to longer future projections and taxation.
- at the end of 2009, the economy was still recovering from the worldwide financial crises, generating a strong level of uncertainties in longer term future projections. In addition, we believed there remained fundamental uncertainties regarding the Brazilian economy, including with respect to domestic inflation and commodities prices.
- in 2009, compared to 2008, the subsidiary TIM Celular did not experience growth in revenues and had a modest growth in profitability. Further, as described before in this Form, the Company lost approximately five hundred thousand clients from its average post-paid customer during 2009 when compared to 2008, and had a deterioration in its brand awareness and customers satisfaction. As a result, substantial efforts were made to turn around the Company (including the subsidiary TIM Celular) starting in the second half of 2009, including: i) a substantial change in management (e.g CEO, COO, CTO); ii) re-launching of the strategy and positioning of TIM in the market; iii) new and innovative services and products ('Infinity', and 'Liberty').

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

Asset Retirement Obligations

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

Contingent Liabilities

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

We are subject to various claims, including regulatory, legal and labor proceedings covering a wide range of matters that arise in the ordinary course of business. We adopted a policy of analyzing each such proceeding and making a judgment as to whether a loss is probable, possible or remote. We make accruals for proceedings that we are party to

when we determine that losses are probable and can be reasonably estimated. Our judgment is always based on the opinion of our legal advisors. Accrual balances are adjusted to account for changes in circumstances for ongoing matters and the establishment of additional accruals for new matters. While we believe that the current level of accruals is adequate, changes in the future could impact these determinations.

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Revenue Recognition and Customer Incentive Programs

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

Brazilian GAAP and U.S. GAAP

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

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

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

In March 16, 2006 we acquired TIM Celular and its wholly-owned subsidiaries. For Brazilian GAAP purposes, in the year of acquisition, the results of operations of the TIM Celular were included in our results of operations for the entire year, as required by the merger agreement. For U.S. GAAP purposes, as both the Company and TIM Celular are majority owned by TIM Brasil, a common controlling shareholder, the exchange of shares for the purpose of the merger of TIM Celular with and into the Company is considered a business combination of companies under common control and was accounted for in a manner similar to a pooling-of-interest. Accordingly, such exchange of shares was accounted for at historical carrying values. The merger was reflected from 2000, the year TIM Brasil formed TIM Celular and, consequently, had control of both the Company and TIM Celular. Therefore, for all periods presented, the Company's and TIM Celular's financial statements have been combined.

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

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

Accounting Practice Change

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

Political, Economic, Regulatory and Competitive Factors

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

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

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

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Overview

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

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

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

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

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

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

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

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

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A. Operating Results

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

Statement of Operations:

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

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

Operating revenues

Our operating revenues consisted of:

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

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

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

Statement of Operations Data:	Year ended December 31, 2008		Percentage change 2009-2008
	2009	adjusted as 2008	
Brazilian GAAP	(in millions of reais)		
Monthly subscription charges	300.2	378.9	-20.8%
Usage charges	7,768.0	7,954.7	-2.3%
Fixed services	177.1	7.9	2,141.8%
Interconnection charges	4,042.6	4,458.2	-9.3%
Long distance charges	1,943.1	1,986.7	-2.2%
Value added services	1,897.2	1,598.3	18.7%
Other service revenues	266.8	169.8	57.1%
Gross operating revenues from services	16,395.0	16,554.5	-1.0%
Value-added and other taxes relating to services	(3,697.7)	(3,661.6)	1.0%
Discounts on services	(557.9)	(729.9)	-23.6%
Net operating revenues from services	12,139.4	12,163.0	-0.2%
Sales of cellular handsets and accessories	1,761.6	1,766.4	-0.3%
Value-added and other taxes on handset sales	(487.6)	(437.4)	0.2%
Discounts on handset sales	(307.5)	(344.8)	2.7%
Net operating revenues from sales of cellular handsets and accessories	966.5	984.1	-1.8%
Total net operating revenues	13,105.9	13,147.2	-0.3%

Our gross service revenue for the year ended December 31, 2009 was R\$16,395.0 million, representing a 1.0% decrease from R\$16,554.5 million in the year ended December 31, 2008. This decrease primarily reflected a 2.3% decrease in our usage charges, as well as a 2.2% decrease in our long distance charges. However, the increase of 18.7% in value added service revenues to R\$1,897.2 in the year ended December 31, 2009 from R\$1,598.3 in the year ended December 31, 2008 helped to enhance results. The gross handset revenue for the year ended December 31, 2009 was R\$1,761.6 million, a 0.3% decrease over R\$1,766.4 for the year ended December 31, 2008. Gross revenues for the year ended December 31, 2009 totaled R\$18,156.6 billion, a 0.9% decrease from the year ended December 31, 2008.

Net operating revenues decreased 0.3% to R\$13,105.9 million in the year ended December 31, 2009 from R\$13,147.2 million in the year ended December 31, 2008. This was primarily due to the expansion in the number of pre-paid customers, which limits growth in the use of services as a whole, including value-added services (pre-paid fees are usually higher than post-paid bundles). Pre-paid plans in Brazil are generally acquired by customers in lower wage brackets, and have a lower rate of voice and value added service usage than post-paid plans. A higher percentage of pre-paid customers in our customer base generally leads a decrease in our MOU.

Monthly subscription charges

Revenues from monthly subscription charges decreased to R\$300.2 million in the year ended December 31, 2009 from R\$378.9 million in the year ended December 31, 2008, due to campaigns adopted by the Company to encourage the migration of basic plans to usage service plans.

Usage charges

Revenue from usage charges was R\$7,768.0 million in the year ended December 31, 2009, a 2.3% decrease from R\$7,954.7 million in the year ended December 31, 2008, due primarily to post the increase in the proportion of post-paid subscribers.

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The total average monthly minutes of billed use per customer (“MOU”) for 2009 and 2008 were as follows:

	Year ended December	
	31,	
	2009	2008
Average incoming MOU during the year	21	25
Average outgoing MOU during the year	62	70
Average total MOU during the year	83	95

Fixed Services

Revenue from fixed services was R\$177.1 million in the year ended December 31, 2009, a 2,141.8% increase from R\$7.9 million in December 31, 2008. The main reason for this increase was the November 30, 2009 acquisition of Intelig. Intelig operates in the fixed telecommunications market in Brazil. TIM Fixo, the fixed telecommunications service with the “TIM brand”, accounted for R\$89.4 million of the fixed services revenues in December 31, 2009.

Interconnection charges

Interconnection revenues consist of amounts paid to us by other mobile and fixed line providers for completion of calls on our network of calls originating on their networks. Our interconnection revenues were R\$4,042.6 in the year ended December, 2009, a 9.3% decrease from R\$4,458.2 in 2008. Despite subscriber growth, this decrease was mainly attributable to the strong on-net calls (calls originated and received by terminals of the same cellular company) stimulation by the market as a whole and a fixed to mobile traffic reduction trend. Interconnection as a percentage of total gross revenues of services stood at 24.7% in the year ended December, 2009 compared to 27% in the year ended December, 2008.

Long distance charges

Revenues from long distance charges decreased 2.2% to R\$1,943.1 million in the year ended December 31, 2009 from R\$1,986.7 million in the year ended December 31, 2008, the decrease reflect our efforts to facilitate the use of our long distance service through lower cost service packages such as Liberty and Infinity, and timely promotions.

Value-added services

Value-added service revenues increased 18.7% to R\$1,897.2 million in the year ended December 31, 2009 from R\$1,598.3 million the year ended December 31, in 2008, principally due to an increase in our customer base, both on voice and data, and an expansion of products and services. Data transmission is responsible for the majority of value-added revenue growth, with a 38.3% increase from approximately R\$631.4 million in the year ended December 31, 2008, to approximately R\$873.5 million in the year ended December 31, 2009.

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

Other service revenues

Revenues from other services increased 57.1% to R\$266.8million in the year ended December 31, 2009 from R\$169.8 million in the year ended December 31, 2008. Revenues from other services consist mainly of site sharing and co-billing services, which occur when a customer is billed by his own operator on behalf of another long distance company for services provided by such carrier and contractual penalties.

Sales of mobile handsets and accessories

Sales of mobile handsets decreased 0.3% to R\$1,761.6 million in the year ended December 31, 2009 from R\$1,766.4 million registered in the year ended December 31, 2008. This decrease was mainly attributable to

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our promotion of alternative mobile options including stand alone SIM cards for the prepaid segment, advanced data enabled handsets for the postpaid segment and broadband access modems for the data customer segment.

Value-added and other taxes relating to services

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

Our value-added and other taxes relating to services and handset sales was R\$34.6 million in the year ended December 31, 2009 compared to R\$32.0 million in the year ended December 31, 2008, the relative lack of change in the level of value-added and other taxes was due primarily to similar sales results.

Discounts on services and handset sales decreased 13.6% to R\$1,020.1 million in the year ended December 31, 2009 compared to R\$1,180.0 million in the year ended December 31, 2008. This decrease was due primarily to an effort to acquire and maintain clients based on innovation and prime services, rather than discounts.

Costs of services and goods

Costs of services and goods decreased by 4.8% to R\$6,723.2 in the year ended December 31, 2009 from R\$7,063.8 in the year ended December 31, 2008, due mainly to a decrease in expenses related to interconnection, reflecting our campaigns to promote on-net calls. Cost of handsets and accessories sold decreased 5.4% in the year ended December 31, 2009 due largely to campaigns to stimulate purchases of the TIM Chip alone, and the exchange appreciation of the Brazilian Real.

The following table shows the composition of costs of services and sales of mobile handsets, as well as the percentage change from 2009 to 2008:

Statement of Operations Data:	Year ended December 31,		Percentage change 2009 – 2008
	2009	2008	
Brazilian GAAP	(in millions of reais)		
Depreciation and amortization	1,427.6	1,324.4	7.8%
Interconnection expenses	2,744.5	3,238.7	-15.3%
Circuit leasing and related expenses	802.4	704.7	13.9%
Materials and services	319.9	267.2	19.7%
Personnel	64.4	91.0	-29.2%
FISTEL tax and other	34.6	32.0	8.1%
Total cost of services	5,393.4	5,658.0	-4.7%
Cost of handsets and accessories sold	1,329.8	1,405.8	-5.4%
Total costs of services and goods	6,723.2	7,063.8	-4.8%

Depreciation and amortization

Depreciation and amortization expenses increased 7.8% to R\$1,427.6 million in the year ended December 31, 2009 from R\$1,324.4 million in the year ended December 31, 2008. The increase in depreciation expenses was due largely to efforts by the Company to expand and improve its network and IT infrastructure

Interconnection expenses

Interconnection expenses consist of the amount paid to fixed-line and other mobile service providers for termination of our outgoing calls on their networks. Interconnection costs decreased 15.3% to R\$2,744.5 million in the year ended December 31, 2009 from R\$3,238.7 million in the year ended December 31, 2008. This decrease reflected the results of our campaign to encourage on-net usage through discounted fares and specific bundle plans.

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Circuit leasing and related expenses

Circuit leasing and related expenses represent lease payments to fixed carriers for the use of circuits, interconnecting our network and transporting our customer traffic through third-parties fixed infrastructure. Circuit leasing and related expenses increased 13.9% in the year ended December 31, 2009 to R\$802.4 million from R\$704.7 million in the year ended December 31, 2008. The increase was attributable to the growth in data traffic and value added services.

Materials and services

Materials and services costs were R\$319.9 million in the year ended December 31, 2009, up 19.7% from R\$267.2 million incurred in the year ended Decemeber 31, 2008. The increase reflects maintenance costs in the 3G and GSM network.

Personnel

Personnel costs decreased 29.2% to R\$64.4 million in the year ended Decemeber 31, 2009 from R\$91.0 million in the year ended December 31, 2008. The decrease was due principally to a partial reversion of bonus provisions of the second quarter of 2009. The decrease was also attributable to corporate restructuring, implementing a new administrative and commercial structure that led to headcount adjustment. During 2009, there has been a 5% decrease in our number of employees, from 10,296 in the year ended December 31, 2008 to 9,811 in the year ended December, 2009.

FISTEL tax and other

FISTEL tax and other costs increased 8.1% to R\$34.6 million in the year ended December 31, 2009 from R\$32.0 million in the year ended Decemeber 31, 2008, due to the renewal of licenses in 2009 for the states of Piaui, Pernambuco, and for the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu in the state of Rio Grande do Sul.

Costs of handsets and accessories sold

The cost of handsets and accessories sold in 2009 was R\$1,329.8 million, representing 5.4% of decrease from R\$1,405.8 million in the year ended December 31, 2008. This decrease partially attributable to the effects of recent campaigns to stimulate the purchase of the TIM Chip alone, and the appreciation of the Real as most of our handset portfolio is imported.

Gross profit margins

The following table shows our gross profits, as well as the percentage change, from 2009 to 2008:

Statement of Operations Data:	Year ended December 31, 2008		Percentage change
Brazilian GAAP	2009	adjusted	2009 - 2008
	(in millions of reais)		
Net operating revenues from services	12,139.4	12,163.0	-0.2%
Cost of services	(5,393.4)	(5,658.0)	-4.7%

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Gross profit from services	6,746.0	6,505.0	3.7%
Net operating revenues from sales of cellular handsets and accessories	966.5	984.2	-1.8%
Cost of goods	(1,329.8)	(1,405.8)	-5.4%
Gross loss from sales of cellular handsets and accessories	(363.3)	(421.6)	13.8%
Gross profit	6,382.7	6,083.4	4.9%

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Our gross profit margin from services (gross profit as a percentage of net service revenues) increased from 53.5% in the year ended December 31, 2008 to 55.6% in the year ended December 31, 2009. The increase was mainly due to a decrease of 15.3% in interconnection expenses during the period.

Our negative gross margin for sales of mobile handsets and accessories decreased from 42.9% in the year ended December 31, 2008 to 37.6% in the year ended December 31, 2009. TIM continues to maintain its subsidy policy, often with special promotions at particular times of the year, following its segmented approach (subsidy for postpaid according to its contract plan). However, the Company launched the “TIM Chip Avulso” offer, pursuant to which the clients can choose between having handsets purchased at a discount, or discounted monthly fees for stand alone TIM chip alone purchases. This campaign helped cause 50% of fourth quarter handset sales to be subsidy-free.

The Company continues to aim to offer a complete and exclusive handset portfolio, which also supports VAS usage.

Our overall gross profit margin increased, from 46.3% in the year ended December 31, 2008 to 48.7% in December 31, 2009. This resulted primarily from an increase in gross profit margin on services, combined with the decrease of our negative gross margin for handset sales.

Operating expenses

The following table shows our operating expenses, as well as the percentage change from year to year of each component, for the years ended December 31, 2009 and 2008:

Statement of Operations Data:	Year ended December 31, 2008		Percentage change
Brazilian GAAP	2009	as adjusted	2009 – 2008
	(in millions of reais)		
Operating expenses:			
Selling expenses	4,450.0	4,098.4	8.6%
General and administrative expenses	1,070.5	1,127.4	-5.0%
Other operating expenses, net	385.2	366.7	5.4%
Total operating expenses	5,905.7	5,592.5	6.9%

Our total operating expenses increased 6.9% to R\$5,905.7 million in the year ended December 31, 2009 from R\$5,592.5 million in December 31, 2008. This increase was mainly attributable to increase in selling expenses.

Selling expenses

Selling expenses increased 8.6% to R\$4,450.0 million in the year ended December 31, 2009 from R\$4,098.4 million in the year ended December 31, 2008. The increase was largely due to higher commercial activities in the period, including a 75% increase in publicity expenses, a 30% increase in commissions (pre-paid recharges and new line activation), and a 9% increase in FISTEL taxes (charged on increases in the subscriber base increase).

The allowance for doubtful accounts decreased from R\$748.8 million in the year ended December 31, 2008 to R\$421.9 million in the year ended December 31, 2009, as a result of the Company’s efficiency plan in 2009, focused on a more efficient policy for credit concession, and also in new collection procedures.

General and administrative expenses

General and administrative expenses decreased 5.0% to R\$1,070.5 million in the year ended December 31, 2009 from R\$1,127.4 million in the year ended December 31, 2008. This decrease was primarily attributable to lower maintenance and personnel costs during the year ended December 31, 2009, due to a 5% decrease in our number of employees, compared to the period ended December 31, 2008.

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Other operating expenses, net

Other net operating expenses increased 5.4% to R\$385.2 million in the year ended December 31, 2009 from R\$366.7 million in the year ended December 31, 2008. This increase was primarily due to an increase of amortization from 3G licenses.

Net financial expense

TIM registered a net financial expense of R\$256.6 million in the year ended December 31, 2009, which represented a 31.6% decrease from R\$375.0 million in the year ended December 31, 2008. This decrease reflected low levels of interest rates in response to the international financial crisis. In 2008, net financial expenses were also affected by the adoption of NPV adjustments, related to the acquisition of the 3G licenses, the license liability of which was fully paid in 2008, and by the appreciation of the Brazilian Real in the period. The Company maintained similar levels of net debt, which is the total value of debt net cash and other liquid assets, of R\$1.6 billion for the years ending December 31, 2008 and 2009.

Income and social contribution taxes

Income and social contribution taxes are calculated based on the separate income of each subsidiary, adjusted by the additions and exclusions permitted in the year ended December 31, 2009 under tax law. The Company recorded income and social contribution tax of R\$-5.5 million in the year ended December 31, 2009, compared to a revenue of R\$64.3 million in the year ended December 31, 2008. This large variation was mainly attributable to the recognition by the Company of R\$160.2 million as tax benefits in the year ended December 31, 2008, resulting from a partial reversal of the valuation allowance recorded in prior years. During 2009, there was an additional partial reversal of the valuation allowance and which result in a recognition of R\$69.4 million, much lower than prior year.

Net income

Our net income in the year ended December 31, 2009 was R\$214.9 million, representing an increase of R\$34.8 million or 19.3% from a net income of R\$180.2 million in the year ended December 31, 2008.

Results of Operations for the Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Operating revenues

Our operating revenues consisted of:

- monthly subscription charges;
- usage charges, which include roaming charges;
 - interconnection charges;
 - long distance charges;
 - value-added services;
- other service revenues; and

- proceeds from the sale of handsets and accessories.

The composition of our operating revenues by category of service is presented in note 21 to our consolidated financial statements and discussed below. We do not determine net operating revenues or allocate cost by category of service.

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The following table shows certain components of our operating revenues, as well as the percentage change of each component from the prior year, for 2008 and 2007:

Statement of Operations Data: Brazilian GAAP	Year ended December 31,		Percentage change 2008-2007
	2008	2007	
	(in millions of reais)		
Monthly subscription charges	378.9	444.2	-14.7%
Usage charges	7,954.7	7,267.9	9.4%
Fixed services	7.9	-	-
Interconnection charges	4,458.2	4,466.6	-0.2%
Long distance charges	1,986.7	1,889.7	5.1%
Value added services	1,598.3	1,217.1	31.3%
Other service revenues	169.8	134.8	26.0%
Gross operating revenues from services	16,554.5	15,420.3	7.4%
Value-added and other taxes relating to services	(3,661.6)	(3,208.0)	14.1%
Discounts on services	(729.9)	(749.2)	-2.6%
Net operating revenues from services	12,163.0	11,463.1	6.1%
Sales of cellular handsets and accessories	1,766.4	1,838.1	-3.9%
Value-added and other taxes on handset sales	(437.4)	(547.6)	-11.2%
Discounts on handset sales	(344.8)	(269.9)	27.8%
Net operating revenues from sales of cellular handsets and accessories	984.2	1,020.6	-9.6%
Total net operating revenues	13,147.2	12,483.8	5.3%

Our gross service revenue for the year ended December 31, 2008 was R\$16,554.5 million, representing a 7.4% increase from the year ended December 31, 2007. This increase derived mainly from the 16.5% expansion of our customer base and the 31.3% growth of value-added service revenues. The gross handset revenue for the year ended December 31, 2008 was R\$1,766.4 million a 3.9% decrease over the year ended December 31, 2007. Gross revenues for 2008 totaled R\$18,320.9 billion, 6.2% higher than gross revenues in the year ended December 31, 2007.

Net operating revenues increased 5.3% to R\$13,147.2 million in the year ended December 31, 2008 from R\$12,483.8 million in the year ended December 31, 2007. This is primarily due to the expansion in the number of customers, which leverages the growth in the use of services as a whole, including value-added services. Out of the total amount registered in the year ended December 31, 2008, 92.5% are represented by net service revenues and 7.5% by net handset revenues, as compared to 91.8% and 8.2%, respectively, in the year ended December 31, 2007.

Monthly subscription charges

Revenues from monthly subscription charges decreased to R\$378.9 million in the year ended December 31, 2008 as compared to R\$444.2 million in the year ended December 31, 2007, due to campaigns adopted by the company to encourage the migration of basic plans to usage service plans.

Usage charges

Revenue from usage charges was R\$7,954.7 million in the year ended December 31, 2008, a 9.4% increase from R\$7,267.9 million in the year ended December 31, 2007, due primarily to subscriber base increase and marketing campaigns adopted by the company to stimulate usage.

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The total average monthly minutes of billed use per customer (“MOU”) for the years ended December 31, 2008 and 2007 were as follows:

	Year ended December 31,	
	2008	2007
	(in minutes)	
Average incoming MOU during the year	25	32
Average outgoing MOU during the year	70	64
Average total MOU during the year	95	96

Interconnection charges

Interconnection revenues consist of amounts paid to us by other mobile and fixed line providers for completion of calls on our network of calls originating on their networks. Our interconnection revenues were R\$4,460.0 in the year ended December 31, 2008, a 0.2% decrease from R\$4,466.6 in the year ended December 31, 2007. Despite subscriber growth, such performance can be attributed to the strong on-net calls stimulation by the market as a whole and a fixed to mobile traffic reduction trend. Interconnection as a percentage of total gross revenues of services stood at 26.9% in the year ended December 31, 2008, compared to 29.0% in the year ended December 31, 2007.

Long distance charges

Revenues from long distance charges increased 5.1% to R\$1,986.7 million in the year ended December 31, 2008 from R\$1,889.7 million in the year ended December 31, 2007, explained by our subscribers base growth and efforts to facilitate the use of our long distance service through selection of service providers, service packages and promotions.

Value-added services

Value-added service revenues increased 31.3% to R\$1,598.3 million in the year ended December 31, 2008 from R\$1,217.1 million in the year ended December 31, 2007, principally due to an increase of our customer base, both on voice and data, such revenue increase were also backed on TIM’s ability to maintain its innovative position.

Fueled by our 3G network, data transmission represents a key role to support company’s revenue growth. In this sense, TIM has reinforced its cutting edge positioning on data offer, widening partnerships and enhancing smart-phones portfolio (with the recent launch of the 3G iPhone). On top of that, the company continued to promote its mobile broadband offer through TIM web broadband.

Value-added services include short messaging services (SMS, which represent a relevant portion of value-added service revenues), multimedia message services (MMS), data transmission, downloads (wallpapers, ring tones), TV access, voice mail, and chat.

Other service revenues

Revenues from other services increased 26.0% to R\$169.9 million in the year ended December 31, 2008 from R\$134.8 million in the year ended December 31, 2007. Revenues from other services are mainly composed by site sharing and co-billing services, which occur when a customer is billed by his own operator on behalf of another long distance company for services provided by such carrier. During 2009, there has been the reclassification of contractual penalties, from other operating income to other service revenues.

Sales of mobile handsets and accessories

Sales of mobile handsets was down 3.9% to R\$1,766.4 million in the year ended December 31, 2008 when compared to R\$1,838.1 million registered in the year ended December 31, 2007. The Company maintained its segmented approach by stimulating the sales of SIM cards only for prepaid segment and advanced data enabled handsets and broadband access modems for postpaid and data customers.

Value-added and other taxes relating to services

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

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

Our value-added and other taxes relating to services and handset sales increased 10.3% from the year ended December 31, 2007 to the year ended December 31, 2008, primarily as a result of an increase in operating revenue from services.

Discounts

Discounts on services and handset sales were up 5.5% to R\$1,074.7 million in the year ended December 31, 2008 as compared to R\$1,019.1 million in the year ended December 31, 2007. This increase was due primarily to strong competitive pressure to offer discounts during the year ended December 31, 2008.

Costs of services and goods

Costs of services and goods increased by 4.9% to R\$7,063.8 in the year ended December 31, 2008 from R\$6,731.8 in the year ended December 31, 2007, due primarily to increases in expenses related to improved capacity and quality of our GSM coverage and the deployment of our third generation network. Thus, the Company registered an increase of 20.3% in circuit leasing and related expenses, 16.7% in materials and services and 244.1% in FISTEL tax and other. Additionally, we also observed an increase of 6.5% in interconnection expenses reflecting the traffic growth in the period.

The following table shows the composition of costs of services and sales of mobile handsets, as well as the percentage change from the year ended December 31, 2007 to the year ended December 31, 2008:

Statement of Operations Data:	Year ended December 31,		Percentage
Brazilian GAAP	2008	2007 as adjusted	change 2008 - 2007
	(in millions of reais)		
Depreciation and amortization	1,324.4	1,332.9	-0.6%
Interconnection expenses	3,238.7	3,040.9	6.5%
Circuit leasing and related expenses	704.7	585.8	20.3%
Materials and services	267.2	229.0	16.7%
Personnel	91.0	99.5	-8.5%
FISTEL tax and other	32.0	9.3	244.9%
Total cost of services	5,658.0	5,297.4	6.8%
Cost of handsets and accessories sold	1,405.8	1,434.4	-2.0%
Total costs of services and goods	7,063.8	6,731.8	4.9%

Depreciation and amortization

Depreciation and amortization expenses decreased 0.6% to R\$1,324.4 million in the year ended December 31, 2008 from R\$1,332.9 million in the year ended December 31, 2007. The change presented in the year ended December 31, 2008 when compared to the year ended December 31, 2007 was pushed down by the total depreciation of the TDMA network in the year ended December 31, 2007. In the year ended December 31, 2008 the Company made new investments in network and IT infrastructure expansion and improvement, which added new depreciation expenses.

Interconnection expenses

Interconnection expenses consist of the amount paid to fixed-line and other mobile service providers for termination of our outgoing calls on their networks. Interconnection costs increased 6.5% to R\$3,238.7 million in the year ended December 31, 2008 from R\$3,040.9 million in the year ended December 31, 2007. The growth is a result of strong outgoing traffic observed in the period, fueled by traffic promotions.

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Circuit leasing and related expenses

Circuit leasing and related expenses represent lease payments to fixed carriers for the use of circuits, interconnecting our network and transporting our customer traffic through third-parties fixed infrastructure. Circuit leasing and related expenses increased 20.3% in the year ended December 31, 2008 to R\$704.7 million from R\$585.8 million in the year ended December 31, 2007. The increase followed the voice and data traffic growth (also fueled by 3G launch).

Materials and services

Materials and services costs were R\$267.2 million in the year ended December 31, 2008, up 16.7% from R\$229.0 million incurred in the year ended December 31, 2007. The increase reflected GSM network maintenance and 3G deployment.

Personnel

Personnel costs decreased 8.5% to R\$91.0 million in the year ended December 31, 2008 from R\$99.5 million in the year ended December 31, 2007. The decrease was due principally to the reduction of the network workforce.

FISTEL tax and other

FISTEL tax and other costs increased 244.1% to R\$32.0 million in the year ended December 31, 2008 from R\$9.3 million in the year ended December 31, 2007, due in part to the renewal of licenses in the year ended December 31, 2008.

Costs of handsets and accessories sold

The cost of handsets and accessories sold in the year ended December 31, 2008 was R\$1,405.8 million, representing 2.0% of decrease from R\$1,434.4 million in the year ended December 31, 2007 despite a handset sale volume increase in the same period. The drop was mainly due to a lower handset average price (US\$ average exchange rate depreciation, plus GSM handsets bulk purchase advantages).

Gross profit margins

The following table shows our gross profits, as well as the percentage change, from the year ended December 31, 2008 to the year ended December 31, 2007:

Statement of Operations Data:	Year ended December 31, 2008		Percentage change 2008 - 2007
	as adjusted	2007 as adjusted	
Brazilian GAAP	(in millions of reais)		
Net operating revenues from services	12,163.0	11,463.1	6.1%
Cost of services	(5,658.0)	(5,297.4)	6.8%
Gross profit from services	6,505.0	6,165.7	5.5%
Net operating revenues from sales of cellular handsets and accessories	984.2	1,020.6	-3.6%
Cost of goods	(1,405.8)	(1,434.4)	-2.0%
Gross loss from sales of cellular handsets and accessories	(421.6)	(413.8)	1.9%

Gross profit	6,083.4	5,751.9	5.8%
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Our gross profit margin from services (gross profit as a percentage of net service revenues) decreased from 53.8% in the year ended December 31, 2007 to 53.5% in the year ended December 31, 2008. The small decrease was explained by an increase of 20.3% in circuit leasing and related expenses, as well as 16.7% in expenses with material and services.

Our negative gross margin for sales of mobile handsets and accessories increased from 40.5% in the year ended December 31, 2007 to 42.8% in the year ended December 31, 2008. TIM continues to maintain its

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subsidy policy, often with special promotions at particular times of the year, following its segmented approach (subsidy for postpaid according to its contract plan). We engage in sales of handsets with the goal of customer acquisition and retention (loyalty program). The Company continues to aim to offer a complete and exclusive handset portfolio, which also supports VAS usage.

Our overall gross profit margin increased, from 46.1% in the year ended December 31, 2007 to 46.3% in the year ended December 31, 2008. This resulted primarily from an increase in gross profit margin on services offset by the decrease of our gross margin for handset sales.

Operating expenses

The following table shows our operating expenses, as well as the percentage change from year to year of each component, for the year ended December 31, 2008 and the year ended December 31, 2007:

Statement of Operations Data: Brazilian GAAP	Year ended December 31, 2008		Percentage change
	as adjusted (in millions of reais)	2007 as adjusted	2008 – 2007
Operating expenses:			
Selling expenses	4,098.4	3,890.9	5.3%
General and administrative expenses	1,127.4	1,032.8	9.2%
Other operating expenses, net	366.7	311.6	17.7%
Total operating expenses	5,592.5	5,235.3	6.8%

Our total operating expenses increased 6.8% to R\$5,592.5 million in the year ended December 31, 2008 from R\$5,235.3 million in the year ended December 31, 2007. This increase resulted from selling and general and administrative expenses growth.

Selling expenses

Selling expenses increased 5.3% to R\$4,098.4 million in the year ended December 31, 2008 from R\$3,890.9 million in the year ended December 31, 2007. The increase is due to higher commercial activities in the period: 11% of gross ads increase, the launch of 3G and convergent offer TIM Fixo. The growth was concentrated on outsourced expenses, recharge commission (given that pre-paid base grew by 21.8%) and FISTEL taxes (subscriber base increase 16.5% in the year ended December 31, 2008).

Selling expenses decreased as a percentage of net revenues from services, to 33.9% in the year ended December 31, 2008 from 34.1% in the year ended December 31, 2007.

General and administrative expenses

General and administrative expenses increased 9.2% to R\$1,127.4 million in the year ended December 31, 2008 from R\$1,032.8 million in the year ended December 31, 2007. The growth was primarily due to depreciation and amortization of intangible assets, as well as an increase in maintenance service in IT and consulting and legal services.

Other operating expenses, net

Other net operating expenses increased 17.7% to R\$366.7 million in the year ended December 31, 2008 from R\$311.6 million in the year ended December 31, 2007. This increase was primarily due to the increase of amortization from 3G licenses, and provision for contingencies.

Net financial expenses

TIM registered a net financial expense of R\$375.0 million in the year ended December 31, 2008, which represented a 33.2% increase from R\$281.5 million in the year ended December 31, 2007. The increase reflected the new indebtedness of the Company to acquire the 3G licenses, which underwent NPV adjustments to comply with new Brazilian corporate law and had an impact of R\$85.7 million in the year ended December 31, 2008. The NPV adjustment was related to the effect of the recognition of the 3G license liability based on its present value.

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Income and social contribution taxes

Income and social contribution taxes are calculated based on the separate income of each subsidiary, adjusted by the additions and exclusions provided by tax law. The Company recorded income and social contribution tax of R\$64.3 million in the year ended December 31, 2008, compared to an expense of R\$166.8 million in the year ended December 31, 2007. The increase was mainly due to the recognition of R\$160.2 in tax benefit during 2008 for the subsidiary TIM Nordeste, resulting from the partial reversal of the valuation allowance recorded in prior years. This amount results from TIM Nordeste's business plan, which demonstrates the capability of TIM Nordeste to generate future taxable income to compensate the tax benefit recognized.

Net Income

Our net income in the year ended December 31, 2008 was R\$180.2 million, representing an increase of R\$111.9 million or 163.8% from a net income of R\$68.3 million in the year ended December 31, 2007, primarily reflecting the recognition of the above explained tax credits.

B. Liquidity and Capital Resources

The Company expects to finance its capital expenditures and other liquidity requirements for 2010 and 2011 with operating revenue, renewals of maturing indebtedness and new financing.

In the year ended December 31, 2009, the Company resettled R\$1,184 million contracted new R\$ 400 million of long term soft loans (loans with a below-market rate of interest) with BNDES.

New financing obtained in 2009, included long term soft loans granted from i) Banco do Nordeste do Brasil, or BNB for an amount of R\$67 million of which R\$45 million was disbursed in April 2008 and R\$ 22 million was disbursed in May 2009, ii) European Investment Bank, or EIB for an amount of EUR 200 million of which EUR 166 million was disbursed in 2009 and with the last disbursement to be completed in 2010., iii) BNDES for an amount of R\$ 1.51 billion of which R\$ 640 million have been disbursed until December 2009, and iv) Società Servizi Assicurativi, or BNPP-SACE for an amount of US\$ 144 million that have been disbursed in January 2009.

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

In 2010, the Company plans to complete its current financing needs through current long term facilities and partial renewal of its short term debt. The majority of the Company's borrowing are expected to extend until the middle of the second half of the year.

Sources of Funds

Cash from operations

Our cash flows from operating activities were R\$ 2,499.2 in the year ended December 31, 2009 compared to R\$3,180.3 million in the year ended December 31, 2008, and compared to R\$2,503.6 million in the year ended December 31, 2007. At December 31, 2009, we had positive working capital of R\$ 1,029.6, compared to negative R\$44.7 million at December 31, 2008 and to a positive working capital of R\$259.6 million at December 31, 2007.

Financial Contracts

We and our subsidiaries are parties to the following material financial contracts:

• Credit Agreement, dated as of June 28, 2004, among TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$20 million. The amount outstanding as of December 31, 2009, including accrued interest, was R\$8.2 million. The agreement, which matures on June 28, 2012, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Nordeste and Banco Bradesco S.A. provides for the issuance of a R\$30 million promissory note by TIM Nordeste with Tim Participações as the guarantor of such promissory note.

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€ Credit Agreement, dated as of April 29, 2005, among TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of approximately R\$85.3 million. The amount outstanding as of December 31, 2009, including accrued interest, was R\$46.7 million. The agreement, which matures on April 29, 2013, and bears interest at a rate of 10.0% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Nordeste and Banco Bradesco S.A. provides for the issuance of a R\$ 128.0 million promissory note by TIM Nordeste with Tim Participações as the guarantor of such promissory note.

€ Credit Agreement, dated as of June 28, 2004, among TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$99.9 million. The amount outstanding as of December 31, 2009, including accrued interest, was R\$40.9 million. The agreement, which matures on June 28, 2012, bears interest in the rate of 11.5% per annum. In connection with this agreement, Banco Bradesco S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 1% per annum of the principal amount. The guarantee agreement executed by TIM Nordeste and Banco Bradesco S.A. provides for the issuance of a R\$ 149.8 million promissory note by TIM Nordeste with Tim Participações as the guarantor of such promissory note.

€ Credit Agreement, dated as of January 28, 2008, among TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$ 67.0 million. The amount outstanding as of December 31, 2009, including accrued interest, was R\$ 68.1million. The agreement, which matures on January 31, 2016, bears interest in the rate of 10.0% per annum. In connection with this agreement, Banco Votorantim S.A. issued a letter of guarantee, subject to the payment of fees corresponding to 0.75% per annum of the integral principal amount offered in the Credit Agreement. The guarantee agreement executed by TIM Nordeste and Banco Votorantim S.A. provides for the issuance of a \$67.0 million promissory note by TIM Nordeste. TIM Participações is not the guarantor in this promissory note.

€ Credit Agreement, dated as of August 10, 2005, among BNDES, as lender, TIM Celular, as borrower, and Tim Brasil as guarantor, in the principal amount of R\$798.8 million outstanding as of December 31, 2009. The agreement, which matures on August 15, 2013 bears interest at a fixed rate of 4.2% plus the TJLP, which was 6% per annum on December 31, 2009. On December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$802.3 million.

€ Credit Agreement, dated as of October 14, 2005, among BNDES, as lender, TIM Celular, as borrower, and Unibanco, as guarantor, in the principal amount of R\$23.1 million outstanding as of December 31, 2009. The agreement, which matures on October 17, 2011, bears interest at a fixed rate of 3% plus the TJLP, which was 6% per annum on December 31, 2009. On December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$23.3 million. In connection with this agreement, Unibanco issued a letter of guarantee, subject to the payment of fees corresponding to 0.64% per annum of the principal amount.

€ Credit Agreement, dated as of October 6, 2009, among BNDES, as lender, TIM Celular and TIM Nordeste, as borrowers, and Tim Participações as guarantor, in the principal amount of R\$ 400 million outstanding as of December 31, 2009. The agreement, which matures on October 15, 2012 bears interest at a fixed rate of 4.82% plus the TJLP, which was 6% per annum on December 31, 2009. On December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$ 407.4 million.

€ Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Celular, as borrower, and Tim Participações as guarantor, in the principal amount of R\$476 million outstanding as of December 31, 2009. The agreement, which matures on July 15, 2017 bears the average interest fixed rate of 2.2% plus the TJLP and the interest rate of 2.62% plus the IPCA which was respectively 6% and 4.31% per annum on December 31, 2009. On

December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$487.4 million.

€ Credit Agreement, dated as of November 19, 2008, among BNDES, as lender, TIM Nordeste, as borrower, and Tim Participações as guarantor, in the principal amount of R\$166 million outstanding as of December 31, 2009. The agreement, which matures on July 15, 2017 bears the average interest at a fixed rate of 1.88% plus the TJLP and the interest rate of 2.62% plus IPCA which was respectively 6% and 4.31% per annum on December 31, 2009. On December 31, 2008, the outstanding amount under this credit agreement, including accrued interest, was R\$170.3 million.

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• Credit Agreement, dated as of August 26, 2005 as amended in 2008 and 2009, among HSBC, ABN Amro, Bradesco, Banco do Brasil, Itaú, Santander, BNP Paribas, Unibanco, Banco Votorantim, Societé Generale, as lenders, TIM Celular, as borrower, and Tim Participações, as guarantor, in the principal amount of R\$ 568.75 million outstanding as of December 31, 2009. The Tranche A of R\$ 300 million, which matures on August 5, 2010, bears interest at a variable rate of 1.8% above the CDI interest rate. The Tranche B, which matures on August 5, 2010, bears interest at a variable rate of 2.75% above the CDI interest rate. On December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$590.4 million.

• Credit Agreement, dated as of April 18, 2008, among ABN as lender, and TIM Celular, as borrower, in the principal amount of R\$ 150.0 million outstanding as of December 31, 2009. The agreement, which matures on November 4, 2011, bears interest at a variable rate of 110% of the CDI interest rate. On December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$153 million.

• Credit Agreement, dated as of May 5, 2008, among ABN as lender, and TIM Celular, as borrower, in the principal amount of R\$ 50.0 million outstanding as of December 31, 2009. The agreement, which matures on April 25, 2011, bears interest at a variable rate of 110% of the CDI interest rate. On December 31, 2009, the outstanding amount under this credit agreement, including accrued interest, was R\$50.8 million.

• Several facility agreements contracted under Resolution CMN n. 2.770 (Foreign currency denominated debt already swapped into local floating interest rate denominated currency). The total principal amount disbursed between January and December, 2009 was R\$ 120.3 million, and the outstanding amount as of December 31, 2009 is R\$ 516.2 million, including accrued interest. The agreements, the last of which matures on July 2010, bear an average cost of 121.6% of the CDI. No guarantees were offered for these loans.

- Finance Contract, dated as of June 3, 2008, between European Investment Bank, as lender, TIM Celular S.A. and TIM Nordeste S.A., as borrowers and Tim Participações as guarantor, in the total principal amount of EUR 200 million of which EUR 166 million were disbursed, and fully swapped into local currency, between September and December, 2009. The total outstanding amount as of December 31, 2009 is R\$ 422,3 million, including accrued interest. The drawings, the last of which matures on December 2016, bear an average cost of 96.46% of the CDI after hedging.
- Facility Agreement, dated as of November 28, 2008, between BNP Paribas, as lender, and TIM Celular S.A., borrower and Tim Participações as guarantor, in the total principal amount of US\$ 143.6 million fully disbursed and swapped on January 15, 2009. The total outstanding amount as of December 31, 2009 is R\$ 254.4 million, including accrued interest. The agreement matures on December 2017 and bears an average cost of 95.01% of the CDI after hedging.
- The outstanding amount for USD 68 million with Morgan Stanley Senior Fund registered at Intelig Telecom Ltda. as long term liability The total outstanding amount as of December 31, 2009 is R\$ 118.4 million, including accrued interest was fully prepaid at January 4, 2010.

See notes 15 and 32 in our consolidated financial statements for a further description of such financing agreements.

Uses of Funds

Principal uses of funds during the three-year period ended December 31, 2009, were the purchase of fixed assets, the payment of distributions to our shareholders and loan repayments. Funds used for the purchase of fixed assets, including accounts payable, for the years ended December 2009, 2008 and 2007 totaled R\$ 1,953.5, R\$3,272.1

million, and R\$1,044.2 million, respectively. Dividend payments to our shareholders and subsidiary minority interest during the years ended December 31, 2009, 2008 and 2007 totaled R\$ 168.1, R\$207.6 million, and R\$440.3 million, respectively. Funds used for loan payments for the years ended December 31, 2009, 2008 and 2007 totaled, R\$1,290.8, R\$557.9, and R\$1,466.8 million, respectively.

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Investments in Fixed Assets

Our capital expenditures in 2009, 2008, and 2007 related primarily to:

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

The following table contains a breakdown of our investments in fixed assets for the years ended December 31, 2009, 2008, and 2007:

Capital Expenditures Categories	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Network	R\$ 1,250.6	R\$ 1,089.5	R\$ 1,106.9
Radiofrequencies	R\$ 1,250.6	R\$ 1,239.0	R\$ 29.0
Information technology	493.2	545.3	506.2
Handsets provided to corporate customers (comodato)	351.9	358.2	234.6
Other	47.4	40.1	56.2
Total capital expenditures	R\$ 2,143.1	R\$ 3,272.1	R\$ 1,932.9

Our Board of Directors has approved our budget for capital expenditures from 2010 to 2012 in the total amount of R\$7.0 billion in 2010 and 16% of net revenues for 2012, for expenditures relating to our subsidiaries TIM Celular and TIM Nordeste. Most of the capital expenditures we budgeted for 2010 to 2012 relate to the expansion of the capacity and quality of our 3G technology and development of technology infrastructure. See "Item 4.A. Information on the Company—History and Development of the Company—Capital Expenditures."

Dividends

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

For the purposes of the Brazilian Corporations Law and in accordance with our bylaws, "adjusted net income" is the amount equal to the net profit adjusted to reflect allocations to or from: (i) the legal reserve, and (ii) a contingency reserve for probable losses, if applicable.

Preferred shares are nonvoting but take priority on (i) capital reimbursement, at no premium; and (ii) payment of a minimum non-cumulative dividend of 6% p.a. on the total obtained from dividing the capital stock by the total number of shares issued by the us.

Following the latest amendment to the Brazilian Corporations Law (Law No. 10,303/01), our bylaws have been amended by including the First Paragraph of Section 10, to give holders of preferred shares, the right to receive dividends corresponding to 3% (three percent) of shareholders equity every year, based on the balance sheet most recently approved, whenever the amount then resulting exceeds the dividend amount as calculated pursuant to the criteria, described in the preceding paragraph.

Our management proposed that the outstanding balance of the adjusted net profits, in the amount of R\$204.1 million be fully distributed as dividends to our preferred shareholders.

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The following table contains a breakdown of the dividends and interest on shareholders' equity actually paid (net of income taxes) by us to our shareholders during the years ended December 31, 2009, 2008 and 2007:

Dividend Distribution (1)	Year ended December 31,		
	2009	2008	2007
	(in millions of reais)		
Dividends	R\$ 168.1	R\$ 207.6	R\$ 440.3
Interest on shareholders' equity	-	-	-
Total distributions	R\$ 168.1	R\$ 207.6	R\$ 440.3

(1) Amounts already paid to our shareholders

On April 27, 2010 our shareholders approved the distribution of R\$204.1 million as dividends to our shareholders with respect to our 2009 results. On April 2, 2009 our shareholders approved the distribution of R\$171.1 million as dividends to our shareholders with respect to our 2008 results. On April 11, 2008 our shareholders approved the distribution of R\$212.0 million as dividends to our shareholders with respect to our 2007 results.

The Company paid dividends or interest on shareholders' equity for the years-ended December 31, 2007, 2008 and 2009 below the minimum levels requested by the Brazilian Corporations Law. As a result, the holders of our preferred shares are entitled, from 2010 on, to have the same voting rights as the holders of common shares, until TIM Participações pays minimum dividends again. Minimum dividends are noncumulative, calculated according to the Company's bylaws.

C. Research and Development

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

D. Trend Information

Customer Base and Market Share

In the year ended December 31, 2009, TIM's subscriber base ended the year with 41.1 million clients, 12.9% from the year ended December 31, 2008. This represented a market share of 23.6%, while the service revenues share, our primary focus, stood at 26% in the year ended December 31, 2009, compared to 27% in the year ended December 31, 2008. The pre-paid segment reached 34.6 million users in the year ended December 31, 2009, an increase of 16.2% from the year ended December 31, 2008. The number of post-paid users was 6.4 million in the year ended December 31, 2009, a 1.8% decrease from the year ended December 31, 2008 due to a rigid disconnection policy, competitive environment and fewer than expected acquisitions in this segment.

Although no assurances can be given as to the size of our subscriber base and market share in the future, we intend to focus on maintaining and improving our strong position in the mobile and fixed telecommunications market in Brazil in terms of number of subscribers and our high quality customer composition. To do so we intend to utilize sophisticated strategies and our customer segmentation approach, which we believe has contributed to an increased subscriber base and to retain our current customers and attract new customers. In 2010, we plan to enter into a growth phase, driven by the increase in fixed-mobile substitution and the growth in data. We are aiming to become a leader in the telecommunications market by targeting customer satisfaction through improvement in service quality, expansion

of capacity and integration with Intelig.

Change of Mix Between Postpaid and Prepaid Customers

With respect to the composition of our clients, our post-paid customers accounted for 15.7% of our total subscriber base in the year ended December 31, 2009, compared to 18.1% from a year ago, largely due to the increase of pre-paid base and the aforementioned performance from post-paid. Mobile market growth has been concentrated in the prepaid segment due to increased penetration in lower income segments.

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Average Revenue Per User (ARPU) Per Month

TIM continues to maintain the highest ARPU among peers, registering R\$27.0 in the year ended December 31, 2009, a decrease of 9.1% when compared to R\$29.7 presented in the year ended December 31, 2008. The trend is partially attributed to an increase of 16.2% in the pre-paid segment, a lower incoming revenue contribution and post-paid mix decline.

We are seeking to maintain our ARPU leadership position by focusing on value customers through segmented marketing approach and offering innovative and convergent services. If we are able to continue to maintain a relatively high ARPU, it would allow us to maintain revenue growth.

Revenues from value-added services had an important role in offsetting ARPU's downward trend of the market as a whole. In 2009 we registered a value-added service revenue growth of 20.6% and accounted for 10.6% of total gross service revenue (compared to 10% registered in 2008). We anticipate that revenues from value-added services will continue to increase and become a larger component of our total service revenues, particularly after the launch of our 3G offers (such as our mobile broadband solution). As the provision of value-added services has a relatively low marginal cost, we anticipate that value-added services will contribute to the growth of our operating margins.

Competitive Environment

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

In 2009, despite the competitive environment, our gross acquisition cost (per gross addition) was R\$118 for the year ended December 31, 2009, compared to R\$110 in the year ended December 31, 2008. The increase of 7.3% reflects the consistent segmented approach, with growth in commission and advertisement expenses.

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

The year 2009 continued to be marked by both by the government's programs to encourage digital inclusion and the maturing of convergent services, recently inaccessible to the majority of the population. TIM pioneered the trend and, in 2007, launched TIM Web, the mobile Internet service with 2.5G technology, through its GPRS (General Packet Radio Service) and EDGE (Enhanced Data rates for GSM Evolution) networks, allowing users mobile access to Internet even before the launch of 3G technology in Brazil. Such initiatives, both of the government and the telecom companies, helped the country register record personal computer sales, expand digital inclusion and be among the world's five biggest markets in this segment. Also in 2009, the broadband market grew by approximately 82% compared to the previous year. The scope of competition and any adverse effects on our results and market share will depend on a variety of factors that cannot be assessed with precision, some of which are beyond our control. See "Item 3D. Key Information—Risk Factors" and "Item 4B. Information on the Company—Business Overview—Competition."

Network Investment

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

We maintain our investments in expanding our GSM network, reaching a coverage of 93% of the country's urban population, serving around 2,800 cities. GSM coverage counts with 100% of GPRS and around 75% of EDGE. Our 3G services (launched in the second quarter of 2008) are already in the main cities in Brazil. We will, however, continue to invest in selectively expanding our coverage of the Brazilian population, focusing on the quality of coverage we provide in major metropolitan areas by increasing our coverage in buildings, tunnels

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and major roads and on increasing capacity across our network to ensure it remains capable of absorbing high call volume in high usage areas. GSM is viewed as good pathway to more advanced technologies, and we expect relatively limited further investment will be required to make our current network capable of supporting emerging technologies such as 3G, 3.5G and High Speed Downlink Packet Access, or HSDPA.

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table shows our contractual obligations and commercial commitments as of December 31, 2009:

	Payments due by Period (in millions of reais)				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Total debt (post Hedge)	4,090,058	1,347,463	1,428,004	470,084	844,507
Operating leases(1)	1,293,104	239,698	507,068	546,338	-
Total(2)	5,383,162	1,587,161	1,935,072	1,016,422	844,507

(1) The information regarding payments due by period under our operating leases reflects future payments due that are non-cancelable without payment of a penalty. See note 19 to our Consolidated Financial Statements.

(2) Other than as set forth herein, we have no capital lease obligations, unconditional purchase obligations, commercial commitments (i.e., lines of credit, standby letters of credit, standby repurchase obligations or other commercial commitments) or other long-term obligations. Interest is not included in long-term debt since subject to variable interest – see note 15 to our consolidated financial statements.

In 2009, we expect to have approximately R\$2.1 billion in capital expenditures relating to our subsidiaries. Most of the planned 2009 capital expenditures relate to the expansion of the capacity and quality of our 3G technology and development of information technology systems. See “Item 4.A. Information on the Company—History and Development of the Company—Capital Expenditures.”

Contingent Pension Liabilities

Until December 1999, we participated in a multi-employer defined benefit plan (the “Telebrás Pension Plan”) that covered the employees of the Telebrás System who retired before the Breakup as well as those who continued working for the operating companies after the Breakup. We are contingently liable, jointly and severally with the other New Holding Companies, for the unfunded obligations of the Telebrás Pension Plan with respect to all such employees who retired before January 30, 2000. In December 1999, we changed to a defined benefit plan (the “PBS Plan”) that covers only those former employees of Telebrás who continued to be employed by us after December 1999. We are also contingently liable for the unfunded obligations of the PBS Plan with respect to our employees participating in this plan. See note 33 to our consolidated financial statements.

In November 2002, we created a separate defined contribution plan (the “TIMPREV Pension Plan”). Migration to this plan was optional for employees linked to the PBS Plan. Migration to the TIMPREV Pension Plan extinguishes the migrating participant’s rights under the PBS Plan. We are also contingently liable for the unfunded obligations of the

TIMPREV Pension Plan with respect to our employees participating in this plan. See note 33 to our consolidated financial statements.

G. Safe harbor

Not applicable.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Board of Directors

We are administered by a Board of Directors (Conselho de Administração) and a Board of Executive Officers (Diretoria), which are overseen by a Fiscal Committee (Conselho Fiscal). The Board of Directors is comprised of three to nine members, serving for a two year term each with the possibility of re-election.

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

Management is required to comply with, and has agreed to comply with, the Manual of Securities Trade and Information Use and Disclosure Policy, the Code of Ethics, issued by the Company, and the "Regulamento para Observância dos Atos Anatel nº 68.276, de 31 de outubro de 2007, e nº 3.804, de 07 de julho de 2009."

The following are the members of the Board of Directors and their respective titles, whose terms of office will be valid until the Annual Shareholders' Meeting to be held in 2011:

Name	Title	Date of Birth	Date Appointed
Manoel Horácio Francisco da Silva	Chairman	July 16, 1945	March 24, 2010
Gabriele Galateri di Genola	Director	January 11, 1947	April 2, 2009
Luca Luciani	Director	November 2, 1967	April 2, 2009
Marco Patuano	Director	June 6, 1964	November 27, 2009
Stefano de Angelis	Director	August 22, 1967	April 2, 2009
Andrea Mangoni	Director	June 5, 1963	March 24, 2010
Mailson Ferreira da Nóbrega	Director	May 14, 1942	April 2, 2009
Andrea Sandro Calabi	Director	September 18, 1945	April 2, 2009
Adhemar Gabriel Bahadian	Director	October 22, 1940	March 24, 2010

In addition, it shall be recorded that Messrs. Francisco da Silva, Nóbrega, Calabi, and Bahadian are the members of the Board of Directors qualified as independent directors according to Brazilian independence standards. They are scheduled to be re-elected or replaced at the Annual Shareholders' Meeting to be held in 2011. Set forth below are brief biographical descriptions of the members of the Board of Directors.

Manoel Horácio Francisco da Silva. Mr. Francisco da Silva has been the Chief Executive Officer of Banco Fator since 2002. Before his current position, he was the Chief Executive Officer of Telemar and also managed the area of paper and cellulose from Cia Vale do Rio Doce. Mr Francisco da Silva worked in the Group Ericsson do Brasil for 23 years, where he reached the position of Chief Executive Officer in many companies of the Group. He was also the Chief Executive Officer of Ficap, Chief Executive Officer of Sharp Equipamentos Eletrônicos. He also performed as the Superintendent Officer of the Companhia Siderúrgica Nacional, being responsible for the restructuring process of the Cia Vale do Rio Doce. He has also performed as member of the Board of Directors of many companies, such as Sadia, Bahia Sul, Group Ericson, Docenave and Telemar. He was appointed in 1989 as the major financial professional of the year by the Instituto Brasileiro de Executivos de Finanças (IBEF) and earned 3 prizes in 2001. Mr. Francisco da Silva holds a degree in Business Administration from Pontifícia Universidade Católica (PUC) of São Paulo and also completed the Advanced Management Program in the Harvard Business School.

Gabriele Galateri di Genola. Mr. Galateri di Genola was appointed Chairman of Telecom Italia on December 3, 2007. After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analysis Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy and in Paris. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office to Head of International Finance and, ultimately, Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A. Between April 2003 and June 2007, Mr. Galateri di Genola was Chairman of Mediobanca S.p.A. He is a non-executive Board Member TIM Participações S.A, Banca Esperia S.p.A., Banca CRS S.p.A., Banca CARIGE, Italmobiliare S.p.A., Fiera di Genova S.p.A., Utet S.p.A, Accademia Nazionale di Santa Cecilia – Foundation, European Institute of Oncology S.p.A., and Accor S.A. Mr. Galateri di Genola is a Vice Chairman of Assicurazioni Generali S.p.A. He is a member of the General Council and of the Executive Board of Confindustria. He is also Confindustria's Chairman Representative for telecommunications and broadband development.

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Luca Luciani. Mr. Luciani holds a degree in Economics and Trade from Univ. LUISS, in Rome. He worked at Procter & Gamble, in Italy, from 1990 to 1994, acting in the area of financial analysis and strategic planning, until he was retained as consultant by Bain, Cuneo and Associates, in 1994, rendering services for clients such as ENEL, Olivetti and Telecom Italia (Business Division). In 1998, he joined ENEL as Group Controller until 1999. From 1999 to 2008, he worked at Telecom Italia in several positions: from 1999 to 2002 he was the Group Controller, in 2002 and 2003 he was the Chief Financial Officer of TIM (Telecom Italia Mobile Company, listed in the Italian and U.S. market), from 2004 to 2006 he was responsible for Marketing, Sales and Operations in the TIM Business Mobile Unit. In 2007 he became the General Manager of the TIM Mobile Services Unit of Telecom Italia. Presently, he is the Chief Executive Officer of Tim Celular.

Marco Patuano. Mr. Patuano holds a degree in Economics from Università Commerciale Luigi Bocconi. Since November 6, 2009, he has served as Manager of Domestic Market Operations in Telecom Italia. He began his career at SIP Central Management in May 1990. From 1990 to 2002, he worked in various departments at Administration, Finance and Control. He was promoted through the ranks at Financial Management between 1998 and 2002. In April 2003, he became CFO at Tim Brasil and Telecom Italia America Latina S.A., a Group subsidiary based in Brazil. Between 2004 and 2006, he served as General Manager at Telecom Italia Latam. In 2006, he moved to Telecom Argentina as Head of Fixed-Line Telephony. He served as General Manager of Operations for Telecom Argentina between May 2007 and July 2008. From August 2008 to October 2009 he was Telecom Italia's Chief Financial Officer. He was appointed a director at Telecom Italia Media and the Italtel Group in September 2008. He sits on the Board and Executive Committee at Italtel S.p.A.

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

Andrea Mangoni. Mr. Mangoni has a bachelor's degree in Administration by the Università di Roma, with a thesis regarding the evaluation and private financing of investments in public infrastructure. Mr. Mangoni worked for Acea S.p.A. from 1996 to March, 2009, having held the position of Chief Executive Officer since November, 2003. In September, 2009, he became Director International Business, moving to the position of Director Administration, Finance and Control in November 2009.

Mailson Ferreira da Nóbrega. Mr. Nóbrega has been a member of our Board of Directors since April 2007. He holds a degree in Economics from Centro Universitário de Brasília (CEUB), and held the position of Brazil's Minister of Finance from 1988 to 1990, after building an extensive career at Banco do Brasil and in the public sector, in which the following positions stand out: Chief Economist and Chief of Project Analysis Department at Banco do Brasil; Coordination Chief of Economic Affairs of the Ministry of Industry and Commerce, and Secretary General of the Ministry of Finance. He performed as the Deputy Managing Director of the European Brazilian Bank - EUROBRAZ, in London. As a minister, he became a member of the Board of the International Monetary Fund and the World Bank. Mr. Nóbrega is currently a member of the Board of Directors of a number of companies in Brazil and abroad. Mr. Nóbrega was also a member of our Fiscal Committee in 2004 and in 2005. He wrote three books and is now a

columnist of the weekly Veja Magazine.

Andrea Sandro Calabi. Mr. Calabi holds a degree in Economics from the Faculdade de Economia e Administração da Universidade de São Paulo (FEA-USP), a Master in Economics (1972) from the Instituto de Pesquisas Econômicas da Universidade de São Paulo (IPE-USP), a “Master of Arts” (1975) and a PhD (1982) in Economics from the University of California, Berkeley (USA). Mr. Calabi was Chief Executive Officer of DIVESP (Distribuidora de Títulos e Valores Mobiliários do Estado de São Paulo) between 1983 and 1985, General Secretary of the Planning Secretary of the Brazilian Presidency between 1985 and 1986, Chief Executive Officer of the IPEA (Instituto de Pesquisa Econômica Aplicada of the Ministry of Planning) between 1985 and 1986 and between 1995 and 1996, Secretary of the Treasury Department between 1986 and 1988, Partner and Officer of CONSEMP (Consultoria e Empreendimentos Industriais Ltda.) between 1988 and

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December 1994, Executive Secretary of the Ministry of Planning between 1995 and 1996, Chief Executive Officer of Banco do Brasil between January and July 1999, Chairman of the BNDES, FINAME and BNDESPAR between July 1999 and February 2000, Special Advisor of the Governor Mário Covas between March 2000 and September 2001, Secretary of Economics and Planning of the State of São Paulo between January 2003 and February 2005, and he also performed as a member of the Board of Directors of many companies, such as CESP (Companhia Energética de São Paulo), Cyrela Brazil Realty, FIPE (Fundação de Pesquisas Econômicas da USP), FFM (Fundação Faculdade de Medicina da USP) and FUSSESP (Fundo Social de Solidariedade do Gov. do Estado de São Paulo).

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

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

Board of Executive Officers

As approved in the Annual and Extraordinary Shareholders' Meeting held on April 2, 2009, our Board of Executive Officers is comprised of at least two and no more than five members, who may or may not be shareholders. The title of the members of our Board of Executive Officers shall be as follows: (i) Chief Executive Officer, (ii) Chief Financial and Investor Relations Officer, (iv) Chief Supplies Officer, (v) Chief Human Resources Officer, (vi) Legal Officer. Each member of our Board of Executive Officers, who serve two-year terms of office (with re-election permitted) may be elected or dismissed by our Board of Directors at any time and with no cause.

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

Name	Title	Date of Birth	Date Appointed
Luca Luciani	Chief Executive Officer	November 2, 1967	May 3, 2010
Claudio Zezza	Chief Financial Officer and Investors Relations Officer	May 22, 1963	May 3, 2010
Daniel Junqueira Pinto Hermeto	Purchase & Supply Chain Officer	April 27, 1971	May 3, 2010
Beniamino Bimonte	Chief Human Resources Officer	September 16, 1967	May 3, 2010
Lorenzo F. Zanotti Lindner	Chief Commercial Officer	August 10, 1973	May 3, 2010
Rogério Takayanagi	Chief Marketing Officer	October 5, 1974	May 3, 2010

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

Luca Luciani. Please find above the brief biographical description of Mr. Luciani.

Claudio Zezza. Mr. Zezza is an Italian citizen and holds a degree in Economics and Trade from the University of Rome, with specialization in Finance, Financial Statements and Economics. Currently, Mr. Zezza is the Chief Financial and Investor Relations Officer of the Company. Mr. Zezza joined Telecom Italia in 1990. In 1998, he began working in the area of International Businesses of TIM in Italy and, in 2000, he became responsible for the International Operational Management. Four years later, he became responsible for the Planning and Control Department. Mr. Zezza has also performed in the area of International Business Performance. His last position in Italy, before coming to Brazil to become responsible for the Financial Office, was being responsible for the International Control in Administration, Finance and Control.

Daniel Junqueira Pinto Hermeto. Mr. Hermeto holds a degree in Electrical Engineering from the Escola Federal de Engenharia de Itajubá (1994), attended a post-graduate program in Business Administration at the Fundação Getúlio Vargas – São Paulo (2002) and also holds a MBA in Executive Management from the Fundação Instituto de Administração – São Paulo (2007). He began his career in 1995 as a Product and Sales Engineer at Siemens - São Paulo. In 1997, Mr. Hermeto was promoted to the role of Senior Engineer, performing his duties in Munich. From 1998 to 2008, he worked for Motorola, where he worked as Manager of Purchasing and Senior Purchaser (1998-2002), performing his duties in the City of Jaguariúna, State of São Paulo, Senior Manager of MP&L (2003-2004), performing his duties in Mexico, Chief Officer of

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Manufacturing Operations (2005) and Chief Officer of Purchasing, Planning and Logistics (2006-2008), performing the duties of the last two positions in the City of Jaguariúna, State of São Paulo. Between February, 2008 and November, 2009, Mr. Hermeto worked as the Chief Officer of Purchasing and Logistics, in Claro, reporting directly to the Chief Executive Officer, and was responsible for the areas of Purchasing, Sourcing, Logistics and Inventory Management throughout the country, performing his duties in the City and State of São Paulo.

Beniamino Bimonte. Mr. Bimonte holds a degree in Economics & Commerce from the Università Federico II in Napoli and holds a Master of Business Administration from STOÀ – MIT. He joined the Human Resources Department of the Group in 1993, where he served in several positions. In 2002, he became the Chief of Organizational Development at TIM Italia S.p.A., a position he held until 2005. From 2006 to 2007 he served as Head of Human Resources Planning and Work Cost at Telecom Italia S.p.A. In 2008, he became responsible for the Managerial Development department, including HR management for Senior Managers, compensation and people development. Mr. Bimonte has also published two works in “Liguori Editore”: an article on Intranet and knowledge management entitled “Un progetto di organizzazione, gestione e diffusione delle conoscenze in azienda” and another entitled “Persone e Innovazione” in 2007.

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

Rogério Takayanagi. Mr. Takayanagi holds a degree in Electrical Engineering from the Escola Politécnica da Universidade de São Paulo (USP), is a specialist in Business Administration by the Fundação Getúlio Vargas de São Paulo (FGV-SP) and has a broad experience in the telecommunications industry, where he has worked for twelve years on projects in Europe, Asia, Middle East, along with South America. Mr. Takayanagi worked for seven years for the consultancy Value Partners and for five years for Promon Telecom, managing strategic projects of mobile and fixed telecom, in the regulatory, public and technological areas.

Fiscal Committee

The Fiscal Committee’s composition for 2010 consisted of three members, two of which were elected by the majority common shareholders and one by the minority preferred shareholders.

The following are the current members of our Fiscal Committee:

Name	Date of Birth	Date appointed	Term
Miguel Roberto Gherrize (*)	October 2, 1938	April 27, 2010	1 year
Alberto Emmanuel Whitaker	October 10, 1940	April 27, 2010	1 year
Oswaldo Orsolin (*)	May 30, 1943	April 27, 2010	1 year
Alfredo Ferreira Marques Filho (*)	July 18, 1961	April 27, 2010	1 year
Carlos Alberto Caser	December 8, 1960	April 27, 2010	1 year

(*) Audit Committee financial experts.

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

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

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B. Compensation

At the year ended December 31, 2009, we approved the aggregate amount of approximately R\$6.4 million as compensation to our directors and executive officers. The officers and directors did not receive any benefit not included in the compensation referred to in this Annual Report. Accordingly, we did not set aside or accrue any amounts to provide pension, retirement or similar benefits to our officers and directors during 2009. Our executive officers and other managers of the company are eligible to receive an incentive (MBO or “Management by Objectives”) bonus. The general criteria for the MBO bonus are approved by our Board of Directors and provides that eligible executive officers and other managers may receive a multiple of their base salary if they achieve certain pre-established targets.

At the year ended December 31, 2009, each member of our Board of Directors received R\$156,000 and each member of our Fiscal Committee received an annual compensation of R\$138,000, proportionally paid according to each member’s acquisition period.

We are not required under Brazilian law to disclose, and have not disclosed, the compensation of our officers on an individual basis.

C. Board practices

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

D. Our Employees

On December 31, 2009, we had 9,811 full-time employees. The following tables shows a breakdown of our employees as of December 31, 2009, 2008 and 2007.

	As of December 31, 2009 (*)	2008	2007
Total number of employees	9,811	10,296	10,039
Number of employees by category of activity			
Network	1,011	771	910
Sales and marketing	2,888	3,420	3,380
Information technology	459	449	437
Customer care	4,320	4,589	4,313
Support and other	1,133	1,067	999

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

All employees are represented by state labor unions associated with the Federação Nacional dos Trabalhadores em Telecomunicações – Fenattel and the Federação Interestadual dos Trabalhadores em Telecomunicações – Fittel or the Sindicato dos Engenheiros do Estado do Paraná e Nordeste. We negotiate a new collective labor agreement every year with the local unions. The collective agreements currently in force expire in 2010. Management considers our relations with our work force to be satisfactory. We have not experienced a work stoppage that had a material effect on our operations.

Employee Benefit Plans

Our employees at the time of the Breakup of Telebrás had the right to maintain their rights and benefits in the Telebrás Pension Plan, managed by Fundação Telebrás de Seguridade Social – Sistel (“Sistel”), a multi-employer defined benefit plan that supplements government-provided retirement benefits. We make monthly contributions to the Telebrás Pension Plan in amounts equal to 13.5% of the salary of each employee covered by the defined benefit plans administered by Sistel. Each employee member also made a monthly contribution to Sistel based on age and salary. Members of the Telebrás Pension Plan qualified for full pension benefits after reaching age 57 provided they had been members of the Telebrás Pension Plan for at least ten uninterrupted years and have been affiliated with the social security system for at least 35 years. The Telebrás Pension Plan operated independently from us, and their assets and liabilities were fully segregated from the sponsor’s, and operate with independent management; however, we were contingently liable for all of the unfunded obligations of the plan. Employees hired after the Privatization did not become members of the Telebrás Pension Plan, and we did not contribute to any defined benefit pension fund on behalf of such employees. See note 33 to our consolidated financial statements.

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In January 2000, TIM and the other companies that formerly belonged to the Telebrás System agreed to break the existing solidarity basis of the Sistel Pension Plans, resulting in the creation of a subdivision of the original plan, covering the Telebrás System as a whole. These new private pension plans have retained the same terms and conditions of the Telebrás Pension Plan. The division served to allocate liability among the companies that formerly belonged to the Telebrás system according to each company's contributions in respect of its own employees (currently PBS-A, comprised of retirees and pensionists). Joint liability among the Telebrás Pension Plan sponsors will continue with respect to retired employees who will necessarily remain members of the Telebrás Pension Plan. See note 33 to the consolidated financial statements.

During 2002, TIM created a new defined contribution pension plan ("TIMPREV"), that allowed employees to migrate from the former pension plan, which had its solidarity basis eliminated in 2000. TIMPREV was approved by the Secretary of Complementary Pension on November 13, 2002 in Notification 1,917 CGAJ/SPC. TIMPREV sets forth new guidelines for the granting and maintenance of benefits and outlines new rights and obligations for Sistel, the plan administrator; sponsors; participants and their respective beneficiaries.

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

During 2008, the Company made its best effort to encourage migration of the remaining participants of the defined benefit plans to TIMPREV. Even though employees agreed with the migration proposed, legal matters did not allow this change at that time. These obstacles are expected to be legally solved during 2009.

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

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

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

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

On January 31, 2006, the Board of Directors of the Company approved a proposal of migration of pension plans sponsored by the Company, TIM Sul, Tim Participações and TIM Nordeste Telecomunicações at SISTEL to a multi-employer plan administered by HSBC Pension Fund. Such migration was approved by Secretary of

Complementary Pension during the first quarter of 2007. Pursuant to this authorization, the HSBC began to administrate TIM's Pension Plan in April 2007.

Defined Contribution Plan

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

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E. Share Ownership

The directors and members of our administrative, supervisory and management bodies do not hold, in the aggregate, more than 1% of either the common shares or preferred shares outstanding. As of December 31, 2009, our directors and executive officers, owned, in the aggregate, no common shares and 100 preferred shares.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Of our two classes of capital stock outstanding, only our common shares have full voting rights. The following table sets forth ownership information with respect to all shareholders that, to our knowledge, own 5% of the common shares or more as of December 31, 2009. The common shares held by TIM Brasil have the same voting rights as the other common shares.

Name of owner	Common Shares Owned	Percentage of Outstanding Common Shares
TIM Brasil Serviços e Participações S.A.	650,537,118	77.14%
JVCO Participações Ltda.	43,356,672	5.14%
All our officers and directors as a group *	0%	0%

* Represents less than 1%.

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

As of December 31, 2009, there were 277,174,521 preferred shares represented by ADSs. As of such date, the number of preferred shares represented by ADSs represented 16.98% of the total number of preferred shares outstanding and 11.20% of our total capital.

B. Related Party Transactions

As of December 31, 2009, we did not owe to our affiliates any amounts arising out of outstanding inter-company loans. We had inter-company receivables and payables in amounts of R\$17,541 million and R\$43,685 million, respectively on December 31, 2009. See note 31 to our consolidated financial statements.

Guarantees of Obligations of our Subsidiaries

We are a guarantor of a promissory note issued by TIM Nordeste in the amount of R\$ 21.5 million as of December 2009. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Nordeste, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of June 28, 2004, between TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$20 million. See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts.”

We are a guarantor of a promissory note issued by TIM Nordeste in the amount of R\$ 62.5 million as of December 31, 2009. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Nordeste, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of June 28, 2004, between TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$99.9 million . See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts.”

We are a guarantor of a promissory note issued by TIM Nordeste in the amount of R\$ 62.2 million as of December 31, 2009. This promissory note was issued pursuant to a guarantee agreement between Banco Bradesco S.A. and TIM Nordeste, in which Banco Bradesco S.A. issued a letter of guarantee for the Credit Agreement, dated as of April 27, 2005, between TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$85 million. See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts.”

We are the guarantor of a promissory note issued by TIM Celular, as borrower, in the amount of R\$ 23.3 million as of December 31, 2009. This promissory note was issued pursuant to a guarantee agreement between Unibanco and TIM Celular, in which Unibanco issued a letter of guarantee for the Credit Agreement dated October 14, 2005, between TIM Celular, as borrower, and BNDES, as lender, in the principal amount of R\$35.9

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million. See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts.”

We are the guarantor of a promissory note issued by TIM Nordeste in the amount of R\$ 68.1 million as of December 31, 2009. This promissory note was issued pursuant to a guarantee agreement between Banco Votorantim S.A. and TIM Nordeste, in which Banco Votorantim S.A. issued a letter of guarantee for the Credit Agreement, dated as of February 14, 2008, between TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, in the principal amount of R\$67 million. See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts.”

We are guarantor for TIM Celular’s Finance Contract with European Investment Bank in the principal amount of € 166 million as of December 31, 2009. BBVA Milan Branch and BES Portugal, issued, respectively, a guarantee in the principal amount of € 110 million and € 72,6 million, for the Finance Contract, dated as of June 3, 2008, between TIM Celular, as borrower, and European Investment Bank, as lender.

We are guarantor in favor of BNDES, in the amounts of: R\$ 1,867.4 million under the Credit Agreement dated as of August 10, 2005, of TIM Celular; under the Credit Agreement dated as of November 19, 2008, of TIM Celular, under the Credit Agreement dated as of October 6, 2008 of TIM Celular and under the Credit Agreement dated as of October 6, 2008, of TIM Nordeste. See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts.”

Agreement between Telecom Italia SpA. and TIM Participações

This agreement, originally signed in May 3, 2007, was extended for an additional 12 months beginning on January 3, 2009 pursuant to the approval by TIM Participações’ shareholders in a meeting held on April 2, 2009. The purpose of the agreement is to enable us to benefit from Telecom Italia’s internationally recognized expertise, built throughout years of operation in more mature and developed markets. The cooperation and support activities to be performed by the parties will be focused in adding value to the operations of TIM Participações through:

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

The second extended term of the agreement provides for a total price cap of €9.5 million. The price cap represents the maximum consideration to be paid by TIM Participações operating companies for all the services and support rendered by Telecom Italia during 2009. Under the agreement’s first extended term, the price cap amounted to €8.7 million. Under the original agreement the price cap amounted to €14.5 million and for the year ending December 31, 2007 we made a provision of €13.6 million (approximately R\$35 million). As customary, in transactions of this nature, we hired a specialized and independent firm (Accenture do Brasil) to perform an economic appraisal of the agreement. The report prepared by Accenture do Brasil and presented to our Board of Directors concluded that the amounts provided for in the agreement are more favorable to us than market prices.

C. Interests of experts and counsel.

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See “Item 17. Financial Statements.”

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Legal Proceedings

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

Anatel Administrative Proceedings

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

Civil Litigation

Litigation Related to the Conversion of Our Concessions into Authorizations

In January 2003, a type of class action (“ação popular”) was brought by an individual against Anatel and all the companies controlled by Telecom Italia in Brazil, including us. The claim sought to suspend the effects of Resolução 318, of September 27, 2002, and other acts by Anatel, including Authorizations PVCP/SPV Nos. 001/2002 to 011/2002, published on December 12, 2002, which authorized us to migrate from the SMC regime to the PCS regime.

The action specifically challenged the omission of provisions regulating the return of the assets (“bens reversíveis”) used by us in connection with the provision of telecommunication services by the time of the expiration of the authorizations. By reason of such omission, argues the claimant, the Brazilian Federal Government would suffer irreparable damage and, therefore, Anatel acts allowing the migration from SMC to PCS should be declared null and void.

We have challenged this action vigorously, and after some preliminary decisions by lower courts we have obtained a unanimous decision from the Regional Federal Court of Appeals (“Tribunal Regional Federal”) permitting the migration from SMC to PCS, reserving discussion about the return of the assets to the Brazilian Federal Government for a later date. The judge extinguished the action. The decision was subject to compulsory appeal at a superior court. On October 19, 2007, the court of appeals ordered the return of the case to the lower courts to allow other interested parties to take part in the litigation.

We believe that the migration from the SMC regime to the PCS regime, and the related acts by Anatel, will not be suspended or modified. We expect proceedings relating to the return (“reversão”) to the federal government of our assets used in connection with the provision of telecommunication services to continue. In 2003, Anatel and the federal

government informed the Court that Authorizations PVCP/SVP nos. 001/2002 to 011/2002 are valid and should not be voided by the Court.

We entered into amendments to our authorizations to provide for the contingency that in the event of the termination of our authorizations, the assets essential to our provision of services would be returned to the federal government.

Litigation Related to the Use of the Goodwill Arising Out of the Breakup of Telebrás

On April 4, 2002, a Congressman filed a lawsuit in federal court in Brasília, Federal District, against a number of governmental telecommunication entities and the New Holding Companies. The purpose of the

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lawsuit is to prevent the New Holding Companies from using the amortization of the goodwill paid by the New Holding Companies to the Brazilian government in the Breakup of Telebrás to generate tax benefits.

Even though we are unable to predict the final outcome of this lawsuit, we believe that a ruling favorable to the plaintiff is unlikely. Accordingly, we have not created a reserve in connection with this litigation. If an unfavorable ruling is issued against us, we will lose the tax benefit derived from the premiums paid, and our tax liability will increase. We have already amortized a portion of the goodwill. We believe that an unfavorable decision would not have a material adverse effect on our business, results of operations, financial condition or prospects.

Litigation Arising Out of Events Prior to the Breakup of Telebrás

Telebrás and its operating subsidiaries, the legal predecessors of the Holding Company and TIM Sul and TIM Nordeste Telecomunicações, respectively, are defendants in a number of legal proceedings and subject to certain other claims and contingencies. Liability for any claims arising out of acts committed by Telebrás and its operating subsidiaries prior to the effective date of the spin-off of the cellular assets and liabilities of Telebrás and its operating subsidiaries to the TIM Sul and TIM Nordeste Telecomunicações remain with Telebrás and its operating subsidiaries, except for those liabilities for which specific accounting provisions were assigned to TIM Sul and TIM Nordeste Telecomunicações. Any claims against Telebrás and its operating subsidiaries that are not satisfied by Telebrás and its operating subsidiaries could result in claims against TIM Sul and TIM Nordeste Telecomunicações, to the extent that TIM Sul and TIM Nordeste Telecomunicações have received assets that might have been used to settle such claims had such assets not been spin off from Telebrás and its operating subsidiaries.

Under the terms of the Breakup of the Telebrás system, liability for any claims arising out of acts committed by Telebrás prior to the effective date of the Breakup remains with Telebrás, except for labor and tax claims (for which Telebrás and the New Holding Companies are jointly and severally liable by operation of law) and any liability for which specific accounting provisions were assigned to the Holding Company or one of the other New Holding Companies. In June 2007, the judge extinguished the action. This decision was compulsorily appealable at a superior instance and our management believes that the chances of claims of nature materializing and having a material adverse financial effect on us are remote.

Litigation Related to the Application of PIS and COFINS

In 2001, 2002 and 2004, the Federal Government, through the “Ministério Público Federal”, filed lawsuits to prevent TIM Sul and TIM Nordeste Telecomunicações from passing along to their respective customers costs regarding PIS and COFINS. See “Item 4B. Information on the Company—Business Overview—Taxes on Telecommunications Goods and Services.” The Federal Government also claimed that these entities should compensate their customers for these charges by paying each of them an amount equal to double the amount that was individually paid.

In March 2004, a decision favorable to Telp Celular, now TIM Nordeste, was rendered by the second level Court, denying the claims of the Federal Government. The Federal Government appealed from this decision. Nonetheless, we are unable to predict the final outcome of these lawsuits. We are also unable to predict whether an unfavorable decision would have a material adverse effect on our business, results of operations, financial conditions or prospects.

Additionally, in 2005 we filed a lawsuit to recover the PIS and COFINS amounts paid in accordance with paragraph 1 of article 3 of Law No. 9718/98, which was deemed unconstitutional by the Federal Supreme Court.

Litigation Related to the Authorization to Operate in the State of São Paulo

Vivo and Claro brought an action seeking an injunction to annul the grant to TIM Celular by Anatel of its authorization to operate in the State of São Paulo, alleging that the granting of such authorization was improper by seeking to establish that Telecom Italia and Brasil Telecom were related parties at the time the authorization was granted, which would contravene applicable regulations. A preliminary injunction was denied by the lower court and this decision was upheld upon appellate review. This holding is subject to further review by the Brazilian Supreme Court. A judicial decision granted the motion in part, not receiving plaintiff's indemnification claim. An appeal was filed, and now we are waiting for second instance court's decision. We believe that the likelihood of an adverse ruling in this matter is remote.

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Litigation Related to the values charged for VU-M

In August 2007, GVT filed a lawsuit against TIM Celular, and other telecommunications companies, before the 4th Federal Court. The plaintiff claims that a contractual clause establishing the VU-M amount used by the defendants in their interconnection arrangements is illegal and abusive and as such plaintiff requires that (1) the clause be annulled and (2) all amounts allegedly charged in excess since July 2004 be refunded. A preliminary order was granted determining the payment by GVT to TIM and other defendants of VU-M on the basis of R\$0.2899 per minute and that GVT shall deposit on court the difference between such amount and the value charged by the defendants. As both in-house and outside counsels find that the risk of loss for the subsidiary is possible, no provision has been recorded.

Tax Litigation

Litigation Related to the Payment of Income Tax and CSLL

In September 2003, TIM Nordeste was assessed by the Ceará Federal Revenue Service (SRF) authorities for R\$12.7 million referring to: (i) disallowance of R\$8.4 million expenses included in the IRPJ determination for the period from 1999 through 2001; (ii) R\$3.2 million of differences in CSLL payments for the years from 1998 through 2001; (iii) differences of R\$0.3 million and R\$0.8 million, respectively, in the payment of PIS and COFINS for the years from 1998 through 2002. The Company unsuccessfully filed an opposition and a voluntary appeal against this assessment, at the administrative level. As a consequence, based on its internal and external lawyers' opinion the losses thereon are probable, the Management set up two provisions: one in the amount of R\$11.2 million for IRPJ and CSLL, under the heading "Provision for Income Tax and Social Contribution," and one in the amount of R\$1.1 million, for PIS and COFINS, under the heading "Other Operating Expenses".

In September of 2009, the controlled company adhered to REFIS (Brazilian Tax Debt Restructuring Program), amnesty of fines and interests and the possibility of federal tax debts to be paid in installments according to the Law n° 11.941/2009, having made the payment of R\$3.2 million and the provisioned remaining amount of R\$ 9.5 million was reverted in favor of the controlled company (R\$0.8 million registered under the caption "Contingence provision reversal" and R\$8.8 million under the caption "Income tax and social contribution provision").

In May 2005, the Brazilian tax authority in the state of Minas Gerais issued five tax assessment notices to TIM Nordeste. Two of these notices relate to corporate income tax (IRPJ) assessments, two refer to social contribution on net income tax (CSLL) assessments, and one refers to an income tax, withheld at the source, on principal (IRRF) assessment, for 2002. In the case of the IRPJ and CSLL notices, the asserted infractions are (i) alleged improper adjustments to net income in determining profits relating to inappropriate adjustments due to monetary variations in swap arrangements; (ii) alleged exclusion of exchange rate variations of foreign debt that were improperly eliminated by us and deducted as an expense from our cash flow statement; and (iii) the imposition of a penalty based on the argument that the tax should have been collected based on our estimated income. The notice relating to the IRRF assessment alleges that the tax paid was less than the tax due because we calculated income based on the net value received and excluded amounts for tax collected, fines for late payments and interest.

We are challenging these tax assessments with the appropriate Brazilian tax authorities and a final determination is pending. The total value of the five tax assessment notices is R\$126.9 million. We believe that the probable amount that we would be required to pay is R\$32.8 million and we have made provisions in this amount.

In September of 2009, the former TIM Nordeste decided to adhere to REFIS, and made CSLL collections in the amount of R\$4.9 million, referring to the CSLL assessment in item (i) above, (alleged improper adjustments to net income in determining profits relating to inappropriate adjustments due to monetary variations in swap arrangements.)

As R\$8.5 million had already been provisioned to face the original CSLL assessments, a remaining amount of R\$ 3.7 million was reverted in the Company's balance sheet.

These tax assessment notices remain in discussion before the fiscal authorities. The remaining amount in discussion totals R\$ 128.4 million, with a provision in the amount of R\$24.2 million.

In 2008, TIM Participações received a tax assessment notice, remitted by the Federal Revenue Department of the State of Rio de Janeiro, in the total amount of R\$3.2 million, related to the supposed non homologation of

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the compensation request for use of IRPJ debt balance of calendar-year 2003. Based on the opinion of internal and external legal advisers, it was concluded that the loss is probable.

In September of 2009, the controlled company adhered to REFIS, having made payment of R\$1.7 million and the remaining provisioned amount of R\$ 1.5 million was reverted in favor of the controlled company (registered under caption "Income tax and social contribution provision").

In 2006, TIM Celular received a tax assessment notice remitted by the Federal Revenue Department of the State of Rio de Janeiro, in total amount of R\$0.8 million, related to: supposed non homologation of diverse requests of compensation for the utilization of IRPJ and CSLL debt balance of calendar-year 1998 with COFINS, IRPJ and CSLL debts. Based on the opinion of internal and external legal advisers, it was concluded that the loss is probable. In September of 2009, the company adhered to REFIS, having made the payment of R\$ 0.3 million, the remaining provisioned amount of R\$0.5 million was reverted in favor of the controlled company (registered under caption "Income tax and social contribution provision").

The controlled company Intelig applied for a Writ of Mandamus aiming for the recognition of exemption of Income Tax Withheld (IRF) over the remittances to international operators for payment of interconnection services, based in the provisions of the Melbourne Treaty. In December of 2006, the Regional Federal Appellate Court decided in favor of the controlled company, the lawsuit is in the Superior Court of Justice for the evaluation of appeal presented by the Federal Government.

In December of 2006, the controlled company Intelig received a tax assessment notice from the Federal Revenue Department in the sum of R\$ 49.0 million resulting from the absence of payment of the IRF and CIDE over such remittances. The aforementioned notice is being contested, with the administrative proceeding on suspended liability until the final decision of the Writ of Mandamus on a judicial level. Based on the opinion of internal and external legal advisers, the lawsuits still in discussion have been evaluated and it has been determined that the provisions for possible loss are adequate.

In October of 2005, the former TIM Nordeste, current TIM Celular received Tax Foreclosure in the amount of R\$5.6 million related to the absence of payment of IRRF over rents, royalties and at-will employment relationships. The controlled company moved to stay execution against referred tax foreclosure and intends to defend itself against such charge until it reaches the highest court of the Brazilian Judiciary.

Litigation Related to the Deduction of Goodwill Paid in the Sistema Telebrás Auction

TIM Nordeste received on October 30, 2006 tax assessment notices at the amount of R\$331.2 million which was then reduced to the amount of R\$258.1 million related to the set-off of the premium paid (goodwill) in the Sistema Telebrás auction (acquisition of mobile companies) against the company's income, for tax purposes. Such tax assessment notices are based on the following facts: (a) non tax-deduction of the expense resulted from the goodwill pay-off; (b) non registration of the goodwill exclusion in the book taxable income (LALUR); (c) improper set-off of the debt disallowance and negative tax calculation basis related to the previous fiscal years; (d) overdeduction of the activity profit tax break; (e) previous tax-deduction of the disallowance of the withholding Social Contribution on Net Income (CSLL); (f) improper deduction of the annual monetary adjustment of the prepaid Corporate Income Tax (IRPJ) and CSLL; (g) fine over the lack of payment of IRPJ and CSLL which are due based on a monthly estimative.

After timely challenging these assessment notices, the subsidiary awaits the taxing authorities' decision on the matter.

In March 2007, the Brazilian Tax Authorities informed TIM that the amounts of IRPJ, CSLL and a separate fine totaling R\$73 million (principal and separate fine) had been excluded from the assessment notice, which caused the reduction of the original assessment. As a consequence, this assessment was partially reduced, the discussion on the remainder being transferred to 160 compensation processes, currently totaling R\$85.8 million.

In September of 2009, in one of the compensation lawsuits there was a decision partially favorable to the former TIM Nordeste reducing part of the credit compensated by the controlled company. Currently, the controlled company continues to defend the rest of the compensation lawsuits which have as a remaining balance the total of R\$ 75.3 million (reduction of R\$ 10.5 million).

In May and July 2008, TIM Nordeste received 49 compensation processes issued by the Federal Treasury related to the IR and CSL totaling R\$11.1 million. Based on its internal and external lawyers' opinion, we have not set up a provision for the above mentioned tax assessments.

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Claims Related to the Payment of PIS and COFINS Taxes by TIM Nordeste

In 2004, TIM Nordeste was assessed in connection with PIS and COFINS due on exchange variation arising from revenue generated in 1999. Both assessment notices amounted to R\$30.9 million. Because this is a controversial matter involving interpretation of applicable legislation, a provision was established, in 2004, for the same amount. On March 13, 2006, a final decision was issued on the action filed by the company against Law 9718 of November 27, 1998. The company argued 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, in 2006, the Management of TIM Nordeste requested extinction of the tax assessment against TIM Nordeste, concerning PIS and COFINS on exchange variation, and reversed, the provision set up in 2004.

In April 2007, the amount of PIS on exchange variation claimed was reduced by R\$5.3 million, after the matter was declared unconstitutional and recognized as such in the administrative level. The remainder – R\$25.6 million – is now under discussion. TIM Nordeste awaits the recognition, at administrative level, of the impossibility of collecting the remaining related to the COFINS infraction.

In relation to the tax assessment notices, which discussed the charge of PIS and COFINS over exchange rate changes, in April of 2007, the demands of PIS related to exchange rate changes were canceled and, in February of 2009, the demands of COFINS related to exchange rate changes were also reduced by R\$23.3 million, with R\$2.3 million remaining under discussion.

TIM Celular and the former TIM Nordeste in October, November and December of 2009, received, respectively, 154 and 41 tax assessment notices in the amounts of R\$ 20.5 million and R\$ 5.5 million in which the tax authority considers some of our COFINS compensation request to be unlawful, related to the import of services in the period between 2005 and 2007. These assessment notices are currently being administratively questioned by the Company.

Litigation Related to the Application of ICMS

In June 1998, the governments of the individual Brazilian States agreed to construe existing Brazilian tax law in a way to apply ICMS in respect of certain revenues, including cellular activation fees and monthly subscription charges, that had not previously been subject to such taxes. Under Brazilian law, there is a risk that the state governments could seek to apply this interpretation retroactively to activation and subscription fees charged during the five years preceding June 30, 1998. We believe that the attempt by the state governments to extend the scope of ICMS to services that are supplementary (such as monthly subscription charges) to basic telecommunications services is unlawful because:

- the state governments acted beyond the scope of their authority;
- their interpretation would subject to taxation certain revenues, particularly activation fees, that are not considered to be payments for telecommunications services; and
- new taxes may not be applied retroactively.

It should be noted that certain second level courts have addressed this issue and ruled that the ICMS is not applicable to services that are supplementary to basic telecommunications services, relieving us from the payment of the ICMS tax on activation fees in certain Brazilian States. In other States we are required to make judicial deposits in connection with the activation fee tax until a final decision is granted on the matter. There have been recent decisions favorable to the operators addressing the fact that certain revenues, including cellular activation fees and subscription

charges are not subject to ICMS tax to date. We have been granted favorable final decisions relating to the states of Paraná, Santa Catarina, Sergipe, Alagoas and Rio Grande do Sula and Paraíba. Additionally, the Company has filed lawsuits in the Brazilian States of Pernambuco, Rio Grande do Norte, Piauí, Ceará, and Bahia, and has been granted favorable second level decisions in most of them. We have not made any accruals in connection therewith.

TIM Celular received notices from the fiscal authorities of the State of Santa Catarina in the years 2003 and 2004, which related mainly to disputes as to the applicability of ICMS taxation over telecommunication services rendered by the Controller Company, as well as commercialization of mobile devices. The amount currently in discussion is of R\$42.6 million considering diverse successes in administrative proceedings (the amount initially noticed was of R\$95.4 million). The controlled company continues to discuss, on both administrative and

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judicial levels, such tax assessment notices and based on the opinion of internal and external legal advisers, Management concludes that the lawsuits still in discussion have been evaluated as a possible loss.

The controlled companies, the former TIM Nordeste and TIM Celular, received during the last few years tax assessment notices entered by fiscal authorities of various Brazilian States related to ICMS payment over operational activities of telecommunications services rendering, as well as commercialization of merchandise. Some of the alleged bases for the notices, according to plea by the ICMS inspection, included: (i) the liability for the difference between the internal and interstate ICMS tax rate in the acquisition of assets destined to the fixed, use and consumption assets, as well as determination of the basis of calculation of the referred tax over commercialization merchandise acquisition operations; (ii) bookkeeping of taxed services (according to the understanding of the National Treasury) as non-taxed by the controlled in the Sales Journal; (iii) alleged reduced payment through utilization of the wrong tax rate and entry of telecommunication services as non-taxed; (iv) alleged lack of payment due to differences in the amounts effectively paid and the declared; (v) payment of tax beyond term established by state legislation, among others. Referred tax assessment notices are being defended in administrative and judicial proceedings. The total amount involved in these cases, with respect to amounts greater than R\$ 5.0 million, is R\$ 95.7 million.

The controlled companies, former TIM Nordeste and TIM Celular, received tax assessment notices of ICMS entered by the fiscal authorities of the States of Rio de Janeiro and Bahia pleading the lack of payment of the tax, as well as the additional tax rate related to the Fight Against Poverty and Social Differences Fund supposedly incident over: (i) rendering of international roaming services; and (ii) rendering of services in the pre-paid modality. Referred notices are being defended administratively and total the sum of R\$ 30.9 million.

The former TIM Nordeste and current TIM Celular received tax assessment notices entered by the fiscal authorities of the States of Paraíba and Rio de Janeiro, in the respective amounts of R\$ 5.5 million and R\$ 38.2 million, related to the lack of proportional reversal of ICMS credits relative to exempt and non-taxed sales. The notices are being objected administratively by the controlled companies and total R\$ 43.8 million.

The controlled companies TIM Celular and former TIM Nordeste received tax assessment notices entered by the fiscal authorities of the States of São Paulo and Minas Gerais in the amounts of R\$193.9 million and R\$17.2 million, respectively, aiming at the supposed non inclusion of conditional discounts offered to clients in the base of calculation of ICMS. The companies intend to defend themselves against such charge until it reaches a higher court of the Judiciary.

In 2008 and 2009, the former TIM Nordeste and TIM Celular, received tax assessment notices, in a total sum of R\$ 94.0 million, entered by the fiscal authorities of the State of Ceará, São Paulo, Pernambuco, Paraná and Minas Gerais aiming at debt caused by the employment of ICMS credit in the acquisition of electric energy. The notices are being defended administratively by the companies.

The former TIM Nordeste, and TIM Celular, received in October of 2008, a tax assessment notice entered by the fiscal authorities of Sergipe in the amount of R\$16.7 million, for late delivery of fiscal information in electronic files, as determined by the ICMS Regulation of the State of Sergipe, containing information on the rendering of telecommunication services. Referred notice is being defended administratively by the companies.

The former TIM Nordeste received in September of 2008, a tax assessment notice entered by the fiscal authorities of Minas Gerais in the amount of R\$24.9 million, which aims for the application of isolated fine in result of the absence of bookkeeping in the books of ICMS evaluation of telecommunication service receipts. In August of 2009, an administrative decision was pronounced which reduced the noticed amount by 99.8% . The company made a payment for the remaining balance and the lawsuit was finished.

In November 2002, the controlled company Intelig Telecom received a tax assessment notice entered by the State Treasury Department of Minas Gerais in the amount of R\$ 8.5 million, related to the supposed undue utilization of ICMS credit in the acquisition of assets integrant of the fixed assets and material destined to be used and consumed by the company. The tax assessment notice is being defended judicially.

In November of 2005, the controlled company Intelig Telecom received a tax assessment notice entered by the State Treasury of Mato Grosso in the amount of R\$11.7 million related to the supposed undue utilization ICMS credit in the acquisition of assets integrant of the fixed assets without the support of the respective tax receipt and of the difference of ICMS aliquot The tax assessment notice is being defended judicially.

In December of 2007 and December of 2008, the controlled company Intelig received two tax assessment notices entered by the State Treasury of São Paulo in the respective amounts of R\$ 6.7 million and R\$ 11.3 million, respectively,

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related to the supposed undue employment of ICMS credit in the years of 2002 and 2003, through reversal of debt in the canceling of telecommunication services effectively non rendered. The tax assessment notice received in 2002 finished administratively without success for the company and the judicial discussion of the debt will be initiated. The tax assessment notice corresponding to the year of 2003 is still being defended administratively.

In August of 2009, the controlled company Intelig Telecom received a notice entered by the State Treasury of Rio de Janeiro in the amount of R\$ 4.8 million, related to the supposed undue utilization of ICMS credit by the application of the inadequate coefficient of reduction of the credit tax in relation to the exempt and non-taxed sales operations occurred in the period of 2004 to 2009. The notice is being defended administratively.

In April of 2002, the controlled company Intelig Telecom received notices from the State Treasury of Rio de Janeiro in the amount of R\$ 149.5 million related to (i) non presentation of the book of fixed assets credit control (Ciap) complying to legislation; (ii) execution of co-invoicing agreement in partnership with operators, with the purpose of optimizing invoicing procedures, not complying with the accessory obligations of the legislation; (iii) non compliance with the state legislation related to the incidence of ICMS in the services rendered from payphones (TUP); (iv) printing and emission of tax receipts without proper authorization (AIDF); and (v) lack of payment of ICMS over import operations based in agreement or program with the State of Rio de Janeiro.

In August of 2006 was published the Covenant ICMS no. 72/06 authorizing the States to reduce or not to demand interests, fines and monetary restatement related to the nonpayment of ICMS resulted from provision of communication services. Therefore, based on the referred Covenant the Controller executed the payment of R\$ 24.3 million to settle the debts of ICMS comprised by the terms of the respective legislation. The Controller is currently discussing with the tax authorities some notices and based on the opinion of its internal and external legal advisers, the Management concluded as the probable losses to be incurred in these processes are of R\$ 5.7 million, a amount provided in December of 2009.

Municipality of Rio de Janeiro ISS tax Charges

TIM Celular received a tax assessment notice from the Municipality of Rio de Janeiro related to the supposed lack of collection of ISS in the value of R\$94.4 million. The main reason of this tax assessment notice relates to site-sharing agreements. The municipality wants to charge the ISS over this agreements in view of the Complementary Law nr. 116/03, exhibit item 3.04. However, we have strong arguments to fight against this law because the ISS is a tax on services and the site-sharing agreements do not involve services. Moreover, there is a lawsuit challenging the constitutionality of item 3.04 of the Complementary Law nr 116/03 (ADIN – Ação Direta de Inconstitucionalidade). We are challenging this tax assessment with the appropriate Brazilian tax authorities and a final decision is pending. We believe there is a possibility that we will be required to pay this tax assessment but that it is not probable. Accordingly, we have not made a provision for this amount.

Litigation Related to the Payment of FUST

The FUST tax is levied at a rate of 1% on gross revenues, net of ICMS, PIS and COFINS, and its initial cost may not be passed on to clients. In light of a ruling issued by Anatel in 2005, the TIM Group, together with the other telecommunications providers in Brazil, have filed a lawsuit and obtained a preliminary injunction (now confirmed by a first level decision, still subject to appeal) authorizing us not to collect the FUST tax related to interconnection revenues. We have not collected the FUST assessed on interconnection fees.

Since October of 2006, ANATEL is entering tax assessment notices against the controlled of the Company, which are related to the amounts of FUST on revenues of interconnection supposedly due in the years of 2001 to 2004 as well as penalty, regarding the Rule No. 07/05 such tax assessment notices of that period sum the amount of R\$ 128.1 million.

The Controlled Intelig Telecom received several tax assessment notices entered by ANATEL totalizing the sum of R\$ 29.4 million, which are related to the amounts of FUST on revenues of interconnection supposedly due in the periods of January to December of 2001, 2002 and 2003, respectively. The referred notices are being defended administratively. We estimate the likelihood of an adverse ruling in this matter is possible.

Litigation Related to the Payment of FUNTTEL

The Ministry of Communications entered tax assessment notices against TIM Celular and the old TIM Nordeste, in the total sum of R\$ 46.8 million, which make reference to the amounts of FUNTTEL on revenues of interconnection supposedly related to the years of 2001 to 2004, as well as penalty. The understanding of the

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Company is that the aforementioned revenues are not subject to incidence of FUNTTEL. It was applied injunction in order to cover the interests of the Company about the non-collection of FUNTTEL on revenues of interconnection based on the same arguments defended in the lawsuit of FUST.

TIM Group filed a writ of mandamuns and obtained a preliminary injunction authorizing us not to collect the FUNTTEL tax related to interconnection revenues. We estimate the likelihood of an adverse ruling in this matter is possible. For this reason, we have not made any accrual in connection therewith.

The Controller Intelig Telecom received tax assessment notices entered by the Ministry of Communication in the sum of R\$ 9.9 million, which are related to the amounts of FUNTTEL on revenues of interconnection supposedly due for the periods of January to December of 2002, March to December of 2003 and April to December of 2004, respectively. The referred notices are being defended administratively.

Other Litigation

We are a party to certain legal proceedings arising in the normal course of business. Most of these legal proceedings may be divided into two main categories: consumer protection claims and labor law claims. The most common issue raised by claimants in the consumer protection cases against us is allegedly incorrect charges imposed by us as well as defects on mobile handsets we sell. Most labor law claims against us have been brought by former employees for alleged infringement of labor laws during the duration of their employment contracts with us. As of December 31, 2009, we were a party to approximately 61,141 consumer protection claims and 2,350 labor law claims. There are also 181 public civil actions and class actions (respectively “ação civil pública” and “ação popular”). We believe that such actions, if decided adversely to us, would not have a material adverse effect on our business, financial condition or results of operations.

Dividend Policy

Under our by-laws, we are required to distribute 25% of our adjusted net income to our shareholders, either as dividends or as tax-deductible interest on net worth (“General Dividend”). We are also required to pay a non-cumulative preferred dividend on our preferred shares in an amount equal to the greater of (“Preferred Dividend”):

- 6% of our capital (“capital social”) divided by the total number of common and preferred shares and
- 3% of our net shareholders’ equity (“patrimônio líquido”) to the extent of retained earnings, according to the most recent financial statements approved by our shareholders.

The amount of General Dividend, if any, payable by us to the holders of preferred shares is offset by the amount of Preferred Dividend paid to such preferred shareholders.

As a result of these provisions, holders of our preferred shares are entitled to receive in any year distributions of cash dividends prior to the holders of our Common Shares receiving any distribution of cash dividends in such year. In addition, distributions of cash dividends in any year are made:

- first, to the holders of preferred shares, up to the amount of the Preferred Dividend that must be paid to the holders of preferred shares for such year;
- then, to the holders of common shares, until the amount distributed in respect of each Common Share is equal to the amount distributed in respect of each preferred shares; and

- thereafter, to the holders of common shares and preferred shares on a pro rata basis.

If the dividend to be paid to the holders of preferred shares is not paid for a period of three years, holders of preferred shares will be entitled to full voting rights until the year when that dividend is paid in full for any year.

We may also make additional distributions to the extent of available distributable profits and reserves. TIM Celular is also subject to mandatory distribution requirements and, to the extent of distributable profits and reserves, are accordingly required to pay dividends to us. All of the aforementioned distributions may be made as dividends or as tax-deductible interest on capital.

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Brazilian corporations may make payments to shareholders characterized as interest on the corporation’s capital (“juros sobre capital próprio”) as an alternative form of making dividend distributions to the shareholders. The rate of interest may not be higher than the Federal Government’s long-term interest rate as determined by BNDES from time to time. Dividends are not subject to withholding income tax when paid. On the other hand, interest on capital paid to shareholders is deductible from the corporation’s net profits for tax purposes, but the distributions are subject to withholding tax. See “Item 10E. Additional Information—Taxation—Brazilian Tax Considerations—Distributions of Interest on Capital.”

For the purposes of Brazilian Corporations Law, and in accordance with our by-laws, adjusted net income is an amount equal to net profit adjusted to reflect allocations to and from:

- the legal reserve; and
- contingency reserves.

We are required to maintain a legal reserve, to which we must allocate 5% of net profits for each fiscal year until the amount for such reserve equals 20% of our capital. However, we are not required to make any allocations to our legal reserve in respect of any fiscal year in which our legal reserve, together with our other capital reserves, exceeds 30% of our capital. Losses, if any, may be charged against the legal reserve. On December 31, 2009, the balance of our legal reserve was R\$122.3 million, which was equal to 1.5% of our total capital.

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

Under Brazilian Corporations Law, any company may, as a term in its by-laws, create a discretionary reserve. By-laws which authorize the allocation of a percentage of a company’s net income to the discretionary reserve must also indicate the purpose, criteria for allocation and a maximum amount of the reserve. The Company’s by-laws authorize the allocation of the net income balance not allocated to the payment of the mandatory minimum dividend nor to the preferred shares priority dividend to a supplementary reserve for the expansion of corporate business, not to exceed 80% (eighty percent) of the capital. The loss for the 2007 year was fully absorbed by the reserve for expansion and part of this reserve was used to pay dividends. On December 31, 2007, in accordance with our by-laws, we used our reserve for expansion to distribute dividends.

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

The amounts available for distribution may be further increased by a decrease in the contingency reserve for anticipated losses anticipated in prior years but not realized. The amounts available for distribution are determined on

the basis of financial statements prepared in accordance with Brazilian GAAP.

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

Remaining amounts to be distributed are allocated first to the payment of a dividend to holders of Common Shares in an amount equal to the dividend paid to the preferred shareholders. The remainder is distributed equally among holders of preferred shares and common shares.

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

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- its management (Board of Directors and Board of Executive Officers) and Fiscal Committee report to the shareholders' meeting that the distribution would be incompatible with the financial circumstances of that company; and
- the shareholders ratify this conclusion at the shareholders' meeting.

In this case,

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

Our preferred shares are each entitled to a minimum dividend and thus the mandatory dividend may be suspended only with respect to our common shares. Dividends may be paid by us out of retained earnings or profit reserves in any given fiscal year.

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

Payment of Dividends

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

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

Our preferred shares underlying the ADSs are held in Brazil by a Brazilian custodian, Banco Itaú S.A., as the agent for the Depository, JPMorgan Chase Bank, N.A., which is the registered owner of our shares. Payments of cash dividends and distributions in respect of the ADRs, if any, will be made in Brazilian currency to the custodian on behalf of the Depository which will then convert those proceeds into dollars and will cause such dollars to be delivered to the Depository for distribution to holders of ADRs. In the event that the custodian is unable to immediately convert the Brazilian currency received as dividends into dollars, the amount of dollars payable to holders of ADRs may be adversely affected by devaluations of the Brazilian currency that occur before such dividends are converted and remitted. Dividends in respect of our preferred shares paid to resident and non-resident shareholders, including holders of ADSs, are not currently subject to Brazilian withholding tax.

The Company did not pay the minimum dividends or interest on shareholders' equity for the years-ended December 31, 2007, 2008 and 2009. As a result, the holders of our preferred shares are entitled, from 2010 on, to have the same voting rights as the holders of common shares, until TIM Participações pays dividends again. Minimum dividends are noncumulative, calculated according to the Company's bylaws.

B. Significant Changes

None.

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Item 9. The Offer and Listing

A. Offer and Listing Details –

The preferred shares trade principally on the BMF&BOVESPA under the symbol “TCSL4”. On December 31, 2009, we had 642,354,771 preferred shares and 192,744,359 common shares outstanding. The preferred shares traded in the United States on the NYSE are represented by ADSs, each ADS representing 10 preferred shares. The ADSs are issued by JPMorgan Chase Bank, N.A. (the “Depositary” or “JPMorgan”), pursuant to a Deposit Agreement among us, the Depositary and the registered holders and beneficial owners from time to time of ADRs. See “Item 12. Description of Securities Other than Equity Securities.” The ADSs trade on the NYSE under the symbol “TSU.”

The table below shows, for the indicated periods, the high and low closing prices of our ADSs on the New York Stock Exchange, in U.S. dollars, and the preferred shares on the São Paulo Stock Exchange, in reais:

	New York Stock Exchange		São Paulo Stock Exchange	
	HIGH	LOW	HIGH	LOW
	(in U.S.\$ per ADS)		(in reais per thousand preferred shares)	
Year ended				
December 31, 2005	25.76	12.11	5.90	3.19
December 31, 2006	40.60	23.54	8.66	5.25
December 31, 2007	46.40	29.54	8.10	5.80
December 31, 2008	43.80	11.44	7.33	2.42
December 31, 2009	30.13	11.99	5.20	2.64
Year ended December 31, 2008				
First quarter	43.81	31.48	7.33	5.46
Second quarter	34.77	27.19	5.95	4.44
Third quarter	27.98	19.17	4.50	3.44
Fourth quarter	21.68	11.44	4.50	2.42
Year ended December 31, 2009				
First quarter	15.50	12.34	3.68	2.85
Second quarter	20.48	11.99	3.97	2.64
Third quarter	25.44	17.00	4.59	3.36
Fourth quarter	30.13	23.27	5.20	4.08
Quarter ended March 31, 2010				
March 31, 2010	31.28	25.37	5.39	4.71
Month ended				
December 31, 2009	30.13	27.20	5.20	4.68
January 31, 2010	31.28	26.27	5.37	4.95
February 28, 2010	29.29	25.37	5.24	4.71
March 31, 2010	30.61	27.09	5.39	4.90
April 30, 2010	28.34	24.52	4.93	4.27

May 31, 2010	27.94	23.58	4.95	4.32
June 30, 2010 (through June 25, 2010)	28.59	25.98	5.08	4.76

B. Plan of Distribution

Not applicable.

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C. Markets

Trading on the Brazilian Stock Exchanges

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

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

When shareholders trade shares or units on BMF&BOVESPA, the trade is settled in three business days after the trade date, without adjustments to the purchase price. The seller is ordinarily required to deliver the shares or units to the exchange on the second business day following the trade date. Delivery of and payment for shares or units are made through the facilities of an independent clearing house, the Companhia Brasileira de Liquidação e Custódia, or CBLC.

In order to maintain control over the fluctuation of BMF&BOVESPA index, BMF&BOVESPA has adopted a “circuit breaker” system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever BMF&BOVESPA index falls below 10% or 15%, respectively, in relation to the closing index levels of the previous trading session.

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

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

Differentiated Levels of Corporate Governance and the New Market

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

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

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

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

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

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

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

- require all directors to serve unstaggered one-year terms;
- prepare and publish annual financial statements in English and in accordance with U.S. GAAP or IAS GAAP;
- create tag-along rights for minority shareholders, ensuring holders of common shares of the right to sell on the same terms as a controlling shareholder, and ensuring preferred shareholders a price equal to at least 80% of that received by the selling controlling shareholder;
- grant preferred shareholders the right to vote in certain cases, including, without limitation, the transformation, spin-off or merger of the company, and approval of agreements with related parties;
- make a tender offer for all outstanding shares, for a price equal to fair market value, in the event of delisting from Level 2 qualification; and
- agree to submit any disputes between the company and its investors exclusively to the BMF&BOVESPA's Market Arbitration Chamber.

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

BMF&BOVESPA Market Administration Panel

Pursuant to Law Nr. 9,307/96, a Market Arbitration Panel (the "Panel") has been established by the BMF&BOVESPA. The Panel was established to settle certain types of disputes, including disputes relating to corporate governance, securities issues, financial regulatory issues and other capital market matters, with respect to BMF&BOVESPA listed

companies that have undertaken to voluntarily comply with Level 2 and New Market levels of corporate governance and disclosure. The Panel will provide a forum for dispute resolution involving, among others, the Bovespa, the applicable listed company and the shareholders, directors and management of the applicable listed company.

Regulation of Brazilian Securities Markets

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

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

Under Brazilian Corporations law, a corporation is either publicly held (companhia aberta), as we are, or closely held (companhia fechada). All publicly held companies are registered with the CVM and are subject to reporting requirements. We have the option to ask that trading in securities on BMF&BOVESPA be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of BMF&BOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or BMF&BOVESPA.

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

Trading on BMF&BOVESPA by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for our preferred shares on behalf of the Depositary for the ADSs, has obtained registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereto. In the event that a holder of ADSs exchanges preferred shares for ADSs, the holder will be entitled to continue to rely on the custodian's registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of our preferred shares or upon distributions relating to our preferred shares, unless the holder obtains a new registration. See "Item 10B. Additional Information—Memorandum and Articles of Association."

Brazilian regulations also require that any person or group of persons representing the same interest that has directly or indirectly acquired an interest corresponding to 5% of a type or class of shares of a publicly traded company must provide such publicly traded company with information on such acquisition and its purpose, and such company must transmit this information to the CVM. If this acquisition causes a change in the corporate control or in the administrative structure of the company, as well as when such acquisition triggers the obligation of making a public offering in accordance with CVM Instruction 358/03, then the acquiring entity shall disclose this information to the applicable stock exchanges and the appropriate Brazilian newspapers. Regulations also require disclosure of any subsequent increase or decrease of five percent or more in ownership of common shares, including warrants and debentures convertible into common shares in the same terms above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following summarizes certain material provisions of TIM's by-laws and the Brazilian Corporations Law, the main bodies of regulation governing us. Copies of TIM's by-laws have been filed as exhibits to this

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annual report on Form 20-F. Except as described in this section, TIM's by-laws do not contain provisions addressing the duties, authority or liabilities of the directors and senior management, which are instead established by Brazilian Corporations Law.

Registration

TIM's by-laws have been registered with the Public Registry of the state of Rio de Janeiro under company number (NIRE) 33.3.0027696-3.

Corporate Purpose

Article 2 of our by-laws provides that our main corporate purpose is to exercise control over operating companies that provide mobile telephone and other services in their respective authorization and/or concession area. Other corporate purposes include:

- promote, through our controlled or affiliated companies, the expansion of mobile telephone services in their respective concession areas;
- procure funding from internal or external sources;
- promote and foster study and research for the development of mobile telephone services;
- perform, through our controlled or affiliated companies, specialized technical services related to the mobile telephone industry;
- promote and coordinate, through our controlled or affiliated companies, the education and training of the staff required by the telephone services;
 - effect or order the importation of goods and services for our controlled and affiliated companies;
 - perform any other activities linked or related to our corporate purpose; and
 - hold interests in other companies.

Company Management

Following is a description of some of the provisions of our by-laws concerning members of the Board of Directors:

- Pursuant to Art. 25, item XVII, the Board of Directors has the power to approve loans and financing as well as to issue promissory notes, for an amount exceeding 2% of the shareholders' equity;
- Pursuant to Art. 25, item XXI, the Board of Directors has the power to allocate the total budget for management remuneration approved by the shareholders' meeting among the directors and the executive officers, observed the allocations already approved by the Shareholders' meeting; and
- Pursuant to Art. 27, paragraph 3, a member of the Board of Directors is not authorized to access information or to attend a meeting of the Board of Directors regarding subjects or proposals in respect of which such director has or represents an interest conflicting with those of TIM.

Pursuant to the Brazilian Corporations Law, each member of the Board of Directors must have at least one share of our capital stock in order to qualify to be a Director. There are no provisions in the by-laws with respect to:

- a director's power to vote compensation to him or herself in the absence of an independent quorum;
 - borrowing powers exercisable by the directors;
 - age limits for retirement of directors;
 - required shareholding for director qualification;
- anti-takeover mechanisms or other procedures designed to delay, defer or prevent changes in our control; or
 - disclosure of share ownership.

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“The Executive Officers are the Company’s representative and executive body, and each one of them shall act within his/her respective scope of authority.” Following is a description of some of the provisions of our by-laws concerning the Board of Executive Officers:

- Pursuant to Art. 32, item III, the Board of Executive Officers has the power to authorize the participation of the Company or its companies controlled in any joint venture, partnership, consortium or any similar structure;
 - Pursuant to Art. 32, item VI, the Board of Executive Officers has the power to approve the execution by the Company or by its controlled companies, of active or passive agreements for the supply or lease of goods or services, whose annual value is greater than R\$15.0 (fifteen million reais); and
- Pursuant to Art. 32, item VII, the Board of Executive Officers has the power to approve the contracting by the Company or by its controlled companies of loans, financing, or any other transactions implying indebtedness to the Company or its controlled companies, whose individual value is greater than R\$30.0 (thirty million reais), provided that the provisions of item XVII of section 25 of this By-laws are observed.”

Rights Relating to our Shares

Dividend Rights

See “Item 8A. Financial Information Consolidated Statements and Other Financial Information—Dividend Policy.”

Voting Rights

Each common share entitles the holder to one vote at meetings of shareholders. Our preferred shares do not entitle the holder to vote except as set forth below. Holders of our preferred shares are each entitled to attend or to address meetings of shareholders.

One of the members of our Fiscal Committee and his or her alternate may be elected by majority vote of the holders of our preferred shares represented at the annual meeting of shareholders at which members of the Fiscal Committee are elected.

Brazilian Corporations Law provides that certain non-voting shares, such as our preferred shares, at a minimum, acquire voting rights in the event we fail for three consecutive fiscal years to pay the dividend to which such shares are entitled until such payment is made.

In addition, our by-laws provide that our preferred shares are entitled to full voting rights with respect to:

- the approval of any long-term contract between us or any of our subsidiaries, on the one hand, and any controlling shareholder or affiliates or related parties thereof, on the other hand, except in certain cases involving standard contracts entered into in the ordinary course of business; and
 - resolutions modifying certain provisions of our by-laws.

Any change in the preference, benefits, conditions of redemption and amortization of our preferred shares, or the creation of a class of shares having priority or preference over our preferred shares, would require the approval of holders of a majority of our outstanding preferred shares at a special meeting of holders of our preferred shares. Such meeting would be called by publication of a notice in three Brazilian official gazettes at least thirty days prior to the meeting but would not generally require any other form of notice. In any circumstances in which holders of our

preferred shares are entitled to vote, each of our preferred shares will entitle the holder to one vote.

Meeting of Shareholders

According to Brazilian law, shareholders must be previously notified through a notice published in three Brazilian official gazettes in order for a general or extraordinary shareholders' meeting to be held. The notification must occur at least 15 days prior to the meeting scheduled date. If the first meeting is not held for any reason on first notice, a second notification must be published at least eight days before the second meeting date.

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On the first notice, meetings may be held only if shareholders holding at least one-fourth of voting shares are represented. Extraordinary meetings for the amendment of the by-laws may be held on the first notice only if shareholders holding at least two thirds of the voting capital are represented. On a second call, the meetings are held regardless of quorum.

Preemptive Rights

Each of our shareholders has a general preemptive right to subscribe shares in any capital increase, in proportion to its shareholding. A minimum period of 30 days following the publication of notice of the capital increase is allowed for the exercise of the right, and the right is transferable.

However, a shareholders' meeting is authorized to eliminate preemptive rights with respect to the issuance of new shares, debentures and warrants convertible into new shares up to the limit of the authorized share capital, provided that the distribution of these securities is effected:

- on a stock exchange;
- in a public offering;
- through an exchange of shares in a public offering the purpose of which is to acquire control of another company; or
- through the use of certain tax incentives.

In the event of a capital increase that would maintain or increase the proportion of capital represented by the preferred shares, holders of the ADSs, or of the preferred shares, would have preemptive rights to subscribe only to newly issued preferred shares. In the event of a capital increase that would reduce the proportion of capital represented by the preferred shares, holders of the ADSs or the preferred shares would have preemptive rights to subscribe to preferred shares in proportion to their shareholdings and to the Common Shares only to the extent necessary to prevent dilution of their interest in the Holding Company.

Preemptive rights to purchase shares may not be offered to U.S. holders of the ADSs unless a registration statement under the Securities Act of 1933 is effective with respect to the shares underlying those rights, or an exemption from the registration requirements of the Securities Act of 1933 is available. Consequently, if you are a holder of our ADSs who is a U.S. person or is located in the United States, you may be restricted in your ability to participate in the exercise of preemptive rights.

Right of Redemption

Subject to certain exceptions, the common shares and the preferred shares are redeemable by shareholders exercising dissenter's withdrawal rights in the event that shareholders representing over 50% of the voting shares adopt a resolution at a duly convened shareholders meeting to:

- change the preference of our preferred shares or to create a class of shares having priority or preference over our preferred shares;
- reduce the mandatory distribution of dividends;
- change our corporate purpose;

- participate in group of companies;
- transfer all of our shares to another company in order to make us a wholly-owned subsidiary of that company;
 - split up, subject to the conditions set forth by Brazilian Corporations Law;
 - change corporate form;
- approve the acquisition of another company, the price of which exceeds certain limits set forth in the Brazilian Corporations Law; or
 - merge or consolidate ourselves with another company.

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The redemption right expires 30 days after publication of the minutes of the relevant shareholders' meeting or, whenever the resolution requires the approval of the holders of preferred shares in a special meeting of the holders of preferred shares affected by the resolution, within 30 days following the publication of the minutes of that special meeting. The shareholders would be entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of those rights if they determine that the redemption of shares of dissenting shareholders would jeopardize our financial stability.

The rights of withdrawal under Brazilian Corporations Law for dissenting shareholders to seek redemption of the shares in the case of a company's decision to participate in a group of companies or to merge or consolidate itself with another company are not automatically available to holders of our preferred shares. This results from an exception under Brazilian Corporations Law that excludes dissenters' rights in such cases for holders of shares that have a public float rate higher than 50% and that are "liquid." Shares are defined as being "liquid" for these purposes if they form part of the Bovespa Index or another stock exchange index (as defined by the CVM). Our preferred shares are currently included on the Bovespa Index. For as long as our shares are part of any qualifying market index, the right of redemption shall not be extended to our shareholders with respect to decisions regarding our merger or consolidation with another company, or the participation in a group of companies as defined by Brazilian Corporations Law. Currently, neither our common nor preferred shares have a public float rate higher than 50%, such that withdrawal rights are applicable.

Unless otherwise provided in the by-laws, which is not the case with us, a shareholder exercising rights to redeem shares is entitled to receive the book value of such shares, determined on the basis of the last annual balance sheet approved by the shareholders. If the shareholders' meeting giving rise to redemption rights occurs more than 60 days after the date of the last annual balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet that is as of a date within 60 days of such shareholders' meeting.

Form and Transfer

Our shares are maintained in book-entry form with a transfer agent, Banco ABN AMRO Real S.A., and the transfer of our shares is made in accordance with the applicable provision of the Brazilian Corporations Law, which provides that a transfer of shares is effected by an entry made by the transfer agent on its books, debiting the share account of the seller and crediting the share account of the purchaser, against presentation of a written order of the seller, or judicial authorization or order, in an appropriate document which remains in the possession of the transfer agent. The preferred shares underlying our ADS are registered on the transfer agent's records in the name of the Brazilian Depository.

Transfers of shares by a foreign investor are made in the same way and executed by such investor's local agent on the investor's behalf except that, if the original investment was registered with the Central Bank under the Brazilian foreign investment in capital markets regulations, the foreign investor should also seek amendment, if necessary, though its local agent, of the certificate of registration to reflect the new ownership.

BMF&BOVESPA reports transactions carried out in its market to the Companhia Brasileira de Liquidação e Custódia, or CBLIC, a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system. All shares elected to be put into the system will be deposited in custody with the relevant stock exchange, through a Brazilian institution duly authorized to operate by the Central Bank and CVM and having a clearing account with the relevant stock exchange. The fact that such shares are subject to custody with the relevant stock exchange will be reflected in our register of shareholders. Each participating shareholder will, in turn, be registered in our register of beneficial shareholders, as the case may be, maintained by the relevant stock exchange and will be treated in the same way as registered shareholders.

C. Material Contracts

See “Item 5B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Financial Contracts” the summary of the material contracts to which we have been a party in the past two years, other than contracts entered into in the ordinary course of business:

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D. Exchange Controls

There are no restrictions on ownership of our preferred shares or common shares by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank. Foreign investors may register their investment under Law No. 4,131 of September 3, 1962 (“Law No. 4,131”), or Resolution CMN 2,689. Registration under Law No. 4,131 or under Resolution CMN 2,689 generally enables foreign investors to convert into foreign currency dividends, other distributions and sales proceeds received in connection with registered investments and to remit such amounts abroad. Resolution CMN 2,689 affords favorable tax treatment to foreign investors who are not resident in a tax haven jurisdiction, which is defined under Brazilian tax laws as a country that does not impose taxes or where the maximum income tax rate is lower than 20% or that restricts the disclosure of shareholder composition or ownership of investments. See “—E. Taxation—Brazilian Tax Considerations.” Such restrictions on the remittance of foreign capital abroad may hinder or prevent Banco Itaú S.A., as custodian for our preferred shares represented by ADSs, or holders who have exchanged ADRs for preferred shares, from converting dividends, distributions or the proceeds from any sale of such preferred shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. Holders of ADSs could be adversely affected by delays in, or refusal to grant any, required government approval for conversions of Brazilian currency payments and remittances abroad of our preferred shares underlying the ADSs.

Under Resolution CMN 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution CMN 2,689, foreign investors are individuals, corporations, mutual funds and collective investments domiciled or headquartered abroad.

Pursuant to Resolution CMN 2,689, foreign investors must:

- appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- complete the appropriate foreign investment registration form;
- obtain registration as a foreign investor with the CVM; and
- register the foreign investment with the Central Bank.

The securities and other financial assets held by the foreign investor pursuant to Resolution CMN 2,689 must be:

- registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or
- registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM.

In addition, securities trading is restricted to transactions carried out on the stock exchanges or organized over-the-counter markets licensed by the CVM.

On January 26, 2000, the Central Bank enacted Circular No. 2,963, providing that beginning on March 31, 2000, all investments by a foreign investor under the Resolution CMN 2,689 are subject to the electronic registration with the Central Bank. Foreign investments registered under the Annex IV regulations were required to conform to the new

registration rules by June 30, 2000.

Resolution No. 1,927 of the CMN provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The ADS program was approved under the Annex V regulations by the Central Bank and the Brazilian securities commission prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADSs will be entitled to favorable tax treatment. See “—E. Taxation—Brazilian Tax Considerations.” According to Resolution CMN 2,689, foreign investments registered under Annex V Regulations may be converted into the new investment system and vice-versa, provided the conditions set forth by the Central Bank and the CVM are complied with.

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An electronic registration has been generated in the name of the Depositary with respect to the ADSs and is maintained by the custodian on behalf of the Depositary. This electronic registration is carried on through the Central Bank's information system. Pursuant to the registration, the custodian and the Depositary are able to convert dividends and other distributions with respect to our preferred shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, such holder will be entitled to continue to rely on the Depositary's certificate of registration for five business days after such exchange, following which such holder must seek to obtain its own certificate of registration with the Central Bank. Thereafter, any holder of preferred shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares, unless such holder qualifies under the Annex IV or the Resolution 2,689 regulations, or obtains its own certificate of registration. A holder that obtains a certificate of registration will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See "—E. Taxation—Brazilian Tax Considerations." In addition, if the holder is a qualified investor under Resolution CMN 2,689 but resides in a jurisdiction that does not impose income tax or where the income tax is imposed at a maximum rate of 20%, this holder will be subject to a less favorable tax treatment than a holder of ADSs.

Under current Brazilian legislation, the federal government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately six months in 1989 and early 1990, the federal government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with federal government directives. The imbalance in Brazil's balance of payments increased during 1999, and there can be no assurance that the federal government will not impose similar restrictions on foreign repatriations in the future.

E. Taxation

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the ownership and disposition of the preferred shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to hold preferred shares or ADSs. The summary is based upon the tax laws of Brazil and regulations thereunder and on the federal income tax laws of the United States thereunder as of the date hereof, both of which are subject to change. Holders of preferred shares or ADSs should consult their own tax advisers as to the tax consequences of the ownership and disposition of preferred shares or ADSs in their particular circumstances.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares or ADSs.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the ownership and disposition of preferred shares or ADSs by a non-Brazilian holder. This discussion does not address all the Brazilian tax considerations that may be applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult its own tax adviser about the Brazilian tax consequences of investing in preferred shares or ADSs.

Taxation of Dividends

Dividends paid by us in cash or in kind from profits of periods beginning on or after January 1, 1996 (i) to the Depositary in respect of preferred shares underlying ADSs or (ii) to a non-Brazilian holder in respect of preferred shares will generally not be subject to Brazilian income tax withholding. The dividend distribution made in 2009 does

not include any dividends relating to periods ending on or before January 1, 1996.

Taxation of Gains

According to Article 26 of Law No. 10,833 of December 29, 2003, which came into force on February 1, 2004, capital gains realized on the disposition of assets located in Brazil by non-Brazilian residents, whether or not to other non-residents and whether made outside or within Brazil, are subject to taxation in Brazil at a rate of 15%, or 25% if made by investors domiciled in a “tax haven” jurisdiction (i.e., a country that does not impose any income tax or that imposes tax at a maximum rate of less than 20%). Although we believe that the ADSs will not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, considering the

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general and unclear scope of Law 10,833 and the absence of any judicial guidance in respect thereof, we are unable to predict whether such interpretation will ultimately prevail in the Brazilian courts.

Gains realized by non-Brazilian holders on dispositions of preferred shares in Brazil or in transactions with Brazilian residents may be exempt from Brazilian income tax or taxed at a rate of 15% or 25%, depending on the circumstances. Gains realized through transactions on Brazilian stock exchanges, if carried out in accordance with Resolution CMN 2,689, as described below, are exempt from Brazilian income tax. Gains realized through transactions on Brazilian stock exchanges are otherwise subject to Brazilian income tax at a rate of 15% and also to Brazilian withholding tax at a rate of 0.005% (to offset the Brazilian income tax due on eventual capital gain). Gains realized through transactions with Brazilian residents or through transactions in Brazil not on the Brazilian stock exchanges are subject to tax at a rate of 15%, or 25% if made by investors resident in a tax haven jurisdiction.

Non-Brazilian holders of preferred shares registered under Resolution CMN 2,689 (which pursuant to Resolution 1,297, includes ADSs) and which as of March 31, 2000 superseded the Annex IV Regulations, may be subject to favorable tax treatment if the investor has

- appointed a representative in Brazil with power to take action relating to the investment in preferred shares;
- registered as a foreign investor with the CVM; and
- registered its investment in preferred shares with the Central Bank.

Under Resolution CMN 2,689 securities held by foreign investors must be maintained under the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the CVM. In addition, securities trading is restricted under Resolution CMN 2,689 to transactions on Brazilian stock exchanges or qualified over-the-counter markets. The preferential treatment afforded under Resolution CMN 2,689 and afforded to investors in ADSs is not available to investors resident or domiciled in tax havens.

Thus, holders of ADSs and non-Brazilian holders of preferred shares under Resolution CMN 2,689 will not be subject to Brazilian income tax on gains realized on the sale or other disposition of such ADSs or preferred shares, but, there can be no assurance that the current preferential treatment for holders of ADSs and non-Brazilian holders of preferred shares under Resolution CMN 2,689 will be maintained.

Gain on the disposition of preferred shares is measured by the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost of the shares sold, measured in Brazilian currency, without any correction for inflation. The acquisition cost of shares registered as an investment with the Central Bank is calculated on the basis of the foreign currency amount registered with the Central Bank. See “—D. Exchange Controls” above.

There is a possibility that gains realized by a non-Brazilian holder upon the redemption of preferred shares will be treated as gains from the disposition of such preferred shares to a Brazilian resident occurring off of a stock exchange and will accordingly be subject to tax at a rate of 15% or 25%, if realized by investors resident in a tax haven jurisdiction.

Any exercise of preemptive rights relating to preferred shares or ADSs should not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to preferred shares should be subject to the same tax treatment applicable to a sale or disposition of our preferred shares.

The deposit of preferred shares in exchange for the ADSs may be subject to Brazilian income tax if the amount previously registered with the Central Bank as a foreign investment in our preferred shares is lower than

- the average price per preferred share on the BMF&BOVESPA on the day of the deposit; or
- if no preferred shares were sold on that day, the average price per preferred share on the BMF&BOVESPA during the fifteen preceding trading sessions.

The difference between the amount previously registered and the average price of the preferred shares, calculated as set forth above, will be considered a capital gain subject to income tax. Unless the preferred shares were held in accordance with Resolution CMN 2,689, in which case the exchange would be tax-free, the capital gain will be subject to income tax at the following rates: (i) 15%, for gains realized through transactions on Brazilian stock exchanges; or (ii) 15%, or 25% if realized by investors resident in a tax haven jurisdiction, for gains realized through transactions in Brazil not on the Brazilian stock exchanges.

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The withdrawal of preferred shares in exchange for ADSs is not subject to Brazilian income tax, but is subject to the IOF/Bonds tax as described below. On receipt of the underlying preferred shares, a non-Brazilian holder entitled to benefits under Resolution CMN 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank of Brazil as described above in “—D. Exchange Controls”. If such non-Brazilian holder does not qualify under Resolution CMN 2,689, it will be subject to the less favorable tax treatment described above in respect of exchanges of preferred shares.

Distributions of Interest on Capital

A Brazilian corporation may make payments to its shareholders characterized as interest on the corporation's capital as an alternative form of making dividend distributions. See “Item 8A. Financial Information—Consolidated Statements and Other Financial Information—Dividend Policy.” The rate of interest may not be higher than the TJLP, as determined by the Central Bank from time to time. The total amount distributed as interest on capital may not exceed, for tax purposes, the greater of:

- 50% of net income for the year in respect of which the payment is made, after the deduction of social contribution or net profits and before (1) making any deduction for corporate income taxes paid and (2) taking such distribution into account; or
 - 50% of retained earnings for the year prior to the year in respect of which the payment is made.

Payments of interest on capital are decided by the shareholders on the basis of recommendations by our Board of Directors.

Up to the limit mentioned above, distributions of interest on capital paid to Brazilian and non-Brazilian holders of preferred shares, including payments to the Depository in respect of preferred shares underlying ADSs, are deductible by us for Brazilian tax purposes. Such payments are subject to Brazilian income tax withholding at the rate of 15%, except for payments to beneficiaries who are exempt from tax in Brazil, which are free of Brazilian tax, and except for payments to beneficiaries domiciled in tax havens, which payments are subject to withholding at a 25% rate.

No assurance can be given that our Board of Directors will not recommend that future distributions of profits will be made by means of interest on capital instead of by means of dividends.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of the preferred shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes levied by some States in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant state to individuals or entities that are resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares or ADSs.

Tax on Foreign Exchange and Financial Transactions

Tax on foreign exchange transactions (“IOF/Exchange Tax”)

Brazilian law imposes the IOF/Exchange Tax on the conversion of reais into foreign currency and on the conversion of foreign currency into reais. Effective October 20, 2009, the Brazilian government increased the tax rate related to foreign investments in the Brazilian financial and capital markets from 0 to 2%, including investments made pursuant

to Resolution CMN 2,689. The IOF tax applies upon conversion of foreign currency into Brazilian reais related to equity or debt investments on the Brazilian stock exchanges (such as BMF&BOVESPA) by foreign investors, where our preferred shares are listed) or the over-the-counter market, as well as private investment funds, Brazilian treasury notes and other fixed income securities. The outflow of funds from Brazil related to investments carried out pursuant to Resolution CMN 2,689, including for dividend payments and returns of capital, remains subject to the 0% rate. In any case, the Brazilian Government is permitted to increase the rate at any time up to 25%. However, any increase in rates may only apply to future transactions.

As a result of this increase in the IOF/Exchange Tax, any non-Brazilian holder will be subject to a 2.0% tax upon transferring foreign currency to Brazil to purchase securities, including our preferred shares.

Tax on transactions involving bonds and securities (“IOF/Bonds Tax”)

Brazilian law imposes the IOF/Bonds Tax on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds Tax applicable to transactions involving the cancellation of ADSs in exchange for preferred shares is currently 1.5%. The rate is applied to the product of the number of preferred shares received and the closing price for those shares on the date prior to the transfer, or if such closing price is not available, the last available closing price for such shares. The 1.5% IOF/Bonds tax also applies on the deposit of preferred shares in exchange for ADSs. The Minister of Finance has the legal power to increase the rate to a maximum of 1.5% per day. Any such increase will be applicable only prospectively.

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Material U.S. Federal Income Tax Considerations

The following are the material U.S. federal income tax consequences to a U.S. Holder described below of owning and disposing of preferred shares or ADSs, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold or dispose of such securities. The discussion applies only to a U.S. Holder that holds preferred shares or ADSs as capital assets for tax purposes and it does not describe all tax consequences that may be relevant to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers or traders in securities or foreign currencies who use a mark-to-market of tax accounting;
- persons holding preferred shares or ADSs as part of a hedge, "straddle," integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
 - persons liable for the alternative minimum tax;
- tax-exempt entities, including an "individual retirement account" or Roth IRA;
- persons holding shares in connection with a trade or business conducted outside of the United States;
- persons holding preferred shares or ADSs that own or are deemed to own ten percent or more of our voting stock; or
- persons who acquired our shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds preferred shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships holding preferred shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the preferred shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A "U.S. Holder" is a holder who, for U.S. federal tax purposes, is a beneficial owner of preferred shares or ADSs that is:

- a citizen or individual resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or

- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder that owns ADSs will be treated as the owner of the underlying preferred shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying preferred shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before delivery of shares to the depositary or intermediaries in the chain of ownership between U.S. holders and the issuer of the security underlying the American depositary shares may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Brazilian taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of preferred shares or ADSs in their particular circumstances.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company, as described below.

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Taxation of Distributions

Distributions paid on preferred shares or ADSs, including distributions of interest on capital, will generally be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2011 are taxable at favorable rates, up to a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. U.S. Holders should consult their tax advisers to determine whether a favorable rate will apply to dividends they receive and whether they are subject to any special rules that limit their ability to be taxed at a favorable rate.

The amount of a dividend will include any amounts withheld by the Company in respect of Brazilian taxes on the distribution. The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's or, in the case of ADSs, the Depository's receipt of the dividend. The amount of any dividend income paid in reais will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of its receipt.

Subject to applicable limitations that may vary depending upon a U.S. Holder's circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Brazilian income taxes withheld from dividends on preferred shares or ADSs generally will be creditable against a U.S. Holder's U.S. federal income tax liability. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisers regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, a U.S. Holder may elect to deduct such Brazilian taxes in computing its taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale or Other Disposition of Preferred Shares or ADSs

For U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of preferred shares or ADSs will be capital gain or loss. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the preferred shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes. If a Brazilian tax is withheld on the sale or disposition of preferred shares or ADSs, a U.S. Holder's amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. See "—Brazilian Tax Considerations—Taxation of Gains" for a description of when a disposition may be subject to taxation by Brazil. U.S. Holders should consult their tax advisors as to whether the Brazilian tax on gains may be creditable against the holder's U.S. federal income tax on foreign source income from other sources.

Passive Foreign Investment Company Rules

The Company believes that it was not a “passive foreign investment company” (“PFIC”) for U.S. federal income tax purposes for its 2009 taxable year. However, since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be a PFIC for any taxable year.

If the Company were a PFIC for any taxable year during which a U.S. Holder held preferred shares or ADSs, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the preferred shares or ADSs would be allocated ratably over the U.S. Holder’s holding period for the preferred shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other

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taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the amount allocated to such taxable year. Similar rules would apply to any distribution in respect of preferred shares or ADSs to the extent in excess of 125% of the average of the annual distributions on preferred shares or ADSs received by a U.S. Holder during the preceding three years or such holder's holding period, whichever is shorter. Certain elections (such as a mark-to-market election) may be available that would result in alternative treatment under the PFIC rules. U.S. Holders should consult their tax advisers to determine whether the Company is a PFIC for any given taxable year and the tax consequences to them of holding shares in a PFIC.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

Statements contained in this annual report as to the contents of any contract or other document referred to are not necessarily complete, and each of these statements is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit hereto. Anyone may read and copy this report, including the exhibits hereto, at the Securities and Exchange Commission's public reference room in Washington, D.C. Information on the operation of the public reference room is available by calling 1-800-SEC-0330.

We are subject to the information and periodic reporting requirements of the Exchange Act and, in accordance therewith, will file periodic reports and other information with the SEC. These periodic reports and other information will be available for inspection and copying at the regional offices, public reference facilities of the SEC referred to above. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act prescribing the furnishing and content of proxy statements and periodic reports and from Section 16 of the Exchange Act relating to short swing profits reporting and liability.

We will furnish to JPMorgan Chase N.A., as Depositary, copies of all reports we are required to file with the SEC under the Exchange Act, including our annual reports in English, containing a brief description of our operations and our audited annual consolidated financial statements, which will be prepared in accordance with the Brazilian Corporations Law accounting method and include a reconciliation to U.S. GAAP. In addition, we are required under the Deposit Agreement to furnish the Depositary with copies of English translations to the extent required under the

rules of the SEC of all notices of preferred shareholders' meetings and other reports and communications that are generally made available to holders of preferred shares. Under certain circumstances, the Depositary will arrange for the mailing to all ADR holders, at our expense, of these notices, reports and communications.

I. Subsidiary information.

Not applicable.

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Item 11. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in both foreign currency exchange and interest rates. We are exposed to foreign exchange rate risk mainly because certain costs of ours are denominated in currencies (primarily U.S. dollars) other than those in which we earn revenues (primarily reais). Similarly, we are subject to market risk deriving from changes in interest rates, which may affect the cost of our financing. Prior to 1999, we did not use derivative instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. In 1999 (April 1999 for TND), we began entering into hedging agreements covering payments of principal on our foreign exchange denominated indebtedness. We also have entered into arrangements to hedge market risk deriving from changes in interest rates for some of our debt obligations. We do not hold or issue derivative or other financial instruments for trading purposes.

Interest Rate Risk

On December 31, 2009, our outstanding debt accrued interest at the CDI, TJLP and IPCA totaled R\$4,243 million. On the same date, we had cash and cash equivalents, in the amount of R\$2,413.0 million and R\$146.0 million in short-term instruments accruing interest at the CDI rate.

Over one year period, before accounting for tax expenses, a hypothetical, instantaneous and unfavorable change of 100 basis points in interest rates applicable to our financial assets and liabilities on December 31, 2008 would have resulted in a variation of R\$42.4 million in our interest expenses from financial contracts and a variation of R\$25.3 million in our revenues from financial investments (assuming that this hypothetical 100 basis point movement in interest rates uniformly applied to each “homogenous category” of our financial assets and liabilities and that such movement in interest rates was sustained over the full one-year period). For purposes of this interest rate risk sensitivity analysis, financial assets and liabilities denominated in the same currency (e.g., U.S. dollars) are grouped in separate homogenous categories. This interest rate risk sensitivity analysis may therefore overstate the impact of interest rate fluctuations to us, as unfavorable movements of all interest rates are unlikely to occur consistently among different homogenous categories.

Exchange Rate Risk

As of December 31, 2009, we did not have any outstanding unhedged financial loans denominated in foreign currency and were thus not exposed to exchange rate risk based on our loans. We enter in to hedging agreements to hedge our borrowings denominated in foreign currency and thus have limited our exchange rate exposure regarding such borrowings. Our foreign-exchange hedging agreements protect us from devaluations of the real but expose us to potential losses in the event the foreign currencies decline in value against the real. However, any such decline in the value of foreign currencies would reduce our costs in reais in terms of planned capital expenditures as discussed below.

Our revenues are earned almost entirely in real, and we have no material foreign currency-denominated assets. We acquire our equipment and handsets from global suppliers, the prices of which are primarily denominated in U.S. dollars. Thus, we are exposed to foreign exchange risk arising from our need to make substantial dollar-denominated expenditures, particularly for imported components, equipment and handsets, that we have limited capacity to hedge. Furthermore, depreciation of the real against the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products which may result in the adoption of deflationary government policies.

Item 12. Description of Securities Other than Equity Securities

Description of American Depositary Receipts in Respect of Preferred Shares

Our depositary is JPMorgan with its corporate trust office at which the ADRs will be administered is located at 1 Chase Manhattan Plaza, Floor 58, New York, NY, 10005-1401, United States.

Each ADS represents 10 preferred shares, deposited with the custodian and registered in the name of the depositary.

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Charges of Depositary

The depositary may charge U.S.\$5.00 per 100 ADSs (or portion thereof) from each person to whom ADRs are issued against deposits of preferred shares, including deposits in respect of distributions of additional preferred shares, rights and other distributions, as well as from each person surrendering ADSs for withdrawal.

In addition, the following fees and charges will be incurred by ADR holders, any party depositing or withdrawing preferred shares or any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by TIM Participações or an exchange of stock regarding the ADRs or deposited securities or a distribution of ADRs pursuant to the deposit agreement), whichever is applicable:

Depositary Actions:	Description of Fees Incurred by ADR Holders per Payment:
Depositing or substituting the underlying shares	U.S.\$5.00 per 100 ADSs (or portion thereof)
Selling or exercising rights	U.S.\$5.00 per 100 ADSs for all distributions of securities or the net cash proceeds from the sale thereof
Withdrawal of an underlying security	U.S.\$5.00 per 100 ADSs or portion thereof plus a U.S.\$20.00 fee
Receiving or distributing dividends	U.S.\$0.02 or less per ADS (or portion thereof)
Transferring, splitting, grouping receipts	U.S.\$1.50 per ADR or ADSs for transfers made, to the extent not prohibited by the rules of any stock exchange or interdealer quotation system upon which the ADSs are traded
General depositary services	As necessary, transfer or registration fees, if any, in connection with the deposit or withdrawal of deposited securities
	As necessary, expenses incurred by the depositary in connection with the conversion of reais into U.S. dollars
	As necessary, cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing or delivering preferred shares, ADRs or any deposited securities
	As necessary, any fees and expenses incurred by the depositary in connection with the delivery of deposited securities or otherwise in connection with the

depository's or its custodian's compliance with applicable laws, rules or regulations.

Ongoing Reimbursements by the Depository

JPMorgan as depository, has agreed to reimburse certain reasonable Company's expenses related to the establishment and maintenance of the ADR program. Such reimbursable expenses include legal fees, investor relations servicing, investor related presentations, broker reimbursements, ADR-related advertising and public relations in those jurisdictions in which the ADRs may be listed or otherwise quoted for trading, accountants' fees in relation to this Form 20-F filings with the SEC and other bona fide Program-related third party expenses.

During the year ended December 31, 2009, we received from our depository US\$624,950 as reimbursement of expenses related to annual stock exchange listing fees, standard maintenance costs of ADRs, underwriting and legal fees and investor relations activities. See also "Item 10.E. Additional Information – Taxation."

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. Our disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and are effective in ensuring that information to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). TIM's internal control system was designed to provide reasonable assurance as to the integrity and reliability of the published financial statements. All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance that the objectives of the control system are met.

Management evaluated the internal control over financial reporting under the supervision of our Chief Executive Officer, or CEO and Chief Financial Officer, or CFO as of December 31, 2009. Management evaluated the effectiveness of our internal control over financial reporting based on the criteria set out in the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. TIM's management concluded that as of December 31, 2009, our internal control over financial reporting was adequate and effective, based on those criteria.

Management's evaluation of internal control over financial reporting excluded Intelig, which we acquired on December 30, 2009. Under Brazilian GAAP the acquisition was considered to have taken place on November 30, 2009 and accordingly, our 2009 consolidated income statement includes one month operation of Intelig. The total assets (excluding amounts resulting from the purchase price allocation) and total net revenue subject to Intelig's internal control over financial reporting represent approximately 5.0% and 7.7%, respectively, of our consolidated total assets and consolidated net revenue, respectively, as of and for the year ended December 31, 2009. Management did not assess the effectiveness of internal control over financial reporting of Intelig due to the timing of the acquisition. In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their assessment of internal controls over financial reporting during the first year following the acquisition while in the process of

integrating the acquired operations.

Our independent registered public accounting firm, Ernst Young Auditores Independentes S.S., has issued an attestation report on the effectiveness of our internal controls over financial reporting as of December 31, 2009. The report on the audit of our internal control over financial reporting is included below.

(c) Attestation Report of the Registered Public Accounting Firm

Ernst Young Auditores Independentes S.S., the independent registered public accounting firm that has audited our consolidated financial statements, has issued an attestation report on the effectiveness of our internal controls over financial reporting as of December 31, 2009. The attestation report appears as follows:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
TIM Participações S.A.

We have audited TIM Participações S.A.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TIM Participações S.A.'s management is responsible for maintaining effective internal control over financial reporting and, for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Intelig Telecomunicações Ltda., which is included in the 2009 consolidated financial statements of TIM Participações S.A. and constituted R\$880,734 thousand and R\$500,426 thousand of total and net assets, respectively, as of December 31, 2009, and R\$58,402 thousand and R\$16,701 thousand of net revenues and loss for the year then ended. Our audit of internal control over financial reporting of TIM Participações S.A. also did not include an evaluation of the internal control over financial reporting of Intelig Telecomunicações Ltda.

In our opinion, TIM Participações S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TIM Participações S.A. as of December 31, 2009 and 2008, and related consolidated statements of income, changes in shareholder's equity, cash flows, and value added statement for each of the three years in the period ended December 31, 2009 and our report dated February 12, 2010, except as to Notes 37 and 38, as to which the date is May 14, 2010, expressed an unqualified opinion thereon.

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ERNST & YOUNG
Auditores Independentes S.S.

/s/ Claudio Camargo
Claudio Camargo
Partner

Rio de Janeiro, Brazil

February 12, 2010, except for internal control over financial reporting related to Notes 37 and 38 of the 2009 consolidated financial statements, as to which the date is May 14, 2010.

(d) Changes in Internal Control over Financial Reporting

A number of processes and systems are currently being changed in order to unify the operations of the various entities making up TIM Participações. An action plan is being implemented in order to comply with the best practices within the industry. However, these changes will not significantly affect these controls subsequent to the date of evaluation and do not constitute corrective action with regard to material weaknesses as a result of the evaluation. On December 30, 2009, we completed the acquisition of Intelig. We are in the process of integrating Intelig and will be conducting an evaluation of internal control over financial reporting pursuant to the Sarbanes Oxley Act of 2002. Excluding the Intelig acquisition, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this annual report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our Fiscal Committee, which functions as an audit committee, shall be comprised of three to five permanent members and an equal number of alternates, who may or may not be shareholders, elected by the Shareholders' meeting. This year we have five members, three elected by the majority common shareholders, one by the minority common shareholders and one by the minority preferred shareholders. Our Fiscal Committee has determined that three of its members, Messrs. Miguel Roberto Gherrize, Alfredo Ferreira Marques Filho and Oswaldo Orsolin, independent members of our Fiscal Committee under Brazilian rules, are "audit committee financial experts," as such term is defined by the SEC.

Item 16B. Code of Ethics

We have adopted a Code of Conduct and Transparency that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and persons performing similar functions, as well as to our other directors, officers, controlling shareholders and members of our Fiscal Committee in accordance with CVM rules satisfying the requirements of Brazilian Law. Our code of ethics is filed as an exhibit to this annual report and is available on our website at <http://www.tim.com.br/ri>. The Code of Conduct and Transparency is also available free of charge upon request. Such request may be made by mail, telephone or fax at the address set forth in the second paragraph of "Item 4.A. Information on the Company—History and Development of the Company—Basic Information." The Code of Ethics

was updated on the Board of Directors' Meeting held on September 30, 2008.

Our Code of Conduct and Transparency does not address all of the principles set forth by the Securities and Exchange Commission in Section 406 of the Sarbanes-Oxley Act. However, pursuant to company policy and section 156 of Brazilian Corporations Law No. 6.404 an officer is prohibited from taking part in any corporate transaction in which he has an interest that conflicts with the interests of the company. This disqualification must be disclosed to the board. Moreover, an officer may only contract with the company under reasonable and fair conditions, identical to those that prevail in the market or under which the company would contract with third parties. Any contract entered into or performed in violation of this article is voidable and requires the offending officer to disgorge any benefits he received from such violation.

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In November 2006, a communication channel was created to address “complaints” related to breaking and/or suspicion of breaking the Control Model of the Company. The Control Model is a document based on the Code of Ethics, General Principles of Internal Control and Principles of Behavior with the Public Administration. This channel is accessible via email or letter addressed to the Internal Audit department.

During the same period, a committee formed by the directors of the Internal Auditing, Human Resources and Security was created to analyze reported complaints and take the necessary actions.

Item 16C. Principal Accountant Fees and Services

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent auditors, Ernst & Young Auditores Independentes S.S., during the years ended December 31, 2009 and 2008:

	Year ended December 31,	
	2009	2008
	(in thousands of reais)	
Audit fees	7,137	5,729
Audit-related fees	84	35
Tax fees	-	-
All other fees	-	-
Total fees	7,221	5,764

Audit fees in the above table are the aggregate fees billed by Ernst & Young Auditores Independentes S.S. in connection with the audit of our annual financial statements and limited reviews of our quarterly financial information for statutory purposes and the assessment required under Section 404 of the Sarbanes Oxley Act.

Audit-related fees in the above table are the aggregate fees billed by Ernst & Young Auditores Independentes S.S. for a consolidation reporting package related to the company’s ultimate parent company.

Audit Committee Pre-Approval Policies and Procedures

The general authority to pre-approve the engagement of our independent auditors to render non-audit services is under the purview of our Fiscal Committee. Accordingly, the Fiscal Committee has established pre-approval procedures to control the provision of all audit and non-audit services by our independent auditors (the “Pre-Approval Policy”). Under the Pre-Approval Policy, the engagement of our independent auditors to provide audit and non-audit services must be pre-approved by the Fiscal Committee, either in the form of a special approval or through the inclusion of the services in question in a list adopted by the Fiscal Committee of pre-approved services. The Pre-Approval Policy is detailed as to the particular services to be provided. Additionally, the Pre-Approval Policy affirms that the Fiscal Committee’s responsibilities under the Securities Exchange Act of 1934 are not delegated to management. All non-audit services provided by the Group’s principal auditing firm in 2009 were approved by the audit committee, and all such non-audit services to be provided in the future will also require approval from the audit committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Brazilian Corporations Law requires that we have a statutory Board of Auditors (referred to as our Fiscal Committee or Conselho Fiscal). Our Fiscal Committee meets the requirements of the general exemption set forth in Exchange Act Rule 10A-3(c)(3). See “Item 6A. Directors, Senior Management and Employees—Directors and Senior Management—Fiscal Committee.” Our Fiscal Committee is primarily charged with certain advisory, oversight and review functions with respect to the company’s financial statements, management acts and certain proposals to be submitted to shareholders’ meetings, such as proposals made by management regarding investment plans, capital expenditures budget, dividends distribution and corporate restructuring involving the company. However, the Fiscal Committee, as required by Brazilian Corporations Law, has only an advisory role and does not participate in the management of the company. Indeed, decisions of the Fiscal Committee are not binding on the company under Brazilian Corporations Law. Our Board of Directors, under Brazilian Corporations Law, is the only entity with the legal capacity to appoint and terminate any independent registered public accounting firm.

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Since Brazilian Corporations Law does not specifically grant our Fiscal Committee the power to establish receipt, retention and complaint procedures regarding accounting, internal control and audit matters, or create policies for the confidential, anonymous treatment of employee concerns regarding accounting or auditing matters, we adopted a Fiscal Committee charter at a shareholders' meeting held on May 6, 2004 and revised the charter at the shareholders' meeting held on March 16, 2006 and later at the Fiscal Committee's Meeting held on June 24, 2009, to clarify that the Fiscal Committee has certain powers and duties, which comprise among others the powers herein mentioned, and also further specifies heightened qualification requirements for members of the Fiscal Committee. On May 4, 2006, our Board of Directors approved the submission to the Shareholders' Meeting of a proposal to amend our bylaws. The proposal provides for the incorporation of the above-mentioned powers, duties and qualifications relating to the Fiscal Committee into the bylaws. Said proposal was approved by the Shareholders' meeting held on June 5, 2006.

We do not believe that our use of the Fiscal Committee in accordance with Brazilian Corporations Law, as opposed to the provisions set forth in Exchange Act Rule 10A-3(b), materially adversely affects the ability of the Fiscal Committee to act independently, satisfy the other applicable requirements of Exchange Act Rule 10A-3 or to fulfill its fiduciary and other obligations under Brazilian law. It is presently contemplated that the Fiscal Committee will continue to be independent. However, because the Fiscal Committee's members will continue to be elected and its budget will continue to be set at the general shareholders' meeting, we can make no assurance that the Fiscal Committee or its future members will continue to be independent from our controlling shareholder in the future.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 16F. Change in Registrant's Certifying Accountant

None.

Item 16G. Corporate Governance

Principal Differences Between Brazilian and US. Corporate Governance Practices

The significant differences between our corporate governance practices and those of the New York Stock Exchange are as follows:

Independence of Directors and Independence Tests

Neither our Board of Directors nor our management tests the independence of directors before elections are made. However, both Brazilian Corporations Law and the CVM establish rules for certain qualification requirements and restrictions, investiture, compensation, and duties and responsibilities of the companies' executives and directors. We believe these rules provide adequate assurances that our directors are independent, and they permit us to have directors that would not otherwise pass the independence tests established by the NYSE.

Executive Sessions

According to Brazilian Corporations Law, up to one-third of the members of the Board of Directors can be elected for executive positions. The remaining non management directors are not expressly empowered to serve as a check on management and there is no requirement that those directors meet regularly without management. We currently have only one member of our Board of Directors also taking an executive position: Mr. Luca Luciani.

Committees

Even though we are not required under applicable Brazilian Corporate Law to have special advisory committees of the Board of Directors, we have two such committees: the Internal Control and Corporate Governance Committee and the Compensation Committee, which were implemented on September 30th, 2008. Pursuant to our bylaws our directors are elected by our shareholders at a general shareholders' meeting. Compensation for our directors and executive officers is established by our shareholders.

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Audit Committee and Additional Requirements

Because Brazilian Corporations Law does not specifically grant our Fiscal Committee the power to establish receipt, retention and complaint procedures regarding accounting, internal control and audit matters, or create policies for the confidential, anonymous treatment of employee concerns regarding accounting or auditing matters, we adopted a Fiscal Committee charter at the shareholders' meeting held on May 6, 2004 and revised the charter at the shareholders' meeting held on March 16, 2006 and later at the Fiscal Committee's Meeting held on June 24, 2009, to clarify that the Fiscal Committee has certain powers and duties, which include the powers herein mentioned.

We do not believe that our use of the Fiscal Committee in accordance with Brazilian Corporations Law, as opposed to the provisions set forth in Exchange Act Rule 10A-3(b), materially adversely affects the ability of the Fiscal Committee to act independently, satisfy the other applicable requirements of Exchange Act Rule 10A-3 or fulfill its fiduciary and other obligations under Brazilian law. It is presently contemplated that the Fiscal Committee will continue to be independent. However, because the Fiscal Committee's members will continue to be elected and its budget will continue to be set at the general shareholders' meeting, we can make no assurances that the Fiscal Committee or its future members will continue to be independent from our controlling shareholder in the future.

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PART III

Item 17. Financial Statements

We have responded to Item 18 in lieu of responding to this Item.

Item 18. Financial Statements

See our audited consolidated financial statements beginning at page F-1.

Item 19. Exhibit Index

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EXHIBIT INDEX

Exhibits marked with an asterisk symbol (*) are filed herewith:

- 1.1 By-laws of TIM Participações S.A., as amended (English translation), which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.1 Amendment to Contract for Forwarding of Resources Raised Overseas dated as of August 31, 2009, between Banco Santander Brasil S.A. as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.2 Addendum to bank Credit Bill dated as of August 31, 2005, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.3 Loan Agreement, dated as of October 6, 2009, between BNDES Bank, as lender, and TIM Celular S.A. as borrower and TIM Participações S.A., as intervening party, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.4 Loan Agreement, dated as of October 6, 2009, between BNDES Bank, as lender, and TIM Nordeste S.A. as borrower and TIM Participações S.A., as intervening party, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.5 Confirmation of Swap Operation, dated as of March 9, 2009, between ABN AMRO Real S.A, as contracted party, and TIM Celular S.A., as contracting party, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.6 Renewal of Financing Credit Line dated as of March 14, 2008, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.7 Loan Agreement, dated as of August 31, 2009, between Banco Santander S.A, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.8 Contract for Transfer of Funds, dated as of August 31, 2009, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.9 Contract for Transfer of Funds, dated as of September 9, 2009, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.10 Contract for Transfer of Funds, dated as of September 9, 2009, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.

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- 2.11 Confirmation of Swap Operation, dated as of June 29, 2009, between Unibanco S.A, as contracted party, and TIM Celular S.A., as contracting party, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.12 Confirmation of Swap Operation, dated as of June 29, 2009, between Unibanco S.A, as contracted party, and TIM Celular S.A., as contracting party, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.13 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Banco do Brasil S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.14 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.15 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Banco Itaú BBA S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.16 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Banco Itaú BBA S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.17 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between HSBC Bank Brasil S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.18 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Banco Bradesco S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.19 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Votorantim S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.20 Second Amendment to Bank Credit Bill, dated as of August 31, 2005, between Banco Société Générale Brasil S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 2.21 Loan Agreement, dated as of March 14, 2008, between Banco Votorantim S.A, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.22 Credit Note, dated as of June 6, 2008, between Banco ABN AMRO Real S.A, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.23

Guarantee and Indemnity Agreement, dated as of June 3, 2008, between European Investment Bank, as lender, TIM Celular S.A., as borrower, and TIM Participações S.A. as Guarantor, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

- 2.24 Guarantee and Indemnity Agreement, dated as of June 3, 2008, between European Investment Bank, as lender, TIM Nordeste S.A., as borrower, and TIM Participações S.A. as Guarantor, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

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- 2.25 Finance Contract, dated as of June 3, 2008, between European Investment Bank, as lender, and TIM Nordeste S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.26 Addendum to the Loan Agreement dated as of November 19, 2008, between BNDES Bank, as lender, and TIM Nordeste S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.27 Loan Agreement, dated as of November 19, 2008, between BNDES Bank, as lender, and TIM Nordeste S.A. and TIM Celular S.A., as borrowers, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.28 Addendum to the Credit Agreement dated as of November 19, 2008, between BNDES Bank, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.29 Addendum to Credit Note dated as of August 31, 2005, between Unibanco Bank, as lender, and TIM Participações S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.30 Credit Note, dated as of December 30, 2008, between Unibanco Bank, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.31 Credit Note, dated as of December 30, 2008, between Unibanco Bank, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.32 Derivative Agreement, dated as of December 30, 2008, between Unibanco Bank, as contracted party, and TIM Celular S.A., as contracting party, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.33 Derivative Agreement, dated as of December 30, 2008, between Unibanco Bank, as contracted party, and TIM Celular S.A., as contracting party, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.34 Confirmation of Swap Operation, dated as of July 7, 2008, between ABN AMRO Real S.A, as contracted party, and TIM Celular S.A., as contracting party, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.35 Facility Agreement, dated as of November 28, 2008, between BNP Paribas, as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.36 Amendment to Credit Facility Agreement dated as of August 14, 2008, between ABN Amro Real S.A., BNP Paribas Brasil, 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., and Unibanco S.A. as lenders, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

- 2.37 Credit Note, dated as of March 14, 2008, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.38 Credit Note, dated as of March 14, 2008, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.39 Addendum to Credit Note dated as of August 31, 2005, between Banco Santander S.A., as lender, and TIM Participações S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.40 Addendum to Facility Agreement dated as of September 6, 2008, to contract signed June 14, 2007, between Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

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- 2.41 Second Amendment to the Cooperation and Support Agreement, dated as of April 22, 2009, between Telecom Itália s.p.a and TIM Celular S.A, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 2.42 Deposit Agreement, dated as of June 24, 2002, among Tele Celular Sul Participações S.A., JPMorgan Chase Bank, as Depositary, and holders of American Depositary Receipts issued thereunder, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.1 Credit Agreement dated as of September 22, 2000, between TIM Nordeste Telecomunicações (then Telpel Celular), as borrower, and the European Investment Bank, as lender, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.2 Guarantee and Indemnity Agreement dated as of September 22, 2000, between European Investment Bank and Tele Nordeste Celular Participações S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.3 Indemnification Agreement dated as of September 22, 2000, between Banque Sudameris, as Guarantor, and Tele Nordeste Celular Participações S.A., as Indemnifier, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.4 Counter Indemnity Agreement dated as of September 22, 2000, between Banque Sudameris, as Guarantor, and TIM Nordeste Telecomunicações (then Telpel Celular), as Borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.5 Credit Agreement dated as of June 28, 2004, by and between Banco do Nordeste do Brasil S.A., as lender, and TIM Nordeste, as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.6 Guarantee Agreement dated as of June 24, 2004 among Banco Bradesco S.A., TIM Nordeste Telecomunicações and Tele Nordeste Celular Participações S.A. (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2005.
- 4.7 Management Assistance Agreement, dated as of October 1, 2000, between Tele Nordeste Celular Participações S.A. and Telecom Italia Mobile S.p.A., which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on July 2, 2001.
- 4.8 Standard Concession Agreement for Mobile Cellular Service (Portuguese version), which is incorporated by reference to our registration statement filed on Form 20-F with the Securities and Exchange Commission on September 18, 1998.
- 4.9 Standard Concession Agreement for Mobile Cellular Service (English translation), which is incorporated by reference to our registration statement filed on Form 20-F with the Securities and Exchange Commission on September 18, 1998.
- 4.10 Authorization Agreement for Mobile Cellular Service for Telepar Celular (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 18, 2003.

- 4.11 Authorization Agreement for Mobile Cellular Service for CTMR Celular (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 18, 2003.
- 4.12 Authorization Agreement for Mobile Cellular Service for Telesc Celular (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 18, 2003.

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- 4.13 Authorization Agreement for Mobile Cellular Service for Telpa Celular (English translation), which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on June 16, 2003.
- 4.14 Authorization Agreement for Mobile Cellular Service for Teleceara Celular (English translation), which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on June 16, 2003.
- 4.15 Authorization Agreement for Mobile Cellular Service for Telasa Celular (English translation), which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on June 16, 2003.
- 4.16 Authorization Agreement for Mobile Cellular Service for Telpa Celular (English translation), which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on June 16, 2003.
- 4.17 Authorization Agreement for Mobile Cellular Service for Telern Celular (English translation), which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on June 16, 2003.
- 4.18 Authorization Agreement for Mobile Cellular Service for Telepisa Celular (English translation), which is incorporated by reference to the annual report of Tele Nordeste Celular Participações S.A. filed on Form 20-F with the Securities and Exchange Commission on June 16, 2003.
- 4.19 Interconnection Network Agreement relating to Local Services dated as of June 1, 2003 between TIM Sul and Brasil Telecom (English translation), which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 19, 2004.
- 4.20 Credit Agreement, dated as of June 28, 2004, among TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.21 Credit Agreement, dated as of April 29, 2005, among TIM Nordeste, as borrower, and Banco do Nordeste do Brasil S.A., as lender, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.22 Credit Agreement, dated as of November 28, 2000, among BNDES, a syndicate of banks, Maxitel S.A., as borrower, and TIM Brasil Participações, as guarantor, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.23 Credit Agreement, dated as of June 28, 2004, among Maxitel S.A., as borrower, and Banco do Nordeste do Brasil S.A., as lender, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.24 Credit Agreement, dated as of August 10, 2005, among BNDES, as lender, TIM Celular, as borrower, and TIM Brasil, as guarantor, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.25

Credit Agreement, dated as of October 14, 2005, among BNDES, as lender, and TIM Celular, as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.

4.26 Credit Agreement, dated as of August 26, 2005, among a syndicate of banks, TIM Celular, as borrower, and TIM Brasil, as guarantor, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.

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- 4.27 Credit Agreement, dated as of January 7, 2002, among Banco BBA Creditanstalt S.A., as lender, and TIM Rio Norte, as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.28 On Lending of Funds from BNDES Credit Agreement, dated as of November 22, 2000, between BNDES, as lender, and Maxitel S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.29 Credit Agreement, dated as of November 28, 2000, between BNDES, as lender, and Maxitel S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 22, 2007.
- 4.30 Authorization agreement for TIM Celular S.A. dated May 25, 2007 pursuant to which TIM is authorized to provide land line switched telephone services (STFC) in regions I, II and III, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 3, 2008.
- 4.31 Credit Agreement, dated as of June 14, 2007, among Banco Santander Banespa S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 3, 2008.
- 4.32 Credit Agreement, dated as of December 6, 2007, among Banco Santander S.A., as lender, and TIM Celular S.A., as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 3, 2008.
- 4.33 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.34 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.35 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.36 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.37 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.38 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.39

Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

4.40 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Nordeste S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

4.41 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Celular S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

4.42 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Celular S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

4.43 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Celular S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

4.44 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Celular S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.

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- 4.45 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Celular S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.46 Term of Authorization for Use of Radiofrequencies, dated as of April 29, 2008, between ANATEL (the National Telecommunications Agency) and TIM Celular S.A., which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 26, 2009.
- 4.47 Term of Authorization for Use of Radiofrequencies, dated as of November 30, 2005, between ANATEL (the National Telecommunications Agency) and Intelig Telecomunicações Ltda, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 4.48 Term of Authorization for Use of Radiofrequencies, dated as of May 5, 2006, between ANATEL (the National Telecommunications Agency) and Intelig Telecomunicações Ltda, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 4.49 Term of Authorization for Use of Radiofrequencies, dated as of April 2, 2007, between ANATEL (the National Telecommunications Agency) and Intelig Telecomunicações Ltda, which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 4.50 Foreign Onlending Agreement, dated February 24, 2006, between Banco ABN AMRO Real S.A., as lender, and TIM Celular, as borrower, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on May 16, 2006.
- 4.51 Credit Facility Agreement, dated February 16, 2006, between Santander Brasil S.A., as lender, and TIM Celular, as borrower, which is incorporated by reference to our annual report filed on Form 20-F with Securities and Exchange Commission on May 16, 2006.
- 6.1 Statement regarding computation of per share earnings, which is incorporated by reference to note 4.t to our consolidated financial statements included in this annual report.
- 8.1 List of Subsidiaries, which is incorporated by reference to our annual report filed on Form 20-F with the Securities and Exchange Commission on June 22, 2006.
- 11.1 Code of Ethics (English translation), which is incorporated by reference to TIM Celular S.A.'s annual report filed on Form 20-F with the Securities and Exchange Commission on June 30, 2010.
- 12.1* Section 302 Certification of the Chief Executive Officer.
- 12.2* Section 302 Certification of the Chief Financial Officer.
- 13.1* Section 906 Certification of the Chief Executive Officer and Chief Financial Officer.

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Technical Glossary

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this annual report.

Analog: A mode of transmission or switching which is not digital, e.g., the representation of voice, video or other modulated electrical audio signals which are not in digital form.

ARPU (Average Revenue Per User): A measure used in the mobile telecommunications industry to evaluate the revenue generated by customers.

Broadband services: Services characterized by a transmission speed of 2Mbit/s or more. According to international standards, these services are interactive services, including video telephone/videoconferencing (both point to point and multipoint).

Channel: One of a number of discrete frequency ranges utilized by a radio base station.

Digital: A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

EDGE (Enhanced Data rates for Global Evolution): A technology that provides enhanced functionality and facilitates the use of advanced technology over mobile devices.

GSM (Global System Mobile): A standard of digital mobile telecommunications technology.

Interconnection charge: Amount paid per minute charged by network operators for the use of their network by other network operators. Also known as an “access charge.”

Mobile service: A mobile telecommunications service provided by means of a network of interconnected low powered radio base stations, each of which covers one small geographic cell within the total mobile telecommunications system service area.

Network: An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fiber optic or metallic cable or point-to-point connections.

Penetration: The measurement of the take-up of services. At any date, the penetration is calculated by dividing the number of customers by the population to which the service is available and multiplying the quotient by 100.

Roaming: A function that enables customers to use their mobile telephone on networks of service providers other than the one with which they signed their initial contract.

Switch: These are used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.

TDMA (Time Division Multiple Access): A standard of digital mobile telecommunications technology.

Value-Added Services: Value-added services provide additional functionality to the basic transmission services offered by a telecommunications network.

WAP (Wireless Application Protocol): A specification for a set of telecommunications protocols to standardize the way that wireless devices, such as mobile telephones and radio receivers, can be used to access the internet.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this amendment to the annual report on its behalf.

TIM PARTICIPAÇÕES S.A.

By:	/s/ Claudio Zezza
Name:	Claudio Zezza
Title:	Chief Financial Officer

Dated: February 22, 2011

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Consolidated Financial Statements

TIM Participações S.A and
subsidiaries

Years ended December 31, 2007, 2008 and 2009

with Report of Independent Registered Public
Accounting Firm

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2008 and 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
TIM Participações S.A.

We have audited the accompanying consolidated balance sheets of TIM Participações S.A. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, cash flows and value added for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TIM Participações S.A. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations, their cash flows and their value added for each of the three years in the period ended December 31, 2009 in conformity with accounting principles adopted in Brazil, which differ in certain respects from accounting principles generally accepted in the United States of America (See Notes 37 and 38 to the consolidated financial statements)(Amended).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of TIM Participações S.A.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2010, except for internal control over financial reporting related to Notes 37 and 38 to the 2009 consolidated financial statements, as to which the date is May 14, 2010, expressed an unqualified opinion thereon.

Rio de Janeiro, Brazil, February 12, 2010, except for Notes 37 and 38, as to which the date is May 14, 2010, and 37(i), as to which the date is February 16, 2011.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ

/s/ Claudio Camargo
Claudio Camargo
Partner

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2009

(In thousands of Reais)

ASSETS	Notes	2008	2009
Current assets			
Cash and cash equivalents	5	1,531,543	2,413,032
Short-term investments	6	23,048	146,145
Accounts receivable, net	7	2,635,355	2,480,143
Inventories	8	548,514	406,434
Recoverable taxes	9	603,353	906,153
Deferred income and social contribution taxes	10	49,451	32,709
Prepaid expenses	11	155,825	238,270
Operations with derivatives	32	260,925	49,237
Other assets		26,839	94,398
Total current assets		5,834,853	6,766,521
Noncurrent assets			
Long-term investments		9,911	16,567
Accounts Receivable	7	-	41,269
Recoverable taxes	9	226,975	221,738
Deferred income and social contribution taxes	10	110,763	196,886
Judicial deposits	19	143,924	227,521
Prepaid expenses	11	13,693	9,847
Operations with derivatives	32	126,648	29,027
Other noncurrent assets		7,268	11,863
Permanent assets			
Property, plant and equipment, net	12	4,799,092	5,323,174
Intangibles, net	13	4,966,341	4,605,321
Total assets		16,239,468	17,449,734

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2009

(In thousands of Reais)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2008	2009
Current liabilities			
Accounts payable and accrued expenses	14	3,328,714	3,099,983
Loans and financing	15	1,431,219	1,347,463
Accrued interest		51,486	69,900
Operations with derivatives	32	52,448	48,122
Salaries and related charges	16	106,991	106,811
Taxes, charges and contributions	17	601,778	724,105
Dividends and interest on shareholders' equity payable		193,365	224,652
Other current liabilities	18	113,639	115,853
Total current liabilities		5,879,640	5,736,889
Noncurrent liabilities			
Loans and financing	15	2,066,514	2,742,595
Operations with derivatives	32	10,814	113,200
Taxes, Rates and Contributions	17	-	29,141
Provision for contingencies	19	253,370	208,167
Pension plan	33	6,425	7,527
Asset retirement obligations	20	211,802	237,094
Other noncurrent liabilities	18	20,447	52,406
Shareholders' equity			
Capital	21	7,613,610	8,149,096
Capital reserves		34,330	15,569
Income reserves		142,516	158,050
Total shareholders' equity		7,790,456	8,322,715
Total liabilities and shareholders' equity		16,239,468	17,449,734

See accompanying notes to consolidated financial statements.

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TIM PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2007, 2008 and 2009

(In thousands of Brazilian Reais, except for earnings per share, expressed in Reais)

	Notes	2007 As adjusted (note 3-d)	2008 As adjusted (note 3-d)	2009
Gross revenues				
Telecommunications services	22	15,420,284	16,554,531	16,395,036
Sale of goods	22	1,838,102	1,766,400	1,761,626
		17,258,386	18,320,931	18,156,662
Deductions from gross revenues				
Deductions from gross revenues	22	(4,774,606)	(5,173,756)	(5,050,727)
Net operating revenues	22	12,483,780	13,147,175	13,105,935
Cost of services rendered				
Cost of services rendered	23	(5,297,428)	(5,658,009)	(5,393,356)
Cost of goods sold	23	(1,434,430)	(1,405,788)	(1,329,826)
Gross profit		5,751,921	6,083,378	6,382,753
Operating expenses:				
Selling	24	(3,890,925)	(4,098,389)	(4,449,972)
General and administrative	25	(1,032,793)	(1,127,426)	(1,070,536)
Other operating expenses, net	26	(311,565)	(366,690)	(385,220)
		(5,235,282)	(5,592,505)	(5,905,728)
Income before financial results		516,638	490,873	477,025
Financial income (expenses):				
Financial income	27	104,123	173,313	137,336
Financial expenses	28	(378,638)	(445,564)	(340,681)
Foreign exchange variation, net	29	(6,984)	(102,724)	(53,271)
		(281,499)	(374,975)	(256,616)
Operating income		235,139	115,898	220,409
Income and social contribution tax benefit (expense)	30	(166,837)	64,254	(5,516)
Net income for the year		68,302	180,152	214,893
Earnings per share		0.03	0.08	0.09

See accompanying notes to consolidated financial statements.

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2007, 2008 and 2009

(In thousands of Brazilian Reais)

	Capital	Capital reserves Special goodwill reserve	Income reserves Reserve for future capital increase	Legal reserve	Expansion reserve	Retained earnings	Total
Balances at December 31, 2006	7,512,710	135,230	-	98,741	163,664	-	7,910,345
Dividends and interest on shareholder's equity directly allocated in the Company's shareholder's equity and subsidiaries (note 21-d)	-	-	-	-	5,145	-	5,145
Capital increase with transfer of reserve	37,815	(37,815)	-	-	-	-	-
Net income for the year	-	-	-	-	-	68,302	68,302
Reduction in reserves for expansion	-	-	-	-	(7,793)	7,793	-
Allocation of net income for the year:							
Legal reserve	-	-	-	3,805	-	(3,805)	-
Dividends proposed	-	-	-	-	-	(72,290)	(72,290)
Dividends proposed with use of expansion reserve	-	-	-	-	(139,697)	-	(139,697)
Balances at December 31, 2007	7,550,525	97,415	-	102,546	21,319	-	7,771,805
Dividends and interest on shareholder's equity directly allocated in the Company's shareholder's equity and subsidiaries (note 21-d)	-	-	-	-	9,643	-	9,643
Capital increase with transfer of reserve	63,085	(63,085)	-	-	-	-	-
Net income for the year	-	-	-	-	-	180,152	180,152
Allocation of net income for the year:							
Legal reserve	-	-	-	9,008	-	(9,008)	-
Dividends proposed	-	-	-	-	-	(171,144)	(171,144)

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Balances at December 31, 2008	7,613,610	34,330	-	111,554	30,962	-	7,790,456
Dividends and interest on shareholder's equity directly allocated in the Company's shareholder's equity and subsidiaries (note 21-d)	-	-	-	-	4,790	-	4,790
Capital increase with transfer of reserve	18,761	(18,761)	-	-	-	-	-
Capital increase through the merger of Holdco (note 2-b)	516,725	-	-	-	-	-	516,725
Net income for the year	-	-	-	-	-	214,893	214,893
Allocation of net income for the year:							
Legal reserve	-	-	-	10,744	-	(10,744)	-
Dividends proposed	-	-	-	-	-	(204,149)	(204,149)
Balances at December 31, 2009	8,149,096	15,569	-	122,298	35,752	-	8,322,715

See accompanying notes to consolidated financial statements.

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais)

	Years ended December 31,		
	2007	2008	2009
Operating activities			
Net income for the year	68,302	180,152	214,893
Adjustments to reconcile net income to cash:			
Depreciation and amortization	2,323,674	2,408,545	2,582,807
Deferred income tax and social contribution	62,060	(130,785)	(69,381)
Actuarial liability	1,294	(952)	1,102
Loss on disposal of property, plant and equipment	24,705	3,046	17,651
Monetary variation on asset retirement obligations, judicial deposits and contingencies	53,365	17,858	541
Accrued interest and foreign exchange variation of loans	232,676	343,042	340,689
Accrued interest and foreign exchange variation of authorizations	1,491	50,887	-
Interest on short-term investments	(24,516)	(96,341)	(70,210)
Allowance for doubtful accounts	714,571	748,833	421,893
Changes in operating assets and liabilities:			
Trade accounts receivables	(1,222,439)	(354,258)	(146,849)
Inventories	(114,018)	(270,388)	142,080
Recoverable taxes	(151,191)	(100,915)	(272,952)
Prepaid expenses	(13,629)	78,376	(77,578)
Other current and noncurrent assets	(38,335)	(27,523)	(71,784)
Salaries and social charges	18,060	(3,562)	(12,377)
Accounts payable	298,357	275,071	(564,055)
Taxes payable	200,081	31,432	113,359
Provision for contingencies	26,373	29,923	(54,363)
Other current and noncurrent liabilities	42,738	(2,095)	6,066
Net cash provided by operating activities	2,503,619	3,180,346	2,501,532
Investing activities			
Short-term investments	566,185	122,624	(59,426)
Property, plant and equipment and software license acquisitions	(1,799,643)	(2,119,373)	(1,268,505)
Proceeds from sale of property, plant and equipment	11,093	5,538	1,964
Authorization payments	(11,517)	(1,324,672)	(685,041)
Net cash used in investing activities	(1,233,882)	(3,315,883)	(2,011,008)

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais)

	Years ended December 31,		
	2007	2008	2009
Financing activities			
New loans	1,162,235	1,315,261	1,849,807
Loan and financing payments	(1,466,836)	(557,946)	(1,290,770)
Dividends and interest on shareholders' equity paid	(440,291)	(207,645)	(168,072)
Net cash provided (used in) by financing activities	(744,892)	549,670	390,965
Increase (decrease) in cash and cash equivalents	524,845	414,133	881,489
Cash and cash equivalents at beginning of the year	592,565	1,117,410	1,531,543
Cash and cash equivalents at end of the year	1,117,410	1,531,543	2,413,032
Supplementary disclosure of cash flow information:			
Interest paid	240,260	297,730	254,420
Income and social contribution taxes paid	55,723	79,333	54,308
Accounts payable related to capital expenditures	1,044,175	951,841	1,159,668
Capitalized interest	11,347	2,647	2,145
Shares issued for the acquisition of Holdco/Intelig	-	-	516,725

See accompanying notes to consolidated financial statements.

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TIM PARTICIPAÇÕES S.A.

CONSOLIDATED STATEMENTS OF VALUE-ADDED

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais)

	2007	2008	2009
	As adjusted	As adjusted	
	(note 3-d)	(note 3-d)	
Revenues			
Gross operating revenue	17,258,386	18,320,931	18,156,662
Allowance for doubtful accounts	(714,571)	(748,833)	(421,893)
Discounts given, returns and other	(1,192,598)	(1,179,947)	(1,020,036)
	15,351,217	16,392,151	16,714,733
Input acquired from third parties			
Cost of services rendered and goods sold	(5,159,299)	(5,475,372)	(5,040,952)
Materials, energy, third parties' services and other	(2,420,040)	(2,549,864)	(3,101,085)
	(7,579,339)	(8,025,236)	(8,142,037)
Withholding			
Depreciation and amortization	(2,323,674)	(2,408,545)	(2,582,807)
Net value-added produced	5,448,204	5,958,370	5,989,889
Value-added received through reclassification			
Financial revenues	321,597	1,164,662	834,126
	321,597	1,164,662	834,126
Total value-added to be distributed	5,769,801	7,123,032	6,824,015
Value-added distribution			
Personnel and related charges	530,513	548,007	478,223
Taxes, rates and contributions	4,429,492	4,646,630	4,804,781
Interest and rentals	741,496	1,748,243	1,326,118
Dividends	72,290	171,144	204,149
Income (losses) withheld	(3,990)	9,008	10,744
	5,769,801	7,123,032	6,824,015

See accompanying notes to consolidated financial statements.

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais, unless otherwise stated)

1. **Operations**
 TIM Participações S.A. (“TIM Participações” or the “Company”), is a publicly-held company controlled by TIM Brasil Serviços e Participações S.A. (“TIM Brasil”), an indirect subsidiary of Telecom Italia S.p.A (“Telecom Italia”). At December 31, 2009, TIM Brasil holds interests of 77.14% (81.32% in 2008) of the Company’s voting capital and 66.27% (69.85% in 2008) of the Company’s total capital.

The Company’s main operations comprise the control of companies exploring telecommunications services, especially personal mobile and fixed telephony in its authorization areas under the TIM tradename, which is owned by Telecom Italia.

The Company owns the entire capital stock of TIM Celular S.A. (“TIM Celular”) and of Intelig Telecomunicações Ltda. (“Intelig”). TIM Celular and Intelig provide local, national long-distance and international long-distance Fixed Switched Telephone Services (STFC) in all of the Brazilian states. Additionally, TIM Celular also provides Multimedia Communication Services (SCM) and Personal Mobile Services in all of the Brazilian states.

The services provided by the subsidiaries are regulated by ANATEL – Brazilian Telecommunications Agency – in charge of regulating all Brazilian telecommunications. The exploration of the Personal Mobile Service (“PCS”) and the Commuted Fixed Telephone Service (“STFC”) is for an indefinite period.

The authorization for use of radio-frequency granted to TIM Celular mature as follows:

Terms of authorization	Matured Date	
	Radiofrequencies 800MHz, 900 MHz and 1.800 MHz	Radiofrequencies 3G
1. States of Amapá, Roraima, Pará, Amazonas, Maranhão, Rio de Janeiro and Espírito Santo	March 2016	April 2023
2. States of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Distrito Federal, Goiás, Rio Grande do Sul (except for Pelotas and respective regions) and Londrina and Tamarana municipalities in Paraná State	March 2016	April 2023
3. State of São Paulo	March 2016	April 2023
4. State of Paraná (except for Londrina and Tamarana in Paraná municipalities)	September 2022	April 2023
5. State of Santa Catarina	September 2023	April 2023
6. Pelotas and the respective region in the State of Rio Grande do Sul	April 2024	April 2023
7. State of Pernambuco	May 2024	April 2023
8. State of Ceará	November 2023	April 2023
9. State of Paraíba	December 2023	April 2023
10. State of Rio Grande do Norte	December 2023	April 2023

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11. State of Alagoas	December 2023	April 2023
12. State of Piauí	March 2024	April 2023
13. State of Minas Gerais (except for the “Triângulo Mineiro”(*) municipalities for Radio-frequencies 3G)	April 2013	April 2023
14. State of Bahia and Sergipe	August 2012	April 2023

(*) The Far Western region of the state of Minas Gerais.

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais, unless otherwise stated)

Renewal of authorizations

The radio-frequency licensing authorizations for the 800 MHz, 900 MHz and 1800 MHz bands referring to the SMP service provision, began to expire in September 2007 (under the Term of Authorization for the State of Paraná except for Londrina and Tamarana municipalities) and are renewable for an additional 15-year period, requiring payment, at every two-year period, of the equivalent to 2% (two percent) of the prior year's revenue net of taxes, by way of investment under the Basic and Alternative Service Plans. The first payment, in the amount of R\$9,723, was paid on May 4, 2009.

The renewal of five (5) radio-frequency licensing authorizations which matured in 2008 were formalized through the following acts: Act 7.383 - state of Alagoas; Act 7.385 – state of Ceará; Act 7.386 – state of Paraíba ; and Act 7.390 – state of Rio Grande do Norte. Also, the renewal of three (3) radio frequency licensing authorizations which matured in 2009 were formalized through the following acts: Act 7.388 – state of Pernambuco; and Act 7.389 – state of Piauí, all published in the DOU (Official Gazette) of 11/28/2008. The Act 5.520 referring to renewal of authorization in the State of Santa Catarina was published in the Official Gazette of 09/22/2008. The renewal of radio-frequency licensing authorization referring the SMP service provision for Pelotas, Morro Redondo, Capão do Leão and Turuçu, all in Rio Grande do Sul municipalities, were formalized by the Act 1.848 published in the DOU of 04/13/2009.

Although the economic situation in Brazil has remained stable in recent years, an increase of inflation levels and currency fluctuations could adversely affect the Company's operations. The foreign exchange volatility of the Real (R\$) in relation to the US Dollar affects the Company's consolidated financial statements. The exchange rate of the Brazilian Real to the U.S. Dollar was R\$1.7713:US\$1.00, R\$2.3370:US\$1.00 and R\$1.7412: US\$1.00 at December 31, 2007, 2008 and 2009, respectively. At December 31, 2008 and 2009, the U.S. dollar-denominated loans represented 8.81% and 23.34% of the Company's total consolidated debt.

2. Corporate Reorganization

a. Merger of TIM Nordeste S.A. into TIM Celular

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

The purpose of this reorganization process was to move forward with the optimization of the companies' organization structure, further consolidating and rationalizing their businesses and operations, by cutting costs associated with having different legal entities and leveraging synergies among the companies, including tax and financial efficiencies.

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais, unless otherwise stated)

b. Acquisition of Holdco/Intelig

At a meeting held by the Board of Directors on April 16, 2009, the Company executed a Merger Agreement for the purpose of dealing with the acquisition of Holdco Participações Ltda. (“Holdco”) and its wholly subsidiary Intelig Telecomunicações Ltda. (“Intelig”). This acquisition should involve the merger, into the Company, of Holdco, which would in turn hold 100% of the capital stock of Intelig upon conclusion of the merger process.

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

On December 30, 2009, the Extraordinary General Meeting held by the shareholders of TIM Participações approved the actual merger of Holdco into TIM Participações. As a result of this operation, on December 30, 2009, the Company issued 127,288,023 shares (43,356,672 commons shares and 83,931,352 preferred shares) for the book value of R\$516,725, to JVCO Participações Ltda. (“JVCO”), prior controlling quotaholder of Holdco.

This operation was recorded at book value (R\$516,725) under Holdco’s net equity as of November 30, 2009, on which date the Company started to consolidate the figures of HOLDCO and its subsidiary Intelig.

Accordingly, TIM Participações has become the controlling shareholder of Intelig, which holds some authorizations to provide landline telecommunication services under a private system throughout the Brazilian national territory, with operations primarily in the local, national and international long distance calls and data transmission services. The net equity of Intelig as of November 30, 2009, on which date the Company became its controlling shareholder, was R\$517,128.

Holdco’s assets acquired and liabilities assumed by the Company as of November 30, 2009 are summarized below:

Assets		Liabilities and Net Equity	
Noncurrent assets	517,128	Current liabilities	403
		Net equity	516,725
		Total Liabilities and Net	
Total Assets	517,128	Equity	517,128

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The merger of Holdco has a strategic and operational significance to the Company, considering that its main purpose is to strengthen and supplement service offerings, in addition to optimizing available resources through synergy gains between their operations, as they have supplementary networks. Intelig has a strong metropolitan network of optical fibers in the largest Brazilian cities, plus its own extensive long-distance network infra-structure (Backbone). The combined own infrastructure will consolidate the company's competitive positioning, especially in the corporate segment and data transmission offerings, and will reduce media lease costs and promote the 3G network development.

3. Preparation and Presentation of the Financial Statements

a)Basis of presentation

The consolidated financial statements have been presented in Brazilian currency ("Real" or "R\$") prepared in accordance with accounting practices adopted in Brazil ("Brazilian GAAP"). These accounting practices are based on the Brazilian Corporate Law (Law No. 6,404/76, as amended), the rules and regulations issued by the Brazilian Securities Commission ("Comissão de Valores Mobiliários" or "CVM"), the provisions introduced by Law 11,638 of December 28, 2007 and Law 11,941 of December 3, 2008, rules issued by the Brazilian Accounting and Standards Board ("Comitê de Pronunciamentos Contábeis" or "CPC"), and standards applicable to public telecommunications service concessionaires/authorized companies.

The Company is a listed company, with American Depositary Receipts traded on the New York Stock Exchange – USA. Consequently, the Company is subject to the rules of the Security and Exchange Commission ("SEC") for foreign private issuers ("FPIs") and is also required to include in its consolidated financial statements specific disclosures relating to the reconciliation between shareholders' equity and net income prepared in accordance with Brazilian GAAP and shareholders' equity and net income prepared under accounting principles generally accepted in the United States of America ("US GAAP"). For more details, see notes 37 and 38.

The level of disclosure in the consolidated financial statements was adjusted and expanded and certain reclassifications were made to comply with US GAAP.

Assets and liabilities are classified as current when their realization or settlement is estimated to occur within twelve months after the balance sheet date. Otherwise, they are shown as non-current.

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b. Recent accounting pronouncements

In line with the process of converging Brazilian and international accounting standards, the Brazilian FASB (Comitê de Pronunciamentos Contábeis - CPC) issued and the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM) approved several accounting pronouncements throughout 2009 vis-à-vis the International Reporting Financial Standards (IFRS) issued by the IASB – International Accounting Standards Board. These pronouncements become effective as of year 2010, with retrospective application to 2009 for comparison purposes. As a result of management's initial assessment, the following accounting pronouncements, interpretations and technical guidance may have an impact, which is still being assessed, on its financial statements:

- Pronouncement CPC 15 – Business Combination, as approved by CVM Rule No. 580. Throughout 2010, the Company's management will be monitoring all the impacts arising from the business combination following the acquisition of Intelig. At this point, it is not possible to estimate the impacts on the financial statements for years 2010 and 2009, if any.

- Pronouncement CPC 20 – Financing Costs, as approved by CVM Rule No. 577. The Company's management does not believe that this pronouncement will produce significant impacts on the financial statements, given that the Company has been adopting this procedure, as mentioned in Note 19.

- Pronouncement CPC 26 – Presentation of Financial Statements, as approved by CVM Rule No. 595. The Company's management believes that adopting this pronouncement does not change financial statement balances but only some items relating to the financial statement presentation. The most significant change should involve the preparation of the statement of income and other comprehensive income.

- Pronouncement CPC 27 – Property, Plant and Equipment, as approved by CVM Rule No. 583, and Technical Interpretation ICPC 10, as approved by CVM Rule No. 619 on December 22, 2009. The Company's management will review the estimated useful life of its assets in 2010, but does not expect significant impacts on the financial statements, considering that the useful life is generally adopted by the telecommunications industry.

- Pronouncement CPC 30 – Revenue, as approved by CVM Rule No. 597. The Company's management believes that the only significant impact on the financial statements will be the presentation of net revenues.

- Pronouncement CPC 38 – Financial Instruments: Recognition and Measurement, CPC 39 – Financial Instruments: Presentation and CPC 40 – Financial Instruments: Disclosure, as approved by CVM Rule No. 604. The Company's management does not expect significant impacts on the financial statements, given that most aspects of these pronouncements have been adopted by the Company, as described in Note 35.

- Technical Interpretation ICPC 08, as approved by CVM Rule No. 601 on October 7, 2009, which addresses the accounting for proposed dividend distribution. The effect of applying this ICPC will be the recognition of the minimum compulsory dividends, as shown in Note 24.

- Technical Interpretation ICPC 09, as approved by CVM Rule No. 618 on December 22, 2009, for the purpose of clarifying issues regarding the adoption of Technical Pronouncements CPC 15, 18, 19, 35 and 36, which address the preparation of individual, consolidated and separate financial statements and the adoption of the equity method of accounting, especially when preparing consolidated financial statements.

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c. Consolidated Financial Information

The consolidated quarterly information includes assets, liabilities and the consolidated results of operations of the Company and its subsidiaries TIM Celular and Intelig, respectively, as follows:

	2009		% Participation 2008		2007	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
TIM Celular	100.00	-	100.00	-	100.00	-
TIM Nordeste	-	-	-	100.00	-	100.00
Intelig	100.00	-	-	-	-	-

The financial information of subsidiaries included in consolidation coincide with those of the parent company and the accounting policies were consistently applied by the consolidated companies in relation to the previous period.

The main consolidation procedures are as follows:

- I. Elimination of asset and liability accounts among the consolidated companies;
- II. Elimination of the participation in capital, reserves and retained earnings of the subsidiaries;
- III. Elimination of revenues and expenses generated by transactions among the consolidated companies;

d. Comparability of the financial statements

The Company and its subsidiaries aim to continuously improve the presentation of the financial statements while maintaining compliance with generally accepted accounting principles. The adoption of new accounting principles and the application of preferred account classifications, according to the accounting practices adopted in Brazil, resulted in the adjustment of income from “penalties for breach of fidelity contract charged from customer”, previously classified as other operating income, which were reclassified to gross operating revenue. The gross amounts reclassified were R\$68,718 in 2008 and R\$43,733 in 2007. The statement of value added for the same year is also being restated to reflect this adjustment.

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STATEMENT OF INCOME	Consolidated 2008		
	As reported		As adjusted
Gross operating revenue			
Telecommunication services (Note 22)	16,485,813	68,718	16,554,531
Sale of goods (Note 22)	1,766,400	-	1,766,400
	18,252,213	68,718	18,320,931
Deductions from gross revenues (Note 22)	(5,171,248)	(2,508)	(5,173,756)
Net operating revenue	13,080,965	66,210	13,147,175
Gross profit	6,017,168	66,210	6,083,378
Operating income (expenses)			
Other operating income (expenses), net (Note 26)	(300,480)	(66,210)	(366,690)
Net income for the year	180,152	-	180,152

STATEMENT OF INCOME	Consolidated 2007		
	As reported		As adjusted
Gross operating revenue			
Telecommunication services (Note 22)	15,376,550	43,733	15,420,284
Sale of goods (Note 22)	1,838,102	-	1,838,102
	17,214,653	43,733	17,258,386
Deductions from gross revenues (Note 22)	(4,773,010)	(1,596)	(4,774,606)
Net operating revenue	12,441,642	42,137	12,483,780
Gross profit	5,709,784	42,137	5,751,921
Operating income (expenses)			
Other operating income (expenses), net (Note 26)	(269,428)	(42,137)	(311,565)
Net income for the year	68,302	-	68,302

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4. Summary of Accounting Practices

a) Cash and cash equivalents

The Company considers all highly liquid investments with maturities of three months or less at the balance sheet date as cash and cash equivalents.

b) Short-term investments

Short-term investments have maturities greater than three months at the balance sheet date and are recorded at the fair value, as current assets, as of the balance sheet date. The balance of short-term investments is composed by Bank Deposit Certificates (CDB) issued by first tier banks, subject to an average rate of 100.35% of the Interbank Deposit Certificate (CDI) rate (average rate of 103.6% at December 31, 2008).

c) Financial instruments

The financial instruments are only recognized as from the date the Company and its subsidiaries become part of the financial instruments contracts. After being contracted they are initially recorded at fair value plus the transaction costs directly attributable to acquisition, except for the case of financial assets and liabilities classified as financial assets at fair value through profit and loss, in which such transaction costs are classified into the "Income for the Year". Subsequently they are measured at each balance sheet date, in accordance with the rules applying to each classification of financial assets and liabilities.

c.1) Financial assets: the main financial assets recognized by the Company and its subsidiaries are: cash and cash equivalents; short-term investments in the Money market; unrealized gains on derivative operations and trade receivables. These assets are classified under the following categories, according to the purpose for which they were acquired or issued:

- (i) Financial assets at fair value through profit and loss: in this category are financial assets held for trading and those initially assigned the fair value under "Income". If their original purpose is sale or repurchase in the short term, they are classified as items held for trading. Derivative instruments are also classified as held for trading. At each balance sheet date they are measured at fair value. The interest, monetary restatement, exchange variation and variations arising from determination at fair value are recognized as income, as incurred, on the financial revenue and expense line.
- (ii) Loans and receivables: these are non-derivative instruments with fixed or determinable payments, though not quoted in an active market. After the initial recognition, they are measured at the amortized cost, using the effective yield method. The interest rate, monetary restatement and exchange variation less, where applicable, losses on the recoverable value, are recognized as income, as incurred, on the financial revenue and expense line.

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(iii) Investments held to maturity date: these are financial, non-derivative assets with fixed or determinable payments and defined maturity for which the Company has a positive intention and ability to hold until the maturity date. After the initial recognition, they are measured at the amortized cost, using the effective yield method. The interest rate, monetary restatement and exchange variation less, where applicable, losses on the recoverable value, are recognized as income, as incurred, on the financial revenue and expense line.

c.2) Financial liabilities: the main financial liabilities recognized by the Company and its subsidiaries are: trade payables, unrealized losses on derivative operations and loans and financing. They are classified under the following categories, according to the nature of the contracted financial instruments:

(i) Financial liabilities at fair value through profit and loss: these include financial liabilities usually traded before maturity, liabilities recorded, upon the initial recognition, at fair value through the profit and loss and derivative instruments. At each balance sheet date they are measured at fair value. The interest rate, monetary restatement, exchange variation and variations arising from determination at fair value, where applicable, are recognized as income, as incurred, on the financial revenue and expense line.

(ii) Financial liabilities not measured at fair value: these are financial, non-derivative liabilities which are not usually traded before the maturity date. After the initial recognition they are measured at the amortized cost, using the effective yield method. The interest rate, monetary restatement, exchange variation and variations arising from determination at fair value, where applicable, are recognized as income, as incurred, on the financial revenue and expense line.

d) Accounts receivable

Accounts receivable from mobile telephone subscribers and interconnection are calculated at the tariff rate on the date the services were rendered. Accounts receivable also include services provided to customers up to the balance sheet date but not yet invoiced and receivables from sales of handsets and accessories.

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e) Allowance for doubtful accounts

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

f) Inventories

Inventories are stated at the average acquisition cost. A provision is recognized to adjust the cost of handsets and accessories to net realizable value.

g) Prepaid expenses

Prepaid expenses are stated at the amounts actually spent but not yet incurred.

The subsidy on the sale of handsets and connect cards to postpaid subscribers are deferred and amortized over the minimum term of the service contract signed by subscribers (over a period of 12 and 18 months, respectively in 2007, and 12 months as from 2008). The penalties contractually established for those subscribers who cancel their subscription or migrate to prepaid plans before the end of the term of the contract are higher than the subsidy incurred on the sale of handsets and connect cards.

h) Property, plant and equipment

Property, plant and equipment is stated at acquisition and/or construction cost, less accumulated depreciation calculated based on the straight-line method at rates that take into consideration the estimated useful lives of the assets. Repair and maintenance costs which extend the useful lives of the related assets are capitalized, while other routine costs are charged to the results of operations.

Interest computed on debts that are directly linked to the finance of the construction of property, plant and equipment, is capitalized until the related assets become operational and depreciated based on the useful lives of related assets.

Estimated costs to be incurred on dismantling cellular towers and equipment on leased property are capitalized and depreciated based on the useful lives of the related assets.

The Company's management reviews property, plant and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable on the basis of undiscounted future cash flows. The reviews are carried out at the lowest level of asset groups to which management is able to attribute identifiable future cash flows. The Company analyzes the net book value of the

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underlying assets and adjusts it if the sum of the expected future cash flows is less than the net book value. These reviews have not indicated the need to recognize any impairment losses during the years ended December 31, 2007, 2008 and 2009.

The estimates of useful lives of property, plant and equipment are regularly reviewed in order to reflect technological changes.

i) Intangible assets

Intangibles assets reflect: (i) the purchase of authorizations and radio frequencies stated at acquisition cost; (ii) goodwill and (iii) software in use and/or under development.

Amortization expense is calculated on the straight-line method over the useful life of assets, as follows: five years for radio frequency bands and software; and fifteen years for authorizations. The goodwill was amortized through 2008 according to its useful life estimated in ten years, and has not been amortized in 2009.

The estimates of useful lives of intangible are regularly reviewed in order to reflect technological changes.

TIM Celular's goodwill was recorded based on the expected future profitability. It is periodically reviewed concerning its profitability.

j) Income and social contribution tax

The provision for income tax and social contribution is calculated in accordance with pertinent legislation in force at the balance sheet date. Income tax is calculated at 15% on taxable income, plus 10% surtax on portions exceeding R\$240 in a 12-month period. Social contribution is calculated at 9% on taxable income recognized on the accrual basis. Income tax is calculated based on the taxable income for the period, as determined by current legislation. Social contribution is calculated based on prevailing tax rates, considering pretax income.

Deferred taxes are recognized on temporary differences and income and social contribution tax losses, when applicable, and are recorded as current and noncurrent according to the expected realization supported by projected future taxable income which is reviewed every year and properly approved by Company's management. Only 30% of tax loss carriedforward can be used to offset taxable income in any given year.

Prepaid amounts or those which can be offset are shown as current or non-current assets, depending on the expectative of its realization.

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TIM Nordeste, merged into TIM Celular, through Certificates (“Laudos Constitutivos”) No. 0144/2003 and No. 0232/2003, issued on March 31, 2003 by the Agency for Development of the Northeast Region of Brazil - ADENE, became eligible to the following tax incentives: (i) 75% reduction in income tax and non-refundable surtaxes, for 10 (ten) years, from 2002 to 2011, calculated on profit from tax incentive activities (“lucro da exploração”) resulting from implementation of their installed capacity to render digital mobile telephony services; and (ii) reduction by 37.5%, 25% and 12.5% in income tax and refundable surtaxes, for fiscal years 2003, 2004 to 2008 and 2009 to 2013, respectively, calculated on profit from tax incentive activities resulting from the installed capacity for rendering analogical mobile telephony services. The Company monthly calculates and registers its income tax payables and ADENE incentive gross, making the payments net. The ADENE benefit is recorded in the year it is granted as a reduction of the income tax expense.

k) Provision for contingencies

The provision for contingencies is recorded based on estimates which take into consideration the opinion of the Company and its subsidiaries’ management and of their legal advisors, and is recorded based on the probable losses at the end of the claims. Possible risk losses are disclosed and remote risk losses are not disclosed.

l) Asset retirement obligations

The Company records as asset retirement obligations the present value of the estimated costs to be incurred for dismantling and removing cellular towers and equipment from leased sites. The offset to this provision is recorded as property, plant and equipment, and the depreciation is calculated based on the useful lives of the corresponding assets.

m) Revenue recognition

Revenues are recorded by the Company only if their realization is probable. Wireless services revenue primarily includes monthly recurring charges (subscriptions), airtime (usage of telephone), roaming charges and long distance calls. Wireless services revenue is recognized based upon minutes of use processed, net of credits and adjustments for services discounts. Billings are recorded monthly and the revenues not billed between the billings date and the end of the month are identified and processed and recognized in the month the service was rendered. Revenues from prepaid services are recognized when the services are rendered to customers. Revenue and related expenses associated with the sale of wireless handsets and accessories are recognized when the products are delivered and accepted by the customer or distributors. For sales of handsets and modems where subsidies are granted to postpaid subscribers, such subsidies are expensed on straight-line basis over a period of 12 and 18 months, respectively in 2007 and 12 months as from 2008.

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n) Advertising costs

The Company expenses advertising costs as incurred. Advertising expenses are recorded as selling expenses. The advertising expenses are R\$308,790, R\$293,097 and R\$513,943, for the years ended December 31, 2007, December 31, 2008 and for December 31, 2009, respectively.

o) Pension plans and other post-employment benefits

The Company and its subsidiaries record the adjustments related to the obligations of the employees' pension plan, based on the Projected Credit Unit method, in conformity with the rules established by IBRACON NPC 26, approved by CVM Deliberation No. 371.

p) Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange prevailing as of the transaction date. Foreign currency denominated assets and liabilities are translated into Real using the exchange rate of the balance sheet date, which is reported by the Central Bank of Brazil. Exchange gains and losses are recognized in the statement of operations as they occur.

q) 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 Board of Directors. The related amounts are recorded as personnel expenses and allocated to the statements of operations' accounts considering each employee's cost center.

r) Net income (loss) per shares

These amounts are calculated based on the number of outstanding shares at the balance sheet date.

s) Use of estimates

Estimates are used for measuring and recognizing certain assets and liabilities reflected in the financial statements of the Company. In making these estimates, past and current experiences, assumptions underlying future events, and other objective and subjective factors were taken into account. Among the significant items subject to estimates are: the determination of useful lives of fixed and intangible assets; the allowance for doubtful accounts; the provision for losses on inventories; an analysis of fixed and intangible assets recovery amounts; deferred income tax and social contribution; rates and deadlines considered for adjusting certain assets and liabilities to present value; the provision for actuarial liabilities; the provision for contingencies; quantification of the fair value of

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financial instruments; considerations concerning recognition and measurement of development costs capitalized as intangible assets; estimates for disclosure of a sensitivity analysis of derivative instruments according to CVM Instruction 475/08. Due to the inaccuracies inherent in their determination, when settled, the transactions involving estimates may result in rather different amounts from those reflected in the financial statements.

t) Adjustment to present value

The Company and its subsidiaries, in accordance with the law 11.638/07, recognize present value adjustments for long-term assets and liabilities. The present value effects are also recorded for short-term balances if these effects are significant, comparing to the Company's working capital and considering the financial statements as a whole. The discount to present value is based on the basic interest rate prevailing in the Brazilian market (commonly Interbank Deposit Certificate - CDI).

u) Statements of value-added

The value-added statements are intended to demonstrate how much value has been created by the Company through the utilization of its capacity, capital, and other resources, and how it is allocated among different stakeholders in an accounting period. Such statements were prepared and presented in accordance with CVM Deliberation 557 of November 12, 2008, which approved the accounting pronouncement CPC 09 – Value-Added Statement, issued by the CPC.

5. Cash and cash equivalents

	2008	2009
Cash and Banks	272,918	350,234
Marketable securities:		
CDB (bank deposit certificates)	1,258,625	2,062,798
	1,531,543	2,413,032

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6.	Short-term investments	2008	2009
	CDB	32,650	162,292
	Federal Public Securities	309	340
	Investment fund in shares	-	80
		32,959	162,712
	Current portion	(23,048)	(146,145)
	Noncurrent portion	9,911	16,567

The company's average rate on TIM Participações' consolidated investments is 100.35 % of the CDI – Interbank Deposit Certificate at December 31, 2009 (average rate of 103.6% at December 31, 2008).

These investments are redeemable at any time, with no significant loss on recorded yield, except in the case of long-term investments earmarked for use in connection with legal suits. The noncurrent portion has usage restriction conditioned to the payment of the loan with Morgan Stanley (see note 15).

7.	Accounts receivable	2008	2009
	Services billed	831,762	948,066
	Unbilled services	560,513	560,080
	Interconnection	867,426	915,393
	Sale of handsets	708,176	738,821
	Other accounts receivable	29,581	39,513
		2,997,458	3,201,873
	Allowance for doubtful accounts	(362,103)	(680,461)
		2,635,355	2,521,412
	Current portion	(2,635,355)	(2,480,143)
	Noncurrent portion	-	41,269

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The changes in the allowance for doubtful accounts were as follows:

	2007	2008	2009
Beginning balance	309,431	455,939	362,103
Effects of mergers (note 2-a)	-	-	378,408
Provision charged to selling expense	595,931	748,833	421,893
Write-offs	(449,423)	(842,669)	(481,943)
Ending balance	455,939	362,103	680,461

In the third quarter of 2007, during the implementation of a new credit and collection controls management system, it came to management's attention that certain amounts recorded as accounts receivable from sales of handsets in installments were not being invoiced in the monthly bills to customers during 2007 and the previous two fiscal years. This resulted in a write-off of accounts receivable from sales of handsets in the amount of R\$173,310, of which, R\$118,640 was recorded as selling expenses and R\$54,670 as a reduction of sales of goods. During December 2007 the Company resumed to invoice installments from sale of handsets in the customers monthly bills.

8. Inventories

	2008	2009
Cellular handsets and connect cards	517,436	370,426
Accessories and prepaid cards	24,393	23,347
TIM "chips"	27,859	21,875
	569,688	415,648
Provision for adjustment to realizable value	(21,174)	(9,214)
	548,514	406,434

9. Recoverable taxes

	2008	2009
Corporate Income Tax	70,746	131,805
Social Contribution on net income	29,845	38,932
ICMS - Value-Added Tax on Sales and Services	470,766	642,272
PIS - Employees Profit Participation Program and COFINS - Tax for Social Security		
Financial	223,886	293,633
Recoverable income taxes withheld	27,810	14,822
Other	7,275	6,427
	830,328	1,127,891
Current	(603,353)	(906,153)

Noncurrent

226,975

221,738

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The noncurrent portion refers mainly to ICMS tax credits on the acquisition of fixed assets.

The Company and TIM Celular have filed suits against the alleged unconstitutionality, of Law 9.718/98 for expanding the basis of calculation of taxes dealt with therein, and preventing collection of PIS and COFINS on other revenues than those arising from the Company's sales. However, as they have not had a final favorable sentence, no PIS and COFINS credits have been recorded. According to the Management, there is the probability of a favorable outcome to these companies. The amounts involved are respectively R\$ 18,258 and R\$ 42,425, monetarily adjusted.

10. Deferred income and social contribution taxes

The deferred income and social contribution taxes are comprised as follows:

	2008	2009
Tax losses	1,649,882	1,719,136
Social contribution (CSLL) negative basis	593,924	619,081
Allowance for doubtful accounts	123,115	231,931
Operations with derivatives	(110,266)	28,240
Provision for contingencies	86,146	70,777
Accelerated depreciation – TDMA technology	30,921	17,522
Present value adjustment – 3G licenses	29,130	26,602
Goodwill	4,546	4,546
Others	33,840	11,947
	2,441,238	2,729,782
Less: Valuation allowance	(2,281,024)	(2,500,187)
	160,214	229,595
Current portion	(49,451)	(32,709)
Noncurrent portion	110,763	196,886

According to CVM Instruction 371/02, relying on the expectation of future taxable income generation, as foreseen by a technical study approved by the Management and review by fiscal council, TIM Celular recognized tax credits on tax losses, negative social contribution basis and temporary differences to which no statutes of limitation apply.

Based on this technical study of future taxable income generation, TIM Celular expects to recover these credits as follows:

2010	32,709
2011	66,962
2012	129,924
	229,595

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The estimates of tax credit recoveries were based on projections of taxable income, which in turn relied on financial and business forecasts made at the end of 2009. Given the uncertainties usually surrounding forecasts, these estimates may not be realized in the future.

Accumulated tax losses and negative bases

The consolidated tax losses and negative social contribution bases give rise to tax credits which are recognized only if their prospects of realization are consistent and they are not barred by statutes of limitation. These tax credits can be summarized as follows:

	2007		2008		2009	
	Basis	Tax Credit	Basis	Tax Credit	Basis	Tax Credit
Tax loss	5,967,348	1,491,837	6,599,526	1,649,882	6,876,545	1,719,136
Negative basis	5,967,081	537,037	6,599,155	593,924	6,878,679	619,081
Temporary differences	941,565	320,132	580,683	197,432	1,151,660	391,565
	12,875,994	2,349,006	13,779,364	2,441,238	14,906,884	2,729,782

11. Prepaid expenses

	2008	2009
Subsidy on sales of handsets (1)	134,865	213,580
Lease	14,069	10,641
Advertising expenses	1,907	9,540
Financial charges	4,461	2,419
Other	14,216	11,937
	169,518	248,117
Current	(155,825)	(238,270)
Noncurrent	13,693	9,847

(1) The Company grants immediate discounts on the sale of handsets to postpaid subscribers, who enter into a legally enforceable contract with exit penalties and minimum monthly charges for a predetermined period. The amount granted to postpaid consumers is deferred and amortized over the term of the enforceable contracts. 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.

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The Company capitalized interest is as follows:

	2007	2008	2009
Capitalized interest	11,347	2,647	2,145

Operating technologies

The subsidiaries operate their service network using TDMA, GSM and 3G technologies. At December 31, 2009, no provision for loss on recovery of property, plant and equipment was deemed necessary. The assets related to TDMA technology are fully depreciated.

13. Intangibles

	Annual depreciation rate %	2008		
		Cost	Accumulated depreciation	Net
PCS authorizations and radiofrequencies	7 to 20	4,491,097	(1,849,921)	2,641,176
Software licenses	20	4,831,979	(2,744,240)	2,087,739
Deferred charges	10	423,351	(274,322)	149,029
Construction in progress	-	84,554	-	84,554
Goodwill on acquisition of additional shares in TIM Celular	10	16,918	(13,371)	3,547
Other	20	3,040	(2,744)	296
Total assets		9,850,939	(4,884,598)	4,966,341

	Annual depreciation rate %	2009		
		Cost	Accumulated depreciation	Net
PCS authorizations and radiofrequencies	7 to 20	4,542,242	(2,201,405)	2,340,837
Software licenses	20	6,092,277	(4,052,226)	2,040,051
Exploration usage rights	5	172,118	(78,939)	93,179
Deferred charges	10	423,351	(312,372)	110,979
Construction in progress	-	16,508	-	16,508
Goodwill on acquisition of additional shares in TIM Celular	10	16,918	(13,371)	3,547
Other	20	3,076	(2,856)	220
Total assets		11,266,490	(6,661,169)	4,605,321

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Acquisition of authorizations – 3G technology

In April 2008 TIM Celular and TIM Nordeste, merged into TIM Celular, jointly signed the terms of authorizations to use Radio-frequencies at the F, G, and I (1.9GHz/2.1GHz) radio-frequency sub-bands referring to the 3G (UMTS) pattern and corresponding to all the Brazilian states, except the “Triângulo Mineiro” municipalities in the state of Minas Gerais. In April 2008, the terms of authorization to use the 3G Radio-frequencies in the amount of R\$1,324,672 were signed, of which 10% was paid at that time, the remainder – R\$1,192,204 - was paid in a lump sum by December 10, 2008. The balance payable and the corresponding intangibles during 2008 were recognized at their present value: R\$1,106,527. The discount to present value was based on basic interest rates prevailing in the Brazilian market, taking into consideration based on maturity period of each operation. These authorizations are valid for 15 years and renewable for a further equal period.

14. Accounts payable and accrued expenses

	2008	2009
Local currency		
Suppliers of materials and services	2,654,599	2,593,278
Interconnection charges (a)	306,225	220,518
Roaming charges (b)	846	274
Co-billing charges (c)	177,008	118,684
	3,138,678	2,932,754
Foreign currency		
Suppliers of materials and services	131,610	100,690
Roaming charges (b)	58,426	66,539
	190,036	167,229
	3,328,714	3,099,983

(a) Refers to use of the network of other fixed and mobile 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); and

(c) This refers to calls made by customers when they choose another long-distance call operator – CSP (“co-billing”).

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15.	Loans and financing	Consolidated	
		2008	2009
	Guarantees		
Local currency			
Banco do Nordeste: financing subject to fixed interest of 10% p.a., with a 15% to 25% bonus for principal payments made on or before the maturity date. This financing is the subject matter of a swap operation intended as a hedge, which changes its cost into % of the CDI daily rate beginning with 76.90%.	Bank surety	58,249	67,000
Banco do Nordeste: financing subject to fixed interest of 10% p.a. with a 15% to 25% bonus for principal payments made on or before the maturity date. This financing is the subject matter of a swap operation intended as a hedge, which changes the cost into % of the CDI daily rate varying between 75.75% and 69.80%.	Bank surety and TIM Participações's surety	73,286	55,732
Banco do Nordeste: financing subject to fixed interest of 10% p.a. with a 15% to 25% bonus for principal payments made on or before the maturity date.	Bank surety and TIM Participações's surety	44,611	41,607
BNDES (Banco Nacional do Desenvolvimento Econômico e Social): this financing bears interest at 4.20% p.a. plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank. Part of this TJLP-based financing (42% at December 31, 2009) was the object of a swap for 91.43% of the Bank Deposit Certificate (CDI) daily rate.	TIM Participações's surety, with part of the service revenues being attached to the loan balance	1,015,491	798,844
BNDES (Banco Nacional do Desenvolvimento Econômico e Social): this financing bears interest at 2.20% p.a. plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank.	TIM Participações's surety, with part of the service revenues being attached to the loan balance	270,014	643,010
BNDES (Banco Nacional do Desenvolvimento Econômico e Social): this financing bears interest at 3.0% p.a. plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank. Part of this TJLP-based financing was the object of a swap to 81.80% of the daily CDI rate.	Bank surety	35,755	23,163
	TIM Participações's surety	-	400,000

BNDES (Banco Nacional do Desenvolvimento Econômico e Social): this financing bears interest at 4.82% p.a. plus variation of the TJLP (long-term interest rate) as disclosed by the Brazilian Central Bank			
Syndicated Loan: the balance is restated based on the CDI rate variation plus a 0.90% and 1.80% of the CDI p.a. In the case of an applicable rate of 0.90% of the CDI, it is established in accordance with the Consolidated Net Debt/ Consolidated EBITDA ratio, calculated based on quarterly information on the Company.	TIM Participações's surety	600,000	568,750
Compror: Bank financing for payment of suppliers of goods and services, linked to foreign currency variations: 33% of the agreements denominated in US dollars and 67% of the agreements denominated in Yen. These agreements are the object of swap operations which result in cost of some 115.98% of the CDI daily rate.	N.A.	1,200,327	502,045
BEI: The foreign currency Bank financing, was 100% protected by the foreign currency exposure though the swap which cost 96.46% of the daily CDI rate.	Bank surety and TIM Participações's surety	-	421,214
CCB – Working Capital: Bank financing in local currency for meeting working capital requirements. At the restated cost at 110% of the CDI daily rate	N.A.	200,000	200,000
Banco Morgan Stanley: Bank financing for USD 68,000,000.00 due to the purchase of Intelig. This financing bears interest at 4.5% p.a. plus Libor.	TIM Nordeste's surety, merged into TIM Celular	-	118,402

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Banco BNP Paribas: The foreign currency bank financing was 80% guaranteed by the insurance "SACE S.A." This financing bears interest at 2.53% p.a. plus Libor.. The Bank loan was 100% protected for the foreign currency exposure which was the object for the swap to 95.01% of the daily CDI rate.	TIM Participações's surety	-	250,291
		3,497,733	4,090,058
Current portion		(1,431,219)	(1,347,463)
Noncurrent portion		2,066,514	2,742,595

The syndicated loan obtained by subsidiary TIM Celular includes restrictive covenants subject to compliance with certain financial ratios calculated on a half-yearly basis. As of December 31, 2009, the Company was in compliance with all restrictive clauses. The following financial institutions are part of this loan agreement: HSBC Bank Brasil S.A. – Banco Múltiplo, 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. and Banco Votorantim S.A. In August 2008, TIM Celular negotiated and replaced the guarantee provided by TIM Brasil Serviços with a guarantee provided by TIM Participações and postponed the maturity of Tranche "A", in the amount of R\$300,000, to August 2010. Tranche "B", in the amount of R\$268,750, which is part of the operation, also matures in August 2010.

The CCB (Bank Credit Schedules) loan also has the same restrictive clauses as the Syndicated Loan, all of which have been complied with by TIM Celular. This loan has been obtained from ABN AMRO Real S.A, now renamed Banco Santander Brasil S.A., in local currency for meeting working capital requirements.

The BNDES loans for financing the mobile telephone network have restrictive clauses concerning certain financial indices, calculated on a half-yearly basis. As of December 31, 2009, TIM Celular was in compliance with the contractual provisions.

The loan obtained by the subsidiary Intelig of USD68,000,000 with Morgan Stanley Senior Fund, matured on January 4th, 2010.

The long-term portions of loans and financing at December 31, 2009 mature as follows:

2011	859,213
2012	568,791
2013	310,034
2014	160,050
2015 onwards	844,507
	2,742,595

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16. Salaries and related charges payable

	2008	2009
Salaries and fees	21	-
Social charges	26,235	29,433
Labor provisions	70,389	70,299
Employee retention	10,346	7,079
	106,991	106,811

17. Taxes, Charges and Contributions

	2008	2009
Corporate Income Tax and Social Contribution on net income	67,263	102,875
ICMS - Value-Added Tax on Sales and Services	400,766	466,310
COFINS - Tax for Social Security Financial	46,043	74,287
PIS – Employees Profit Participation Program	9,976	14,329
ANATEL (*)	23,560	32,700
Renewal of authorizations	12,746	12,130
IRRF - Withholding tax	3,753	7,572
ISS - Tax for services	28,615	30,548
Other	9,056	12,495
	601,778	753,246
Current portion	(601,778)	(724,105)
Noncurrent portion	-	29,141

(*) Refers to (i) FISTEL - Fund for Telecommunications Inspection, (ii) FUST - Telecommunications Services' Universalization Fund, and (iii) FUNTTEL - Fund for the Technological Development of Telecommunications.

18. Other Liabilities

	2008	2009
Prepaid services to be provided	103,769	134,053
Consolidation of shares	20,447	20,366
Other rights	9,870	13,840
	134,086	168,259
Current portion	(113,639)	(115,853)
Noncurrent portion	20,447	52,406

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19. Provision for contingencies

The Company and its subsidiaries are party to certain legal proceedings (labor, tax, regulatory and civil) arising in the ordinary course of their business, and have recorded provisions when management believes it can reasonably estimate probable losses, based on the opinion of their legal advisors.

	Contingencies		Judicial Deposits	
	2008	2009	2008	2009
Civil	97,988	87,301	34,869	97,826
Labor	55,170	40,643	50,462	68,586
Tax	76,762	56,251	58,593	61,109
Regulatory	23,450	23,972	-	-
	253,370	208,167	143,924	227,521

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

	2008	Balance of acquired company	Additions, net of reversals	Payments	Monetary adjustment	2009
Civil	97,988	2,718	72,956	(84,130)	(2,231)	87,301
Labor	55,170	873	(10,434)	(3,713)	(1,253)	40,643
Tax	76,762	13,582	(10,732)	(10,982)	(12,379)	56,251
Regulatory	23,450	5,553	(2,854)	(1,782)	(395)	23,972
	253,370	22,726	48,936	(100,607)	(16,258)	208,167

Civil contingencies

Several legal and administrative processes have been filed against the Company by consumers, suppliers, service providers and consumer protection agencies, dealing with various issues arising in the regular course of business. Management analyzes 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 61,141 individual lawsuits (2008 – 55,523) have been filed against the subsidiaries, mostly by consumers claiming for settlement of matters arising from their relationship with the Company. These lawsuits include the allegedly undue collection, contract cancellation, defects of equipment, non-compliance with delivery deadlines and undue restriction credit.

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Collective actions

There are two collective actions against subsidiaries involving the risk of probable loss, which can be summarized as follows: (i) a suit against TIM Nordeste, merged into TIM Celular, in the state of Bahia claiming for prohibition of collection of long-distance calls originated and received between Petrolina/PE and Juazeiro/BA, because of the existing state line areas; and (ii) a suit against TIM Celular in the state of Rio de Janeiro, involving the impossibility of collecting a contractual fine in the event of phone set thefts. No provisions have been recorded for these contingencies, given the obligations involved therein and the impossibility of accurately quantifying possible losses at the current stage of the processes. The Management has not set up provisions for the above described processes.

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

Of the 4,422 labor suits filed against the Company and its subsidiaries (2008 – 2,950) over 65% involve claims related to service providers, concentrated on certain companies from São Paulo, Belo Horizonte, Rio de Janeiro, Curitiba and Recife. Part of these relate to specific projects of service agreement review, often ended in rescission in 2006, winding up of the companies and termination of employees involved.

Tax Contingencies

IR (income tax) and CSLL (social contribution on net income)

In 2005, the subsidiary TIM Nordeste was assessed R\$126,933 by the Belo Horizonte Federal Revenue Service (SRF) authorities related to (i) taxation on monetary variations arising from swap transactions and exchange variations on unsettled loans, (ii) collection of a one-time fine for nonpayment of social contribution tax on net profit on a monthly estimated basis, for 2002 and part of 2001, (iii) nonpayment of corporate income tax on a monthly estimated basis for 2002, and (iv) remittance of interests abroad, subject to withholding income tax. The subsidiary is currently discussing these assessments with the tax authorities and, based on the opinion of both internal and external legal advisors, management concluded that probable losses to be incurred in these proceedings amount to R\$32,750. Such amount is related to contingencies for income tax and social contribution. If such amount had been paid at the time it was incurred, it would have been recorded as income and social contribution tax expense. Therefore, during 2006, the subsidiary recorded the provision as income and social contribution tax expense.

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In September 2009, TIM Nordeste opted to join the REFIS program, which allows legal entities to pay federal tax debts in installments free of interest and penalties. TIM Nordeste decided to partially join the REFIS program, having paid R\$4,884 in the form of exclusions from net income before CSLL and foreign exchange variance. The amount accrued as “Provision for income and social contribution taxes” relating to CSLL was R\$8,547, and the amount of R\$3,663, which refers to the difference between the amount accrued and the amount actually paid, was reversed by the subsidiary.

The subsidiary still disputes these assessments with the tax authorities, in a total R\$128,455, R\$24,203 of which is accrued.

In September 2003, the subsidiary TIM Nordeste received an assessment in the state of Ceará at the amount of R\$12,721, related to: (i) disallowance of expenses used to calculate the income tax for the periods from 1999 to 2001, amounting to R\$8,402; (ii) differences in the payments of social contribution for the periods from 1998 to 2001, amounting to R\$3,208; and (iii) differences in the payments of PIS and COFINS for the periods from 1998 to 2002, amounting to R\$334 and R\$777, respectively. The Company did not succeed in its defense at the administrative level. As a consequence, based on the opinion of both internal and external legal counsel losses were deemed probable, and, a provision for contingency of the R\$12,721 was recognized. In September 2009, the subsidiary opted to join REFIS program, paying R\$3,213, and the difference of R\$9,508 between the amount which had been accrued and the amount actually paid was reversed in favor of the subsidiary (R\$705 was recorded under the heading “Reversal of the provision for contingencies” and R\$8,803 under the heading “Provision for income tax and social contribution”).

In 2008, TIM Participações was served a notice of delinquency issued by the Finance Office of the State of Rio de Janeiro, amounting to R\$3,227, on the grounds of an alleged failure to validate the offsetting and use of the negative balance of IRPJ for calendar year 2003. Based on the opinion of its internal and external legal advisors, the Company management concluded that the chances of loss were probable. In September 2009, the Company became a member of REFIS, paying R\$1,702, and the difference of R\$1,525 between the amount which had been accrued and the amount actually paid was reversed in favor of the Company, being recorded under the heading “Provision for income tax and social contribution”.

In 2006, TIM Celular was served a notice of delinquency issued by the Finance Office of the State of Rio de Janeiro, amounting to R\$825, on the grounds of an alleged failure to validate the offsetting and use of the negative balance of IRPJ and CSLL for calendar year 1998 against COFINS, IRPJ and CSLL debts. Based on the opinion of its internal and external legal advisors, the Company management concluded that the changes of loss were probable. In September 2009, the subsidiary became a member of REFIS, paying R\$340, and the difference of R\$485 between the amount which had been accrued and the amount actually paid was reversed in favor of the Company, being recorded under the heading “Provision for income tax and social contribution”.

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Subsidiary Intelig filed a writ of mandamus seeking recognition of withholding income tax (IRF) being exempt from foreign remittances made to international carriers for payment of interconnection services provided by them, based on the provisions of the Melbourne Treaty. In December 2006, the Federal Regional Court (TRF) decided for the subsidiary and the appeal filed by the federal government is being considered by the Higher Court of Justice (STJ).

In December 2006, subsidiary Intelig was served a tax assessment by the Finance Office in the amount of R\$49,000 for not having paid IRF and CIDE on these foreign remittances. The company is defending against this assessment, and the liability for the administrative proceeding has been suspended until a final decision on the injunction is reached by the applicable court. Based on the opinion of its in-house and outsourced legal advisors, management concluded that the losses in relation to such proceedings are unlikely to be incurred. As a consequence, the subsidiary has not recorded any provision for contingencies in relation to the issue as of December 31, 2009.

ICMS (Value-added Tax in Sales and Services)

In April 2002, subsidiary Intelig was served tax assessments by the State Tax Department of Rio de Janeiro in the amount of R\$149,460 in connection with (i) failure to present Control over ICMS Credits on CAPEX (Ciap) in compliance with applicable legislation; (ii) execution of a co-billing agreement with other telephone carriers for the purpose of optimizing their billing procedures, failing to comply with legal accessory obligations; (iii) failure to observe the state legislation that governs the levy of ICMS on services provided from public pay phones (TUP); (iv) invoices printed and issued lacking proper authorization (AIDF); and (v) ICMS not paid on import operations based on an agreement or program entered into with Rio de Janeiro state government.

In August 2006, ICMS Agreement No. 72/06 was published to authorize the Brazilian state governments to reduce or forgive the payment of interest, penalties and monetary restatement in connection with the nonpayment of ICMS levied on communication services. Thus, based on this Agreement, subsidiary Intelig disbursed R\$24,300 for the settlement of ICMS debits covered by the terms of applicable legislation. The subsidiary is currently discussing these assessments with the tax authorities, and, based on the opinion of its in-house and outsourced legal advisors, management concluded that the losses to be incurred with these proceedings are probable, with a related provision being recorded in December 2009 in the amount of R\$5,700.

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INSS (Payroll tax)

In December 2005, subsidiary Intelig was served tax assessments by the Federal Tax Department in the amount of R\$32,458 in connection with (i) withholding INSS on third party services at a rate of 11%; (ii) profit sharing scheme not recorded on the accrual basis of accounting; (iii) reversal of the provision for compensation of delegate management; (iv) difference between amounts informed on social security payment forms and social security statements (GFIP); and (vi) missing information on GFIP. This assessment is being handled at the administrative level, and, based on the opinion of its in-house and outsourced legal advisors, management concluded that the losses to be incurred with this proceeding are probable, with a related provision being recorded in December 2009 in the amount of R\$5,000.

Regulatory contingencies

Due to noncompliance with certain provisions of the PCS Regulation and of the Commuted Wireline Telephone Service (STFC) and quality targets, defined in the General Plan of Quality Targets for PCS (PGMQ-PCS) and for the STFC, ANATEL started a proceeding for noncompliance with obligations (PADO) against the subsidiaries.

The subsidiaries have endeavored to contest the proceeding. The defense arguments may contribute to a significant reduction in the penalty initially applied or result in definitive PADO revocation without any penalty application.

Possible contingencies (not accrued)

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 by management and the Company's legal advisors. No provision has been recorded for these contingencies.

	2008	2009
Civil	125,774	238,390
Labor	110,483	165,647
Tax	1,183,514	1,494,077
Regulatory	23,699	58,496
	1,443,470	1,956,610

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A description of the significant claims involving possible loss is as follows:

Civil

Collective Actions

Five collective actions have been brought to Court against subsidiaries, involving the risk of possible loss, which can be summarized as follows: (i) a suit against the subsidiary TIM Nordeste, merged into TIM Celular, in the state of Pernambuco, questioning the TIM Nordeste policy for defective phone replacement, allegedly in disagreement with the manufacturer's warranty terms; (ii) a suit against TIM Nordeste in the state of Ceará, claiming for the Company's obligation to replace cell phone sets which have been the subject of fraud in that state; (iii) a suit against TIM Celular in the State of Pará, complaining about the quality of the network service in São Felix do Xingu; (iv) a suit against TIM Celular in the state of Maranhão, questioning the quality of network services rendered in Balsas; and (v) a suit filed against TIM Celular, questioning the long distance charges levied on calls made in Bertioga – SP and the respective region.

Other Actions and Proceedings

TIM Celular, together with other telecommunications companies, has also been sued by GVT at the 4th Federal Audit Court. The plaintiff claims for declaration of nullity of a contractual clause dealing the VU-M amount used by the defendants by way of interconnection, which is deemed illegal and abusive and as such requiring refunding of all amounts allegedly charged in excess since July 2004. A preliminary order was granted determining the payment of VU-M on the basis of R\$0.2899 per minute, and escrow deposits to be made by GVT in the amount of the difference between this and the value claimed by the defendants. Currently, the Company is waiting for the arguments to be issued by the parties regarding the lawsuit involving Vivo and GVT which confirmed the VU-M readjustment related to fiscal year 2004. Besides the suits, GVT has also made a Representation to the same effect before the Economic Right Secretariat, which found it right to file an Administrative Process against the Company and other mobile telephony operators, on the grounds of an alleged infraction of economic principles, that is underway.

TIM Celular is a defendant in the suit for damages filed by service provider GLÓRIA SOUZA & CIA LTDA. with the 9th Civil Court of the City of Belém, State of Pará, seeking for R\$6,119. Said company provided TIM with outsourced manpower in the North region of Brazil. In light of TIM's decision to early terminate the contract, the former did not accept such decision was accordingly filed a legal suit to claim pain and suffering and losses on payments of labor claims filed by its employees. TIM has already tendered its defense on 04/13/09.

TIM Nordeste, merged into TIM Celular is a defendant in judicial collection proceedings filed by law firm Mattos & Calumby Lisboa Advogados Associados. Such proceedings are being handled by the 29th Civil Court of the Judicial District of Rio de Janeiro, and chances of prevailing in court are rated as possible. The plaintiff sustains to be the creditor of amounts arising from the contractual relationship with TIM (legal services contract) worth R\$8,668. The proceedings are currently under expert examination.

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Also, a claim has been filed against TIM Celular by company (recharge distributor) INTEGRAÇÃO CONSULTORIA E SERVIÇOS TELEMÁTICOS LTDA. with the 2nd Civil Court of the Judicial District of Florianópolis (SC) worth R\$4,000, which aims at the suspension of collectibility of credits already enforced by TIM and claims, on a preliminary injunction basis, the non-inclusion of such credits in restrictive records, plus compensation from early termination of the contract. Worth noting is that TIM initiated judicial collection proceedings against the aforementioned company with the 4th Civil Court of Florianópolis, worth R\$3,957.

Three notices of delinquency have been served by the São Paulo State Consumer Protection Office (PROCON-SP). The notices recorded under numbers 3673/08 and 222/09 deal with fines imposed by Procon-SP for R\$3,192, on the grounds of alleged non-compliance with the rules established by Decree No. 6523/08, which deals with the Customer Service (SAC). In these cases, TIM tendered an administrative defense, but the fines were sustained at the administrative level. Therefore, TIM filed a legal suit with a view to eliminating these fines and awaits a final decision. The suits are at initial stages. There is also another notice of delinquency served by Procon and recorded under No. 1555D7, on the grounds that consumers were charged but did not receive the device. A fine of R\$3,192 was also imposed. This case is also under discussion at administrative level, awaiting a decision on the appeal filed by TIM.

Labor

Labor claims

A substantial portion of contingencies refers to organizational restructuring, include the discontinuance of the Client Relationship Centers (call centers) in Fortaleza, Salvador and Belo Horizonte, and the termination of 800 own employees and outsourced personnel.

The process 01102-2006-024-03-00-0 refers to a civil public action filed by the State of Minas Gerais's Public Labor Ministry 3rd Region, on the charge of irregular outsourcing practices and collective damages. In the respective sentence published on April 16, 2008, the first degree substitute judge found the Public Prosecution Service's request partly founded, having judged the outsourcing irregular and the damages collective and determined. An ordinary appeal was filed against this decision, which was denied on July 13, 2009. Prior to this appeal, TIM Nordeste filed a writ of mandamus requesting a preliminary order to stop the coercive acts imposed by the sentence. In view of the ordinary appeal filed, the writ of mandamus lost its objective.

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To be granted a suspense effect of its appeal, TIM Nordeste proposed an innominate writ of prevention, which was judged extinguished without the respective judgment on merits. In order to reverse the Regional Labor Court – 3rd Region, TIM Nordeste, merged into TIM Celular, filed a correctional claim with the Superior Labor Court, with a favorable decision which reversed the Court decision at the second level. An appeal by way of case stated was filed, but was denied. On 09/16/2009, an appeal for review was filed, and is pending ruling by the TST.

Also there were processes filed in the state of Paraná, involving claims for indemnity in connection with social cards. According to an internal rule, TELEPAR (state owned company merged into TIM Celular) undertook to supplement retirement benefits of employees hired until 1982, having proposed to comply with this obligation through payment of a certain amount in cash, before the privatization process. Some of its former employees, however, have questioned this transaction, and were granted their claims, in certain cases.

A legal action brought by an employee of an outsourced company was also filed. It claims a direct link with TIM, for overtime and other payment requests stemming from these matters, in processes No. 00770200804401007 and No. 447200905601004. Both are in the phase of filing of supporting documents, but the company that rendered the services, which is also employer of the claimant, continues to render those services and confirmed that it will participate in the proceedings.

Social Security

TIM Celular received in São Paulo a tax assessment Notice referring to an alleged irregularity in the payment of contributions to social security levied on Employees' Profit-Sharing plan in the amount of R\$2,388. The subsidiary filled its administrative defense, which on September 16, 2009 had a decision handed down kept the notice of delinquency under discussion. On October 5, 2009 an administrative appeal was filed, which is pending ruling.

In May 2006, TIM Nordeste, merged into TIM Celular, was assessed under the tax assessment notice no. 35611926-2 for social security contributions allegedly due on: (i) hiring bonus; (ii) non-adjusted bonus; (iii) payment for self-employed people's activities; and (iv) sales incentives. TIM Nordeste's administrative defense did not result in reversal of the entry (decision – assessment). In an attempt to change this decision, TIM Nordeste filed an appeal with the Ministry of Finance's Taxpayers' Council, which is now pending judgment

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Taxes

IR and CSLL

On October 30, 2006, TIM Nordeste, merged into TIM Celular, was assessed under a single administrative process referring to IRPJ, CSLL totaling R\$331,171, subsequently reduced to R\$258,144, and a separate fine, for different reasons. Most of the assessment refers to amortization of goodwill determined at a Telebrás System privatization auction and the related tax deductions. Article 7 of Law No. 9532/97 permits the result from goodwill amortization to be computed for purposes of determining the taxable profits of a subsidiary resulting from merger, split-off or acquisition, where one entity holds interests in another, acquired with goodwill based on the expected future profits of the investee. This also involves a usual market operation in compliance with the provisions of CVM Instruction No. 319/99.

In March 2007, the IRS District Office in Recife/PE served a notice on the subsidiary, presenting a Tax Information Document reporting the company that the notice of delinquency is net of amounts of IRPJ, CSLL and a specific fine imposed in addition to applicable fine and interest, which led to a reduction by R\$73,027 (principal debt and specific fine imposed in addition to applicable fine and interest).

Therefore, there was a shift of a portion of the delinquencies contained in the notice of delinquency to 160 specific claims for offsetting, which amounted to R\$85,771. In September 2009 a decision was handed down at administrative level, recognizing a portion of the credit offset by the subsidiary, which resulted in a reduction in the amount subject matter of the notice of delinquency, i.e. R\$10,510. The subsidiary continues to defend the remaining balance of R\$75,335 at administrative level.

From May to July 2008, TIM Nordeste received 49 communications of assessment issued by the Brazilian Finance Office in connection with Income Tax and Social Contribution offset by the subsidiary in the years 2002, 2003 and 2004, totaling R\$11,088. After it timely impugned all these assessments, the subsidiary now awaits a decision at administrative level within the Brazilian court.

IRRF

In October 2005, TIM Nordeste merged into TIM Celular, received a Fiscal Execution notification in the amount of R\$5,624, for defaulting on payment of IRRF on rentals, royalties and work done without employment bonds. This subsidiary has already stayed this execution and intends to defend itself against it at higher court jurisdictions.

PIS and COFINS

In 2004, the TIM Nordeste merged into TIM Celular, received delinquency notices related to PIS and COFINS payable on foreign exchange gains generated in 1999. The two notices filed by the tax authorities amount to R\$30,913. TIM Nordeste had filed a writ of mandamus challenging the tax base increase introduced by Law No. 9.718/98. In

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March 2006, a final unappealable decision on the writ of mandamus was handed down in favor of the company, stating that Law No. 9.718/98 was unconstitutional and that PIS and COFINS would not be levied on nonoperating income.

In view of the legal decision recognizing the unconstitutionality of PIS and COFINS levying on exchange variation, subject matter of the notices of delinquency in question, in April 2007 PIS required on exchange movement was cancelled, and in February 2009 COFINS required on exchange movement was also reduced by R\$23,339, and the amount of R\$2,263 remained under discussion.

In October, November and December 2009, TIM Celular and TIM Nordeste respectively were served 154 and 41 tax assessments amounting to R\$20,509 and R\$5,516 regarding the liability for COFINS as a result of the request for offset not being approved for the years 2005, 2006 and 2007 in connection with imported services. These assessments are being argued by the subsidiary at the administrative level.

ICMS

In 2003 and 2004 TIM Celular was assessed by Tax Authorities of the State of Santa Catarina for R\$42,613 (current value), mainly relating to dispute on the levying of ICMS on telecommunication services provided by the parent Company as well as trade of handsets. This amount is the result of several favorable sentences in administrative processes initially involving assessments of R\$95,449. The subsidiary is currently discussing these assessments with the taxing authorities. Based on the internal and external lawyers, the Management concluded that there is still the possibility of loss on the processes under discussion.

The subsidiaries, TIM Celular, and the merged TIM Nordeste were served tax assessments by the tax authorities of several Brazilian states over the past years for failure to pay ICMS on various operational aspects of its telecommunication service activities and on the sale of products. Some of the grounds or reasons for the assessments regarding the supposed lack of tax payments on which the tax inspectors were based are as follows: (i) discussion regarding intrastate and interstate ICMS rate difference payable on the acquisition of fixed assets for use and consumption, as well as the determination of ICMS tax base for acquisition of goods intended for sale; (ii) taxable services (based on the tax authorities' interpretation) booked by the subsidiary as non-taxable services in the Shipments Register; (iii) supposed underpayment of ICMS for using a lower tax rate and for booking telecommunication services as non-taxable services; (iv) supposed nonpayment of ICMS as a result of differences between the amount actually paid and the amount reported; (v) payment of ICMS amounts after the deadline established by state legislation, among others. These assessments are being timely defended at the administrative and judicial levels. The total amount involved in these disputes (individually above R\$5,000) is R\$95,734.

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The subsidiaries TIM Celular and TIM Nordeste were assessed by the States of Rio de Janeiro and Bahia's taxing authorities for defaulting on payment of ICMS and Contribution to the "Fundo Estadual de Combate à Pobreza e Desigualdades Sociais" (State Fund for Fighting Poverty and Social Inequalities) allegedly due on (i) international roaming services; and (ii) prepaid reloading revenues. Defenses are being tendered by the subsidiaries against such notices of delinquency at administrative level; they total the amount of R\$30,811.

TIM Celular and TIM Nordeste were assessed by the States of Paraíba and Rio de Janeiro's taxing authorities in the amounts of R\$5,511 and R\$38,274, respectively, referring to failure to ratably reverse ICMS credits on shipment of exempt and non-taxed goods. These assessments are being impugned at administrative level; they total the amount of R\$43,785.

The subsidiaries TIM Celular and TIM Nordeste were served notices of delinquency by the tax authorities of the States of São Paulo and Minas Gerais for R\$193,883 and R\$17,167, respectively, whose subject matter is the alleged failure to include in the calculation base of ICMS the conditional discounts given to customers. The subsidiaries intend to tender defense against such collection up to the upper level of the Judicial Power.

During 2008 and 2009, the subsidiaries TIM Nordeste and TIM Celular were served notices of delinquency, by tax authorities of the States of Ceará, São Paulo, Pernambuco, Paraná and Minas Gerais, in the total amount of R\$94,000, whose subject matter is the debt from the use of ICMS credit in the acquisition of electric power. Defenses are being tendered by the subsidiaries against such notices of delinquency at administrative level.

In October 2008 TIM Nordeste was assessed by the state of Sergipe's taxing authorities for R\$16,668, referring to a fine for an alleged late-filing of electronic files containing fiscal documentation supporting telecommunication services rendered. This assessment is being contested by the subsidiary at administrative level.

In September 2008, TIM Nordeste was assessed by the State of Minas Gerais's taxing authorities for R\$24,930, representing a separate fine for failure to record telecommunications service invoices in the ICMS determination book. In August 2009 an administrative decision was handed down, reducing the amount of the notice of delinquency by 99.8%. Accordingly, the subsidiary paid the remaining balance, and the claim was closed as virtually fully successful.

On November 19, 2002, subsidiary Intelig was served a tax assessment by the Minas Gerais State Tax Department in the amount of R\$8,500 for the supposedly undue use of ICMS credits on the acquisition of fixed assets and input materials. This assessment is being disputed at the judicial level.

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In November 2005, subsidiary Intelig was served a tax assessment by the Mato Grosso State Tax Department in the amount of R\$11,700 for the supposedly undue use of ICMS credits on the acquisition of fixed assets without the related supporting documentation (invoice) and the ICMS rate difference. This assessment is being disputed at the judicial level.

In December 2007 and December 2008, subsidiary Intelig was served two tax assessments by the São Paulo State Tax Department in the amount of R\$6,700 and R\$11,300, respectively, referring to the supposedly undue use of ICMS credits in 2002 and 2003, after a debit reversal upon cancellation of telecommunication services not actually provided. The assessment served in 2002 ended at the administrative level with no favorable outcome to the Company, which will start a related judicial dispute. The assessment served in 2003 is being defended at the administrative level.

In August 2009, subsidiary Intelig was served a tax assessment by the Finance Office of Rio de Janeiro in the amount of R\$4,800, in connection with the supposedly undue use of ICMS credits as a result of the application of an incorrect rate to reduce tax credits on exempt and untaxed sales operations carried out between 2004 and 2009. This assessment is being handled at the administrative level.

ISS

On December 20, 2007, TIM Celular was assessed by the State of Rio de Janeiro's taxing authorities for R\$94,359 for allegedly failing to pay ISS on the following services: technical programming; administrative plan cancellation services; telephone directory aid service and provision of data and information; and network infrastructure sharing. This assessment is being impugned by the Company at administrative level.

Fund for Universalization of Telecommunications Services – FUST contribution tax

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 9.998. The subsidiaries still believe that based on applicable legislation (including the sole paragraph of article 6 of Law 9.998/00), the above revenues are not subject to the FUST charges, and accordingly, the Management has taken the necessary measures to protect their interests. A writ of mandamus was filed with a view to protecting the subsidiary's interests regarding the lack of payment of FUST on interconnection revenues. ANATEL's intended collection of FUST on interconnection revenues has been suspended due a favorable decision handed down to the subsidiaries. The writ of mandamus is pending trial by the appellate court.

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Since October 2006, ANATEL has been issuing several assessment notices against TIM Celular in connection with FUST allegedly due on interconnection revenues from 2001 to 2004, as well as fines, because of “Súmula” 07/05. Such notices of delinquency total R\$128,050.

Subsidiary Intelig was served several violation notices by ANATEL in the total amount of R\$29,379, which refer to FUST amounts supposedly due on interconnection revenues from January to December 2001, 2002 and 2003. These notices are being handled at the administrative level.

Fund for Technological Development of Telecommunications – FUNTTEL contribution tax

The Ministry of Communications assessed TIM Celular and TIM Nordeste, merged into TIM Celular, for R\$46,788 claiming for FUNTTEL amounts allegedly due on interconnection revenues for the years 2001 to 2004. At the same time an arrears fine was imposed on these subsidiaries. In these companies’ opinions, the above mentioned revenues are not subject to FUNTTEL. A writ of mandamus was filed to safeguard the Company’s interests in this case of default on FUNTTEL fees allegedly due on interconnection revenues, based on the same arguments used for the FUST process. The claims for FUNTTEL collection on interconnection revenues are currently suspended, due to a writ of mandamus favorable to the subsidiaries.

Subsidiary Intelig Telecom was served violation notices by the Ministry of Telecommunications in the total amount of R\$9,902, which refer to FUNTTEL amounts supposedly due on interconnection revenues from January to December 2002, from March to December 2003 and from April to December 2004. These notices are being handled at the administrative level.

Regulatory proceedings

TIM Celular and TIM Nordeste are authorized to provide SMP in Brazilian states for an indefinite period, and for using the related SMP radio frequencies. Under Terms of Authorization, the authorization for use of radiofrequencies was extended for 15 years from the end of the original validity period. In view of this extension, the object of the above mentioned Terms of Authorization issued in accordance with their respective Acts, the Company was, in its opinion, unduly required by ANATEL, to pay for a new Installation Inspection Fee (TFI) for all its mobile stations in operation in the service-provision area, although these stations have already been licensed based on its respective costs.

This requirement, according to ANATEL, would be justified by application of art.9, III, of the Revenue Collection Regulation of the Telecommunications Inspection Fund (Fistel), approved by Resolution N° 255, which sets forth that TFI shall be levied on the station upon the renewal of the validity of the license which leads to the issuance of a new license. However, as the Company does not find that this legal provision is correctly applied, the collection in question was timely impugned at administrative level, so that simultaneously the collection can be questioned and the collection suspended until a final decision is reached by ANATEL.

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Under the terms of the Authorization for Mobile Personal Service (SMP) Exploitation, the subsidiaries have committed to implement and actually implemented; mobile personal telecommunications cover for the assigned area. Also under these Terms of Authorization, the subsidiaries are required to operate in accordance with the quality standards established by ANATEL, and comply with the related obligations. In the event these terms are not complied with, the subsidiaries are subject to PADO (Obligation Non-Compliance Determination Procedures) and any subsequently applicable penalties.

ANATEL has brought administrative proceedings against the subsidiaries for: (i) noncompliance with certain quality service indicators; and (ii) default on certain other obligations assumed under the Terms of Authorization and pertinent regulations.

In their defense before ANATEL, the subsidiaries presented several reasons for defaulting, most of them involuntary and not related to their activities and actions. The provision for regulatory contingencies shown in the balance sheet reflects the amount of losses expected by the Management.

Potential litigation

Litigation Arising Out of Events Prior to the Breakup of TELEBRÁS

Telecomunicações Brasileiras S.A. - TELEBRÁS and its operating subsidiaries (collectively, the Predecessor Companies), the legal predecessors of the Company and its subsidiaries, respectively, are defendants in a number of legal proceedings and subject to certain other claims and contingencies. Liability for any claims arising out of acts committed by the Predecessor Companies prior to the effective date of the spin-off of the cellular assets and liabilities of the Predecessor Companies to the Company's subsidiaries remains with the Predecessor Companies, except for those liabilities for which specific accounting provisions were assigned to the Company's subsidiaries. Any claims against the Predecessor Companies that are not satisfied by the Predecessor Companies could result in claims against the Company's subsidiaries, to the extent that the Company's subsidiaries have received assets that might have been used to settle such claims had such assets not been spun off from the Predecessor Companies.

Under the terms of the breakup of the TELEBRÁS system, liability for any claims arising out of acts committed by TELEBRÁS prior to the effective date of the breakup remains with TELEBRÁS, except for labor and tax claims (for which TELEBRÁS and the companies formed through the breakup of TELEBRÁS (the New Holding Companies) are jointly and severally liable by operation of law) and any liability for which specific accounting provisions were assigned to the Company or one of the other New Holding Companies. Management believes that the chances of claims of this nature materializing and having a material adverse financial effect on the Company are remote.

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Litigation Related to the Use of Premium Arising Out of the Breakup of TELEBRÁS

On April 4, 2002, a Congressman filed a lawsuit in federal court in Brasília, Federal District, against a number of governmental telecommunication entities and the New Holding Companies. The purpose of the lawsuit is to prevent the New Holding Companies from using the amortization of the goodwill paid by the New Holding Companies to the Brazilian government in the breakup of TELEBRÁS to generate tax benefits. The Company contested this claim before the relevant federal court, and no decision had been made on this lawsuit prior to the time of filing.

Even though the Company is unable to predict the final outcome of this lawsuit, management believes that a ruling favorable to the plaintiff is unlikely. Accordingly, no reserve was created in connection with this litigation. If an unfavorable ruling is issued against the Company, the tax benefit derived from the premiums paid will be lost, and the Company's tax liability will increase. Management does not expect an unfavorable decision for this lawsuit.

Leases

The Company rents equipment and premises through a number of agreements that expire at different dates. Total annual rent expense under these agreements which are operating leases was as follows:

	2007	2008	2009
Rent expense	190,339	209,800	235,376

At December 31, 2009, the future minimum operating lease payments under lease agreements are as follows:

2010	239,698
2011	248,807
2012	258,261
2013	268,075
2014	278,263
	1,293,104

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20. Asset retirement obligations

The changes in asset retirement obligations were as follows:

	2008	2009
Balance at the beginning of the year	192,137	211,802
Additions during the period, net of disposals	3,465	6,073
Accretion expense during the year	16,200	19,219
Balance at the end of the year	211,802	237,094

The Company's subsidiaries are contractually obligated to dismantle their cellular towers from various sites they lease.

Pursuant to Circular CVM/SNC/SP No. 01/2007, the Company must record as asset retirement obligations the present value of the estimated costs to be incurred for dismantling and removing cellular towers and equipment from leased sites. The offset to this provision is recorded as property, plant and equipment, and the depreciation is calculated based on the useful lives of the corresponding assets.

The asset retirement obligations were recorded at present value, and consequently, financial expenses totaling R\$19,219 were recorded in the consolidated statement of operations for the year ended December 31, 2009 (R\$16,200 and R\$18,779 for the years ended 2008 and 2007, respectively).

21. Shareholders' equity

a. Capital

The Company is authorized to increase its capital, through approval by a shareholders' meeting, so as not to exceed 2,500 billion common or preferred shares, without the need to maintain the proportion between the classes of shares, but keeping the legal limit of 2/3 (two thirds) for issuing preferred shares without voting rights. The limit to increase the Company's capital may be modified with the approval of an Extraordinary General Shareholders' Meeting.

On May 30, 2007 the Shareholders' Meeting of the Company approved a reverse stock split of all shares issued by the Company at the ratio of 1,000 (one thousand) shares to 1(one) share of each class. In the period from June 1, 2007 to July 2, 2007, the shareholders adjusted their ownership positions to lots of multiples of 1,000 shares of class, in a private negotiation at BOVESPA (São Paulo Stock Exchange) or the counter market, at their free and exclusive discretion.

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On September 18, 2007, 2,285,736 shares (1,185,651 common shares and 1,100,085 preferred shares) were sold at an auction held at the São Paulo Stock Exchange - BOVESPA. Those shares represented fractions resulting from the reverse stock split approved at the Extraordinary Shareholders' Meeting held on May 30, 2007 which were not adjusted to a position of 1,000 shares by the respective shareholders. The proceeds from this sale represent a liability and are available to the respective shareholders at any branch of Banco ABN AMRO Real S.A., now renamed to Banco Santander S.A.

On November 5, 2007, the Shareholders' Meeting of the Company, approved a capital increase of R\$37,815, through the issuance of 1,447,392 common shares and 2,801,911 preferred shares with no par value on behalf of TIM Brasil. This capital increase was made using the tax benefit from the goodwill amortization due to the partial spin-off of the Company. For the minority shareholders, it assured the right of capitalization, considering the same conditions applied to the majority shareholder, in order to maintain its minority interest.

The subscription price per share was R\$11.24 for the common shares and R\$7.69 for the preferred shares.

The Shareholders' Meeting held on April 11, 2008 approved a capital increase in the amount of R\$63,085, with the issuance of 3,359,308 common shares and 6,503,066 preferred shares, with no par value, on behalf of TIM Brasil. This capital increase used the tax benefit produced by goodwill amortization and the Company's spin-off. Minority shareholders were assured capitalization rights based on the same conditions applicable to majority shareholders, so that they may keep their minority interests. The subscription price was R\$7.59 per common share and R\$5.78 per preferred share.

The Shareholders' Meeting held on April 2, 2009 approved a capital increase in the amount of R\$18,761, with the issuance of 1,573,828 common shares and 3,046,671 preferred shares, with no par value, on behalf of TIM Brasil. This capital increase used the tax benefit produced by goodwill amortization and the Company's spin-off. Minority shareholders were assured capitalization rights based on the same conditions applicable to majority shareholders, so that they may keep their minority interests. The subscription price was R\$6.12 per common share and R\$3.00 per preferred share.

The Shareholders' Meeting held on December 30, 2009, following the merger of Holdco (Note 2b), approved a capital increase in the amount of R\$516,725, with the issuance of 43,356,672 common shares and 83,931,352 preferred shares, with no par value. The shares were issued by the Company and subscribed by JVCO.

The Capital subscribed and paid-in comprises shares without par value, thus distributed:

	2007	2008	2009
Number of common shares	794,991,669	798,350,977	843,281,477
Number of preferred shares	1,538,972,494	1,545,475,560	1,632,453,583
	2,333,964,163	2,343,826,537	2,475,735,060

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The preferred shares are non-voting, except if the dividend to be paid to the holders of preferred shares is not paid for a period of three years. In such case they are entitled to full voting rights until such time as that dividend is paid in full for any year. Further, the preferred shares are entitled to priority over the common shares in the case of liquidation. The preferred shares are also entitled to preferential, noncumulative dividends calculated as the greater of (i) 6% of nominal paid-in capital or (ii) 3% of net equity per share as per the latest approved balance sheet under Brazilian GAAP. The number of non-voting shares or shares with limited voting rights, such as the preferred shares, may not exceed two-thirds of the total number of shares.

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 shareholder, through issuance of new shares. The respective capital increase will be subject to preemptive rights of the minority shareholders, in proportion to their shareholdings, by type and class upon the new issuance, and the amounts payable during the year in connection with this right must be delivered directly to the controlling shareholder, in accordance with Instruction No. 319/99 of the Brazilian Securities Commission (CVM).

c. Revenue Reserves

Legal Reserve

This refers to the 5% (five percent) of net income for every 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 offset accumulated losses.

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 Company realized in 2008 the balance of the Reserve for Expansion, in the amount of R\$139,697, as dividend distribution related to the year ended December 31, 2007.

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d. Dividends

Dividends are calculated in accordance with the by-laws and Brazilian Corporate Law (“Lei das Sociedades por Ações”).

Based on 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. For the purposes of the Brazilian Corporation Law, and in accordance with the Company’s by-Laws, “adjusted net income” is an amount equal to the net profit adjusted to reflect allocations to or from: (i) the statutory and legal reserves, (ii) a contingency reserve for probable losses, if applicable, (iii) profit reserve for expansion, and (iv) unrealized profit for reserve.

Preferred shares are nonvoting but take priority in (i) capital reimbursement, at no premium; and (ii) payment of a minimum non-cumulative dividend of 6% p.a. on the total obtained from dividing the capital stock by the total number of shares issued by the Company.

In order to comply with the New Corporate Law (Law No. 10,303/01), the Company’s by-laws were amended, including the first paragraph of Section 10, which ensures the holders of preferred shares the right to receive dividends corresponding to 3% (three percent) of shareholders’ equity on an annual basis, based on the balance sheet most recently approved, whenever the dividend established according to this criteria exceeds the dividend calculated according to the criteria previously established, described in the preceding paragraph.

The proposed dividends are as follows:

	2007	2008	2009
Capital common shares	2,571,849	2,593,337	2,775,734
Capital preferred shares	4,798,676	5,020,273	5,373,362
Capital	7,550,525	7,613,610	8,149,096
Dividends: 6% for preferred shares according to by-laws	298,720	301,216	322,402
Net income for the year	76,095	180,152	214,893
(-) Recognition of legal reserve	(3,805)	(9,008)	(10,744)
Adjusted net income	72,290	171,144	204,149
Minimum dividends to preferred shareholders			
Minimum dividends based on 25% of adjusted income	18,073	42,786	51,037
(+)Supplementary dividends to income distributed	54,217	128,358	153,112
(=)Dividends referring to income distribution (all to preferred shareholders)	72,290	171,144	204,149
(+) Distribution of 100% of the reserves for expansion	139,697	-	-
	211,987	171,144	204,149
Dividends per share (amounts expressed in reais)			
Preferred shares	0.1377	0.1107	0.1251

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According to the Company's by-laws, minimum compulsory noncumulative dividends, calculated based on 6% of capital stock, should be R\$322,402 as of December 31, 2009. Company's management proposed to distribute all available profits referring to the year ended December 31, 2009 as dividends to preferred shareholders.

At December 31, 2009, the balance of dividends and interest on equity payable includes prior years' amounts totaling R\$20,503 (R\$22,221 in 2008).

Dividends proposed in previous years and not actually claimed by shareholders were reversed, once the legal period has lapsed pursuant to Brazilian legislation, to the expansion reserve account under shareholders' equity, with R\$5,145 referring to 2007, R\$9,643 referring to 2008 and R\$4,790 to 2009.

22. Net operating revenues

	2007 As adjusted	2008 As adjusted	2009
Revenue from telecommunications services – Mobile			
Subscription charges	444,156	378,876	300,194
Use charges	7,267,947	7,954,683	7,767,987
Interconnection	4,466,525	4,458,169	4,042,612
Long distance service	1,889,708	1,986,704	1,943,121
Value-added services – VAS	1,217,111	1,598,303	1,897,188
Other	134,796	169,852	266,826
	15,420,243	16,546,587	16,217,928
Revenue from telecommunications services – Fixed	41	7,944	177,108
Revenue from telecommunications services – Mobile and Fixed	15,420,284	16,554,531	16,395,036
Sales of goods	1,838,102	1,766,400	1,761,626
Gross operating income	17,258,386	18,320,931	18,156,662
Deductions			
Taxes	(3,582,008)	(3,993,809)	(4,030,691)
Discounts	(1,018,993)	(1,074,638)	(865,330)
Other	(173,605)	(105,309)	(154,706)
	(4,774,606)	(5,173,756)	(5,050,727)
Net operating revenues	12,483,780	13,147,175	13,105,935

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23.	Cost of services rendered and goods sold			
		2007	2008	2009
	Personnel	(99,484)	(91,051)	(64,345)
	Third-party services	(224,362)	(263,674)	(317,456)
	Interconnection charges	(3,491,292)	(3,793,518)	(3,376,880)
	Depreciation and amortization	(1,332,855)	(1,324,429)	(1,427,613)
	Telecommunications supervision fund (Fistel)	(6,775)	(8,731)	(10,521)
	Rentals	(131,626)	(143,046)	(161,570)
	Other	(11,034)	(33,560)	(34,971)
	Cost of services rendered	(5,297,428)	(5,658,009)	(5,393,356)
	Cost of goods sold	(1,434,430)	(1,405,788)	(1,329,826)
	Total cost of services rendered and goods sold	(6,731,858)	(7,063,797)	(6,723,182)

24.	Selling expenses			
		2007	2008	2009
	Personnel	(337,053)	(366,560)	(368,422)
	Third-party services	(1,622,047)	(1,741,347)	(2,114,182)
	Advertising expenses	(308,790)	(293,097)	(513,943)
	Allowance for doubtful accounts	(714,571)	(748,833)	(421,893)
	Telecommunications supervision fund (Fistel)	(502,794)	(563,421)	(614,281)
	Depreciation and amortization	(327,222)	(295,868)	(339,209)
	Other	(78,448)	(89,263)	(78,042)
	Selling expenses	(3,890,925)	(4,098,389)	(4,449,972)

25.	General and administrative expenses			
		2007	2008	2009
	Personnel	(188,860)	(190,551)	(149,221)
	Third-party services	(365,272)	(392,161)	(370,710)
	Depreciation and amortization	(414,234)	(484,733)	(489,413)
	Other	(64,427)	(59,981)	(61,192)
	General and administrative expenses	(1,032,793)	(1,127,426)	(1,070,536)

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26.	Other operating income (expenses)	2007 Adjusted	2008 Adjusted	2009
Revenues				
	Fines – Telecommunications services	22,834	49,149	35,755
	Reversal of the provision for contingencies	2,211	12,475	37,557
	Disposal of property, plant and equipment	11,093	5,538	1,964
	Other operating revenues	7,155	17,096	7,424
		43,292	84,258	82,700
Expenses				
	Amortization of deferred charges	(127)	(117)	(106)
	Taxes, rates and contributions	(8,303)	(16,255)	(13,988)
	Goodwill amortization	(1,580)	(1,580)	-
	Provision for contingencies	(61,384)	(115,897)	(97,742)
	Cost on disposal of property, plant and equipment	(35,798)	(8,584)	(19,615)
	Other operating expenses	(10)	(6,697)	(10,003)
	Amortization of concessions	(247,655)	(301,818)	(326,466)
		(354,857)	(450,948)	(467,920)
	Other operating revenues (expenses), net	(311,565)	(366,690)	(385,220)
27.	Financial income	2007	2008	2009
	Interest accrued on short-term investments	24,516	96,341	70,210
	Monetary adjustment	28,429	18,576	14,597
	Interest on accounts receivable	17,221	47,406	46,760
	PIS/Cofins recovery	23,424	-	-
	Other	10,533	10,990	5,769
	Financial income	104,123	173,313	137,336

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28.	Financial expenses			
		2007	2008	2009
	Interest on loans and financing	(207,071)	(244,470)	(274,790)
	Interest on suppliers	(12,699)	(27,199)	(11,897)
	Interest on authorizations	(1,121)	(66,380)	-
	Monetary adjustment	(73,267)	(11,078)	(9,736)
	Interest on taxes and charges	(6,849)	(3,790)	(3,197)
	CPMF (tax on financial activities)	(51,941)	(1,194)	-
	Financing discounts	(11,361)	(66,640)	(15,482)
	Other	(14,329)	(24,813)	(25,579)
	Financial expenses	(378,638)	(445,564)	(340,681)

29. Foreign exchange variation, net

		2007	2008	2009
	Loans and financing	7,004	(433,969)	345,332
	Suppliers – Trade payables	10,366	(17,414)	19,207
	Swap	(17,104)	340,284	(405,486)
	Other	(7,250)	8,375	(12,324)
	Foreign exchange variation, net	(6,984)	(102,724)	(53,271)

30. Income and social contribution taxes expenses and tax losses

Income and social contribution taxes expenses are as follows:

		2007	2008	2009
	Current income tax	(76,768)	(73,383)	(128,602)
	Current social contribution tax	(27,977)	(26,438)	(46,395)
	Tax incentive - ADENE	(32)	33,290	88,851
	Total current taxes	(104,777)	(66,531)	(86,146)
	Deferred income tax	-	117,804	51,016
	Deferred social contribution tax	-	42,410	18,365
	Amortization of goodwill	(50,450)	(29,429)	-
	Provision for contingencies on income tax and social contribution (note 19)	(11,610)	-	11,249
	Total deferred taxes	(62,060)	130,785	80,630

(166,837) 64,254 (5,516)

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The reconciliation between income and social contribution tax expenses, tax expense calculated based on combined statutory rates, and the amount recorded in the statement of income, is as follows:

	2007	2008	2009
Income before income and social contribution taxes	235,139	115,898	220,409
Combined statutory rate	34 %	34 %	34 %
Income and social contribution taxes at combined statutory rate	(79,947)	(39,405)	(74,939)
(Additions)/Exclusions:			
Tax loss carryforwards and temporary differences not recorded	(49,469)	(58,765)	(84,359)
Recorded tax loss carryforwards and temporary differences	-	160,214	69,381
Provision for contingencies on income tax and social contribution (note 19)	(11,610)	-	11,249
Effect of income and social contribution taxes on Permanent (Additions)/Exclusions	(20,072)	(32,445)	(9,905)
Tax incentive – ADENE	(32)	33,290	88,851
Other	(5,707)	1,365	(5,794)
Subtotal of (additions)/exclusions	(86,890)	103,659	69,423
Income and social contribution taxes debited to income for the year	(166,837)	64,254	(5,516)

31. Transactions with Telecom Italia Group

Consolidated balances of transactions with Telecom Italia Group are as follows:

	2008	Assets 2009
Telecom Personal Argentina (1)	721	1,576
Telecom Sparkle (1)	1,555	11,548
Telecom Italia (2)	4,913	3,893
Other	2,365	524
Total	9,554	17,541

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	Liabilities		
	2008	2009	
Telecom Italia (2)	41,154	29,728	
Telecom Personal Argentina (1)	1,279	1,561	
Telecom Sparkle (1)	6,315	11,887	
Italtel (3)	27,876	-	
Other	791	509	
Total	77,415	43,685	
	2007	Income	
		2008	2009
Telecom Italia (2)	12,221	11,244	12,553
Telecom Personal Argentina (1)	2,884	3,059	4,283
Telecom Sparkle (1)	7,816	6,567	14,765
Other	1,315	1,987	820
Total	24,236	22,857	32,421
	2007	Cost/Expenses	
		2008	2009
Telecom Italia (2)	26,551	29,079	19,543
Telecom Sparkle (1)	21,324	22,223	25,065
Telecom Personal Argentina (1)	7,321	9,333	6,677
Italtel (3)	3,086	7,631	-
Other	1,622	1,494	1,243
Total	59,904	69,760	52,528

(1) International services

International services with Telecom Argentina and Sparkle, Companies of the Telecom Italia Group, refer to roaming, value-added services (“VAS”) and media services.

(2) Telecom Italia

Receivables and payables refer to international roaming, technical post-sales assistance, and VAS.

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The General Shareholders' Meeting held by TIM Participações on April 2, 2009 approved the renewal of the cooperation and support agreement executed with Telecom Italia S.p.A. effective from January 3, 2009 to January 2, 2010. This agreement had been approved on May 3, 2007 by the Board of Directors of TIM Participações and renewed for an additional 12 months (January to December 2008) at the General Shareholders' Meeting held by TIM Participações on March 3, 2008.

During the year ended December 31, 2009, the amount of R\$23,296 was accrued (R\$29,586 and R\$35,396 in 2008 and 2007, respectively), of which R\$22,690 of which referring to fixed assets (R\$26,835 and R\$33,499 in 2008 and 2007, respectively) and R\$606 to costs/expenses (R\$2,751 in 2008 and 2007, respectively). The purpose of this agreement is to add value to the Company by using the experience of Telecom Italia in order to (i) increase effectiveness and efficiency of activities through in-house solutions; and (ii) share systems, services, processes and best practices largely adopted in the Italian market and easily customizable for the Company.

Balance sheet account balances are recorded in the following groups: accounts receivable, accounts payable and other current assets and liabilities.

(3) Development and maintenance of billing system

These costs, incurred with Italtel, a company of the Telecom Italia Group, refer to the development and maintenance contracts regarding the billing system.

The balance sheet account balances are recorded in the following accounts groups: accounts receivable, suppliers – trade payables and other current assets and liabilities.

32. Financial instruments and risk management

The Company through its subsidiaries carries out transactions with derivative financial instruments to mitigate the risks relating to exchange rates and interest and exchange movement, fully comprising the swap contracts.

The Company, through its subsidiaries, presents its financial instruments according to CVM's instruction 566, issued December 17, 2008, which approved CPC's Technical Pronouncement 14, and CVM's instruction 475, as of December 17, 2008.

Accordingly, the Company and its subsidiaries show that the main risk factors to which they are exposed are as follows:

(i) Exchange rate risk

The exchange rate risk relates to the possibility of the subsidiaries incurring 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.

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As of December 31, 2009 and 2008, the subsidiaries' loans indexed to the exchange variance of foreign currencies are fully covered by swap contracts. The income or loss resulting from these swap contracts is charged to operating income.

Besides the loans taken by the subsidiaries, which are the object of swap contracts, and the suppliers obligations denominated in foreign currencies, there are no other financial assets and liabilities in significant amounts indexed to foreign currencies.

(ii) Interest rate risks

The interest rate risks relate to:

Possibility of variances in the fair value of financing obtained by the subsidiary TIM Nordeste, merged into TIM Celular, at the pre-fixed interest rates, in case such rates do not reflect the current market conditions. For this type of risk to be mitigated, the subsidiary TIM Nordeste enters into swap contracts with financial institutions, transforming into a percentage of the CDI the pre-fixed interest rates levied on a portion of financing obtained. Gains or losses arising from swap contracts affect directly TIM Nordeste's results.

Possibility of variances in the fair value of financing obtained by the subsidiary TIM Celular and indexed to the TJLP, in case such rates do not proportionally follow the rates regarding the Interbank Deposit Certificates (CDI). For this type of risk to be mitigated, the subsidiary TIM Celular enters into swap contracts with financial institutions, transforming into a percentage of the CDI the TJLP levied on a portion of financing obtained. Gains or losses arising from swap contracts affect directly TIM Celular's results.

Possibility of an unfavorable change in interest rates, with a resulting increase in financial expenses incurred by the subsidiaries, due to fluctuation of interest rate on part of their hedge debt and obligations. At December 31, 2009 and 2008, the subsidiaries' financial resources are mostly invested in CDI, which partially reduces this risk.

(iii) Credit risk related to 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. There is no single client accounting for more than 10% of net receivables from services rendered at December 31, 2009, 2008 and 2007 or of income from services in the years then ended. The Company does not require collateral from its customers.

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(iv) Credit risk inherent in the sale of telephone sets and prepaid telephone cards

The policy adopted by the subsidiaries for sale of telephone sets and distribution of prepaid telephone cards is directly related to credit risk levels accepted in the regular course of business. The choice of partners, the diversification of the accounts receivable portfolio, the monitoring of credit conditions, the positions and limits defined for orders placed by dealers, and the adoption of guarantees are procedures adopted by the subsidiaries to minimize possible collection problems with their business partners. There is no single client accounting for more than 10% of net receivables from sales of goods at December 31, 2009, 2008 and 2007 or of income from services in the years then ended.

(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 with these financial instruments by investing with reputable financial institutions and by following policies that establish maximum levels of concentration of risk by financial institution.

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

Market value of financial instruments

The consolidated financial derivative instruments are as follows:

	2008			2009		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Derivative operations	387,573	63,262	324,311	78,264	161,322	(83,058)
Current portion	260,925	52,448		49,237	48,122	
Noncurrent portion	126,648	10,814		29,027	113,200	

The consolidated financial derivative instruments as of December 31, 2009 mature as follows:

	Assets	Liabilities
2011	3,436	1,803
2012	2,150	937
2013	472	24
2014	-	-
2015 on	22,969	110,436
	29,027	113,200

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The fair values of derivative instruments of the subsidiaries were determined based on future cash flows (assets and liabilities position), taking into account the contracted conditions and bringing these flows to present value by means of discount at the future CDI rate published in the market. The fair values were estimated at a specific time, based on information available and the Company's valuation methodologies.

The Company's protection policy against financial risk – A summary

The Company's policy stipulates the adoption of swap mechanisms against financial risks involved in financing taken in foreign or local currency, in order to control the exposure to risks related with exchange variation and interest rate variation.

The derivative instruments against exposure to exchange risks should be contracted concurrently with the debt contract that originated the exposure. The level of coverage to be contracted for these exchange exposures is 100% in terms of time and amount.

When it comes to exposure to risk factors in local currency arising from financing linked to fixed interest rate or TJLP, as the yield on the Company's and the subsidiaries cash and cash equivalents is based on the CDI, it is the subsidiaries' strategy to change part of these risks into exposure to the CDI.

As of December 31, 2009 and 2008, there are margins or guarantees applying to the operations with derivative instruments owned by the subsidiaries.

The selection criteria followed by financial institutions rely on parameters that take into consideration the rating provided only by renowned risk analysis agencies, the shareholders' equity and the degree of concentration of their operations and resources.

The table below shows the derivative instruments operations contracted by the subsidiaries, in force as of December 31, 2009 and 2008:

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Item affected by swap mechanism	Currency	Reference Value (Notional R\$)		Fair Value		
		2008	2009	2008	2009	
Fixed interest risk vs. CDI	Part of financing taken from BNB	BRL	88,260	58,878		
Assets Position					129,457	97,050
Liabilities Position					(121,267)	(87,767)
Net balance					8,190	9,283
TJLP Risk vs. CDI	Part of financing taken from BNDES	BRL	420,914	325,789		
Assets Position					416,228	323,077
Liabilities Position					(412,947)	(321,846)
Net balance					3,281	1,231
USD Exchange Risk vs. CDI	Hedge against the risk of exchange variation of loans granted by the Banks Santander, ABN AMRO and Unibanco (Res. 2770), as well as loans granted by the Banks BNP Paribas and BEI	USD	274,834	939,445		
Assets Position					332,270	839,010
Liabilities Position					(291,239)	(943,693)
Net balance					41,031	(104,683)
JPY Exchange Risk vs. CDI	Hedge against the risk of exchange variation of loans granted by the bank Santander (Res. 2770)	JPY	546,836	146,836		
Assets Position					881,271	188,970
Liabilities Position					(609,462)	(177,859)
Net balance					271,809	11,111
TOTAL			1,330,844	1,470,948	324,311	(83,058)

Fixed interest swap vs. CDI

The operations with derivative instruments are intended to safeguard the Company and the subsidiary TIM Nordeste against possible losses in the case of increase in the interest rate set by Banco do Nordeste do Brasil (BNB), as required by the provisions dealing with financial charges on operations that use the Constitutional Financing Funds's resources obtained under financing operations for expansion of the Company's network in the Northeastern region, in

2004 and 2005. These derivative instruments mature through April 2013 and safeguard approximately 58.96% of all the financing taken from BNB by TIM Nordeste, merged into TIM Celular.

Based on the BNB's current reference rate - 10% p.a. – the financing taken by the subsidiary TIM Nordeste merged into TIM Celular and the respective derivative instruments contracted as part of these financing operations average 11.22% p.a. as a receivable item, and 75.97% of the CDI as a payable item. A possible reversal scenario would occur, if the CDI exceeded the level of 14.77% p.a. These derivative instruments were contracted with Santander and Unibanco, currently named Banco Itaú BBA S.A.

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TJLP Swap vs. CDI

These financial derivative instrument operations are intended to safeguard the subsidiary TIM Celular against possible loss of assets due to increase in BNDES's reference rate (TJLP) for financing contracted with that Institution in 2005. Its payable portion is contracted at an average cost in the equivalent to 90.62% of the CDI. These operations currently protect 17.23% of the total financing taken from BNDES, and mature on a monthly basis through August 2013. At December 31, 2009, the subsidiary's book income on this operation is positive, with Santander and UNIBANCO, currently named Banco Itaú BBA S.A., as its partners.

Exchange swap vs. CDI

The derivative instruments of this kind are intended to safeguard the subsidiary TIM Celular against exchange risks involved in contracts signed under BACEN Resolution 2.770, heretofore "2770", indexed to the USD and JPY, and simultaneously contracted with the respective financing besides the foreign currency denominated loans taken out from BNP Paribas and from BEI. All 2770 lines are safeguarded at an average cost of 129.90% of the CDI for USD-denominated contracts and 114.50% for JPY-denominated ones, the loan from BNP Paribas being hedged at an average cost of 95.01% of the Interbank Deposit Certificate (CDI) and the loan from BEI being hedged at an average cost of 96.46% of the Interbank Deposit Certificate (CDI). As a receivable item, a swap is contracted using the same coupon of the line used. In this case, the exchange variation on financing is fully offset by the variation on contracted swaps.

These swap contracts mature on the same date as the debt, i.e., until July/10 for the financing raised through lines of credit set forth by Resolution No. 2.770, until 2016 for the loan from BEI and until December 17 for the loan from BNP Paribas. These derivative instruments were contracted with Santander, Unibanco (currently named Banco Itaú BBA S.A.), ABN AMRO (currently named Banco Santander), Citibank, Morgan Stanley and BES.

Statement of Sensitivity Analysis – Effect on the swap fair value variation

For identifying possible distortions on derivative consolidated operations currently in force, a sensitivity analysis was made considering three different scenarios (probable, possible and remote) and the respective impact on the results attained, namely:

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Description	2009	Probable Scenario	Possible Scenario	Remote Scenario
Prefixed debt				
Fair value of swap assets side	97,050	97,050	93,847	90,875
Fair value of swap liabilities side	(87,767)	(87,767)	(86,975)	(86,213)
Swap - Net exposure	9,283	9,283	6,872	4,662
TJLP-indexed debt (partial amount)				
Fair value of swap assets side	323,077	323,077	310,755	299,206
Fair value of swap liabilities side	(321,846)	(321,846)	(321,095)	(320,414)
Swap - Net exposure	1,231	1,231	(10,340)	(21,208)
US- indexed debt (Resolution 2.770, BNP Paribas and BEI)				
Fair value of swap assets side	839,010	839,010	1,088,118	1,352,968
Fair value of swap liabilities side	(943,693)	(943,693)	(947,509)	(951,525)
Swap - Net exposure	(104,683)	(104,683)	140,609	401,443
JPY-indexed debt (Resolution 2.770)				
Fair value of swap assets side	188,970	188,970	236,213	283,455
Fair value of swap liabilities side	(177,859)	(177,859)	(178,127)	(178,389)
Swap - Net exposure	11,111	11,111	58,086	105,066

The Company and its subsidiaries own only financial derivative instruments intended to hedge their financial debt. As a consequence, the changes in the economic scenarios leading to positive or negative effects in the fair value of the derivatives produce opposite effects for the debts hedged. In connection with these operations, the Company and its subsidiaries disclosed the fair value of items hedged (debt) and the financial derivative instrument on separate lines, (see above), so as to provide information on the Company's and its subsidiaries' net exposure in each of the three scenarios focused.

Note that all operations with financial derivative instruments contracted by the subsidiaries are solely intended as a safeguard for assets. As a consequence, any increase or decrease in the respective market value will correspond to an inversely proportional change in the financial debt contracted under the financial derivative instruments contracted by the subsidiaries.

Our sensitivity analyses referring to the derivative instruments in effect as of December 31, 2009 basically rely on assumptions relating to variations of the market interest rate and TJLP, as well as variations of foreign currencies underlying the swap contracts. These assumptions were chosen solely because of the characteristics of our derivative instruments, which are exposed only to interest rate and exchange rate variations.

Given the characteristics of the subsidiaries' financial derivative instruments, our assumptions basically took into consideration the effect of reduction of the main indices (CDI and TJLP) and fluctuation of foreign currencies used in

swap operations (USD and JPY), with the following percentages and quotations as a result:

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Risk Variable	Probable Scenario	Possible Scenario	Remote Scenario
CDI	8.55 %	10.69 %	12.83 %
TJLP	6.00 %	7.50 %	9.00 %
USD	1.7412	2.1765	2.6132
JPY	0.0188	0.235	0.0284

A Table of Gains and Losses for the year

Descriptive Table of Gains and (Losses) on Derivatives

2009

Fixed interest risk vs. CDI	3,186
TJLP risk vs. CDI	2,395
USD exchange risk vs. CDI	(197,061)
JPY exchange risk vs. CDI	(214,006)
Net losses	(405,486)

33. Pension plans and other post-employment benefits

	2008	2009
Term of atypical contractual relationship ("TRCA")	4,290	4,067
PAMA	1,946	3,187
PAMEC/assets policy	189	273
	6,425	7,527

Supplementary Defined Contribution Plan

On August 7, 2006, the Company's Board of Directors approved the implementation of a supplementary defined contribution plan administered by Itaú Vida e Previdência S.A. for the Company and its subsidiaries. All employees not yet entitled to pension plans sponsored by the Company and its subsidiaries are eligible for the Supplementary Defined Contribution Plan.

The Company recorded expenses of R\$ 3,353 related to contributions to this defined contribution plan during 2009 (R\$6,535 in 2008 and R\$7,962 in 2007).

Term of Atypical Contractual Relationship ("TRCA")

The Company is sponsor, as successor from the partial spin-off of Telecomunicações do Paraná S.A. - TELEPAR, of the pension supplementation plans introduced in 1970 by a Collective Agreement Document, approved by the Atypical Contractual Relationship Document entered into by the Company and the labor unions representing the

major professional categories of employees.

This agreement covers 86 employees hired before December 31, 1982, who are entitled to additional retirement benefits, only if they retire after having worked for the minimum time required for retirement (30 years for men and 25 years for women).

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In June 1998, after the breakup of Telebrás, the Company opted for the extinction of this additional pension plan. As a consequence of the extinction of the plan, the Company allowed its participants to receive a payment in cash for the accumulated benefits or to transfer them to the PBS-A-Sistel plan. Most participating employees opted for the cash payment or adherence to the PBT-SISTEL Plan, and the remaining provisioned amount of R\$4,067 at December 31, 2009 (R\$4,290 in 2008) will be used to cover the benefits of those employees who have not opted yet (4 employees as of December 31, 2009 and 2008).

TIMPREV and SISTEL

The Company and its subsidiaries TIM Nordeste and TIM Celular sponsor a defined benefit pension plan for a group of employees from the former Telebrás system, as a result of legal provisions established at the time of that company's privatization in July 1998. The plan is administered by the Fundação Sistel de Seguridade Social – SISTEL.

During 1999 and 2000, each sponsor of the plans managed by SISTEL began creating their own individual retirement plans. The sponsors maintained the joint plan only for those participants who had retired prior to January 31, 2000. During 2002, the Company began structuring a defined contribution plan that would permit a migration to such plan to the employees under the defined benefit plan.

On November 13, 2002, through Notification No. 1,917 CGAJ/SPC, the Secretary of Complementary Pension approved the new defined contribution pension plan, TIMPREV, which provides new conditions for the granting and maintenance of benefits, as well as the rights and obligations of the Plan Administration Entity, the Sponsors, the Participants and their respective beneficiaries.

Over 90% of the Company's participants of the prior plan migrated to the new plan through the deadline for migration on January 29, 2003.

Under the new plan, the Company matches employee contributions at 100%. In accordance with the terms and conditions of the approved plan, TIMPREV provides the benefits listed below:

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

However, as there was not a complete migration of the employees to TIMPREV, the pension and health care plans originated from the Telebrás system continue to exist and are summarized below:

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;

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PBS Assistidos: a private, multi-sponsored pension plan for employees receiving benefits;

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

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

PBT: defined-benefit plan 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, and approved by CVM Deliberation No, 371, the actuarial position of these plans represents a surplus not recorded by the Company as it was impossible to recover these amounts, and also considering that the amount of contributions will not be reduced for the future sponsor.

On January 29, 2007 and April 9, 2007, through the Supplementary Social Security Secretariat (SPC), the Ministry of Social Security approved the transfer of the benefit plans management: “PBS–Tele Celular Sul”, “TIM Prev Sul”, “PBT–TIM” “Convênio de Administração”, “PBS–Telenordeste Celular” and “TIM Prev Nordeste” (according to Communications SPC/DETEC/CGAT, n°s, 169, 167, 168, 912, 171 and 170, respectively) from SISTEL”, to “HSBC – Fundo de Pensão”.

The other plans – “PAMA and PBS – Assistidos” – continue to be managed by SISTEL”. The only exception is “Plano PAMEC/Apólice de Ativos”, which was terminated, with the Company remaining responsible for coverage of the respective benefit, from now on called “PAMEC/Apólice de Ativos”.

In view of the approval of the proposed migration by the Administrative Council in January 2006, and those of the Ministry of Social Security, the transfer of the above mentioned Funds from SISTEL” to “HSBC – Fundo de Pensão” came into effect in April 2007.

During the year ended December 31, 2009, the contributions to the pension funds and other post-employment benefits totaled R\$182 (R\$224 in 2008 and R\$247 in 2007).

The actuarial position of assets and liabilities related to pension and health care plans as of December 31, 2008 and December 31, 2009 is shown below, considering the rules defined in IBRACON NPC-26, as approved by CVM Instruction 371 for the plans existing prior to TIMPREV, and which still have active members.

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a) Effects as of December 31:

	PBS	PBS Assistidos	Convênio de Administração	Plans PAMEC/ Apólice de Ativos	PBT	PAMA	TRCA	2009	2008
Reconciliation of assets and liabilities at Dec 31, 2009	(*)	(*)	(*)		(*)				
Present value of actuarial liabilities	26,205	5,373	864	273	1,420	5,074	4,067	43,276	39,796
Fair value of plan assets	(50,606)	(8,475)	(2,273)	-	(2,064)	(1,887)	-	(65,305)	(60,849)
Present value of liabilities in excess of fair value of assets	(24,401)	(3,102)	(1,409)	273	(644)	3,187	4,067	(22,029)	(21,053)
Net actuarial liabilities (assets)	(24,401)	(3,102)	(1,409)	273	(644)	3,187	4,067	(22,029)	(21,053)

(*) No asset was recognized by the sponsor because this excess is not refundable and because future sponsor contributions will not be reduced.

b) Changes in net actuarial liabilities (assets)

	PBS	PBS Assistidos	Convênio de Administração	Plans PAMEC/ Apólice de Ativos	PBT	PAMA	TRCA
Net actuarial liabilities (assets) at Dec 31, 2008	(22,102)	(3,135)	(1,282)	189	(960)	1,946	4,290
Expense (income) recognized in prior year's income	(2,756)	(330)	(158)	22	(120)	218	471
Sponsor's contributions	-	-	-	(9)	-	(5)	(288)
Actuarial (gains) losses recognized	457	363	31	71	436	1,028	(406)
Net actuarial liabilities (assets) at Dec 31, 2009	(24,401)	(3,102)	(1,409)	273	(644)	3,187	4,067

c) Statement of loss (gain)

	PBS	PBS Assistidos	Convênio de Administração	Plans PAMEC/ Apólice de Ativos	PBT	PAMA	TRCA
(Gains) losses on actuarial liabilities	1,017	423	(36)	71	17	1,018	(406)
(Gains) losses on plan assets	(560)	(60)	67	-	419	10	-
Losses on employees' contributions	-	-	-	-	-	-	-
(Gains) losses at Dec 31, 2009	457	363	31	71	436	1,028	(406)

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d) Reconciliation of present value of liabilities

	PBS	PBS Assistidos	Convênio de Administração	Plans PAMEC/ Apólice de Ativos	PBT	PAMA	TRCA
Liabilities at Dec 31, 2008	24,445	4,850	870	189	1,387	3,764	4,290
Cost of current service	(8)	-	-	-	-	23	-
Interest on actuarial liabilities	2,770	549	99	22	156	436	471
Benefits paid in the year	(2,017)	(450)	(69)	(9)	(142)	(168)	(288)
(Gains) losses on liabilities	1,015	424	(36)	71	19	1,019	(406)
Liabilities at Dec 31, 2009	26,205	5,373	864	273	1,420	5,074	4,067

e) Reconciliation of fair value of assets

	PBS	PBS Assistidos	Convênio de Administração	Plans PAMEC/ Apólice de Ativos	PBT	PAMA	TRCA
Fair value of assets at Dec 31, 2008	46,547	7,985	2,152	-	2,347	1,818	-
Benefits paid in the year	(2,017)	(450)	(69)	(9)	(141)	(167)	-
Participants' contributions	-	-	-	-	-	-	-
Sponsor's contributions	-	-	-	9	-	5	-
Actual yield on assets in the year	6,076	940	190	-	(142)	232	-
Fair value of assets at Dec 31, 2009	50,606	8,475	2,273	-	2,064	1,888	-

f) Expenses expected for 2010

	PBS	PBS Assistidos	Convênio de Administração	Plans PAMEC/ Apólice de Ativos	PBT	PAMA	TRCA
Cost of current service (including interest)	10	-	-	-	-	31	-
Interest on actuarial liabilities	2,784	570	92	29	151	552	415

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Expected yield on assets	(4,893)	(779)	(221)	-	(198)	(169)	-
Participants' expected contributions for next year	-	-	-	-	-	-	-
Total expenses (income) to be recognized, net	(2,099)	(209)	(129)	29	(47)	414	415

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Actuarial assumptions adopted in the calculation

The main actuarial assumptions adopted in the calculation were as follows:

Nominal discount rate of actuarial liabilities:	11.08% p.a.
Expected nominal yield rate on plan assets:	PBS-A: 9.44% p.a. PAMA: 9.42% p.a. Convênio de Administração: 9.88% p.a. PBT-TIM: 9.88% p.a. PAMEC: N/A PBS-TCS: 9.88% p.a. PBS-TNC: 9.88% p.a. ATÍPICO: N/A
Estimated nominal rate of salary increase:	6.28% p.a.
Estimated nominal rate of benefit increase:	4.20% p.a.
Biometric general mortality table:	AT83 segregated by gender
Biometric disability table:	Mercer Disability Table
Estimated turnover rate:	Nil
Retirement likelihood:	100% upon first eligibility to a plan benefit
Estimated long-term inflation rate	4.20%
Computation method	Projected Credit Unit Method

34. Directors' fees

The Company and its subsidiaries' directors' fees paid during the year ended 2009 were R\$7,569 (R\$ 10,063 in 2008 and R\$8,862 in 2007).

35. 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, 2009, they have insurance coverage against operating risks, third party liability, and health, among others. The Management of the Company and its subsidiaries find the insurance coverage sufficient to cover possible losses. The table below shows the main assets, liabilities or interests insured and the respective amounts:

Types	Amounts insured
Operating risks	R\$16,122,608
General Third Party Liability – RCG	R\$40,000
General Third Party Liability – RCG	R\$23,370
Cars (Executive and Operational Fleets)	100% Fipe. Table R\$1,000 for civil liability (Material and Physical Damages) and R\$ 100 for Material Damages.
Cars	100% Fipe. Table R\$1,700 for civil liability (Material and Physical Damages), R\$200 for Material Damages

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36. Transactions with Grupo Telefónica

On April 28, 2007, Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca S.p.A., Sintonia S.p.A. and Telefónica S.A. entered into an agreement to purchase the entire share capital of Olimpia S.p.A., a company which, in turn, held approximately 18% of the voting capital of Telecom Italia S.p.A., the Company's ultimate parent company. This acquisition was made through a company named Telco S.p.A. ("Telco"). With the authorization of the transaction in October 2007, Telco held 23.6% of the voting capital of Telecom Italia S.p.A.

Through its Act n° 68.276/2007 dated of November 5, 2007, ANATEL approved the transaction and imposed certain restrictions which aim to guarantee independence of businesses and operations performed by the Telefónica and TIM group companies in Brazil. In order to implement ANATEL's requirements, TIM Brasil, TIM Celular and TIM Nordeste submitted to ANATEL the necessary measures to ensure this independence in Brazil, so that Telefónica's participation in Telco S.p.A. cannot generate or be considered to influence the financial, operational and strategic decisions made by TIM Group Brazilian companies. As a result of ANATEL's requirements, TIM continues to operate in the Brazilian market with the same independence and autonomy as before the transaction.

As of December 31, 2009, the agreements between Group TIM operating companies controlled by TIM Participações and the operating companies of Telefónica Group in Brazil, refer solely to telecommunication services covering interconnection, roaming, site sharing and co-billing procedures, as well as contracts relating to CSP (provider operation code), in accordance with the current legislation. Receivables and payables related to these agreements amount to R\$133,504 and R\$99,145, as of December 31, 2009 and R\$153,692 and R\$122,951, as of December 31, 2008, respectively. Operating revenues and expenses recorded by the Company for the year ended December 31, 2009 after approval of the transaction amount to R\$1,385,261 and R\$915,125 and R\$1,490,027 and R\$924,937 for the year ended December 31, 2008, respectively.

37. Reconciliation between Brazilian GAAP and US GAAP

I Description of differences between Brazilian GAAP and US GAAP

The Company's consolidated financial statements are prepared in accordance with Brazilian GAAP, which accounting practices and policies are described in note 4. Such practices and policies differ significantly from US GAAP.

The tables below represent the reconciliation between the Company's consolidated net income and net equity under Brazilian GAAP and US GAAP:

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Reconciliation of the differences between Brazilian GAAP and US GAAP in income (loss):

	Reference to notes	2007	2008	2009
Net income under Brazilian GAAP		68,302	180,152	214,893
Consolidated adjustments for US GAAP:				
(i) Effects of merger with TND:				
Portion under common control:				
Amortization of customer list and concession (acquisition by TIM Brasil in 1998)	37.I.a(i)	(9,727)	(9,727)	-
Portion acquired from third parties:				
Additional amortization and depreciation expense from write-up to fair value	37.I.a(i)	(75,844)	(62,785)	(14,206)
Deferred tax on the effects of merger with TND	37.I.a(i)	29,094	24,655	4,830
(ii) Effects of acquisition of minority interests of TIM Celular and TIM Nordeste:				
Additional amortization and depreciation expense from write-up to fair value	37.I.a(ii)	(62,401)	(56,996)	(21,507)
Deferred tax on the effects of acquisition of minority interests	37.I.a(ii)	21,216	19,379	7,312
(iii) Effects of acquisition of TIM Celular:				
Common control acquisition of TIM Nordeste S.A.:				
Additional amortization and depreciation expense from write-up to fair value (acquisition by TIM Brasil in 2000 and 2002)	37.I.a(iii)	(267)	(22)	-
(iv) Effects of merger with Holdco/Intelig:				
Adjustments of December, 2009's results	37.I.a(iv)	-	-	16,702
Other consolidated adjustments for US GAAP:				
Capitalized interest	37.I.b	20,284	15,849	18,771
Amortization of capitalized interest	37.I.b	(23,578)	(22,929)	(24,946)
Pre-operating expenses	37.I.c	42,335	41,226	38,050
Provision for pension plan	37.I.d	729	(620)	1,240

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Goodwill amortization	37.I.e	1,581	1,581	-
Handset discounts	37.I.g	52,360	2,775	-
Reversal of the amortization of capitalized interest and foreign exchange variation on concession financing	37.I.h	27,820	27,820	27,820
Deferred tax on the other consolidated adjustments, net of valuation allowance		139	(8,843)	12,205
Net income under US GAAP		92,043	151,515	281,164

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Reconciliation of the differences between Brazilian GAAP and US GAAP in shareholders' equity:

	Reference to notes	2008	2009
Total shareholders' equity, under Brazilian GAAP		7,790,456	8,322,715
Consolidated adjustments for US GAAP:			
(i) Effects of merger with TND:			
Portion under common control:			
Effects of acquisition of TND by TIM Brasil in 1998	37.I.a(i)	118,981	118,981
Portion acquired from third parties:			
Write-up to fair value from acquisition of minority interest	37.I.a(i)	336,268	336,268
Additional amortization and depreciation expense resulting from write-up to fair value	37.I.a(i)	(315,598)	(329,804)
Transaction costs	37.I.a(i)	8,557	8,557
Deferred tax on the effects of merger with TND	37.I.a(i)	(7,028)	(2,198)
(ii) Effects of acquisition of minority interests of TIM Celular and TIM Nordeste:			
Write-up to fair value from acquisition of minority interest	37.I.a(ii)	249,006	249,006
Additional amortization and depreciation expense resulting from write-up to fair value	37.I.a(ii)	(218,199)	(239,706)
Deferred tax on the effects of acquisition of minority interests	37.I.a(ii)	(10,474)	(3,162)
Goodwill	37.I.a(ii)	13,294	13,294
(iii) Effects of acquisition of TIM Celular			
Common control acquisition of TIM Nordeste:			
Effects of acquisition of TIM Nordeste by TIM Brasil in 2000 and 2002	37.I.a(iii)	80,427	80,427
Additional amortization and depreciation expense resulting from write-up to fair value	37.I.a(iii)	(80,427)	(80,427)
(iv) Effects of merger with Holdco/Intelig:			
Acquisition of 100% of outstanding shares and voting interest of Holdco/Intelig	37.I.a(iv)	-	239,706
Other consolidated adjustments for US GAAP:			
Capitalized interest	37.I.b	199,571	218,342
Amortization of capitalized interest	37.I.b	(104,581)	(129,526)

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Pre-operating expenses	37.I.c	(149,029)	(110,979)
Provision for pension plan	37.I.d	1,947	3,187
Goodwill amortization	37.I.e	11,265	11,265
Corporate reorganization – acquisition of minority interest	37.I.f	14,520	14,520
Reversal of capitalized interest and foreign exchange variation on concession financing	37.I.h	(350,326)	(350,326)
Reversal of amortization of capitalized interest and foreign exchange variation on concession financing	37.I.h	264,695	292,515
Effect of deferred taxes on the other consolidated adjustments, net of valuation allowance		23,260	35,464
Shareholders' equity under US GAAP		7,876,585	8,698,119

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a. Acquisitions and Business Combinations

Under Brazilian GAAP, assets acquired and liabilities assumed in a business combination effected through an exchange of shares are recorded at book value as of the date of acquisition designated in the business combination agreement. No goodwill or other fair value adjustments are recorded.

Under US GAAP, net assets acquired in a business combination are recorded at fair value on the acquisition date. The difference between the purchase price and the fair value of the net identifiable assets acquired is recorded as goodwill or negative goodwill. Goodwill is not subject to amortization, but is periodically assessed for impairment. Business combinations of companies under common control are accounted for in a manner similar to a pooling-of-interest based on the historical carrying values of the assets and liabilities of the acquired company. Additionally, the financial statements of the companies under common control are presented on a combined basis for all periods they are under common control.

(i) Acquisition of TND

The Company acquired Tele Nordeste Celular Participações S.A (“TND”) on August 30, 2004 (acquisition date). For Brazilian GAAP purposes, in the year of the acquisition, the results of operations of TND were included in the results of operations of the Company for the entire year, as required by the related merger agreement.

For US GAAP purposes, as both the Company and TND were majority owned by TIM Brasil, a common controlling shareholder, the exchange of shares for the purpose of the merger of TND with and into the Company was considered a business combination of companies under common control and was accounted for in a manner similar to a pooling-of-interest. Accordingly, such exchange of shares, as it related to the portion under common ownership (23.73%) was accounted for at historical carrying values. The portion acquired from third parties (76.27%) was accounted for using the purchase method of accounting (at fair value) on a pro rata basis.

The following is a summary of the shares issued for each portion of the acquisition:

	Preferred Shares	Common Shares
Portion under common control	12,632,514	68,241,478
Portion acquired from third parties	198,519,351	59,353,273
Total	211,151,865	127,594,751

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With respect to the acquisition of minority interest, the merger occurred on the acquisition date. With respect to the portion of the merger under common control, the merger was reflected from 1998, the date TIM Brasil acquired control of both the Company and TND. Therefore, for all periods presented, the Company's and TND's financial statements have been combined. The effects of the acquisition of the portion from third parties are reflected from September 1, 2004.

Portion Under Common Control

In 1998, TIM Brasil acquired ownership control of TND and recorded intangible assets and goodwill in the amount of R\$640,699 as follows:

Customer list	24,932
Concession	107,000
Goodwill	508,767
Total	640,699

The amount of goodwill not allocated was amortized up to December 31, 2001 in accordance with ASC 350 Intangibles – Goodwill and Other (ex-SFAS No. 142), considering a period of 11 years based on the remaining period of the concession. In 2000, TIM Brasil concluded a restructuring process in which an amount of R\$204,781, related to the fiscal benefit of such goodwill, was pushed down to TND, which was recorded as deferred tax assets. The intangible assets related to customer list and concession have been amortized since 1998. Therefore, for US GAAP purposes and in connection with the merger, the remaining goodwill recorded by TIM Brasil related to TND was pushed down to the Company. As of December 31, 2008 and December 31, 2009, the effect of the push down was as follows:

	2008	2009
Total amount acquired in 1998	640,699	640,699
Fiscal benefit resulting from goodwill pushdown	(204,781)	(204,781)
Accumulated amortization of goodwill, amortized up to December 31, 2001	(185,006)	(185,006)
Accumulated amortization of customer list, fully amortized by December 31, 2002	(24,932)	(24,932)
Accumulated amortization of concession	(106,999)	(106,999)
	118,981	118,981
Deferred tax liability related to concession	-	-
Total effect of push down	118,981	118,981

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The adjustments to reflect the additional amortization expense under US GAAP from the write-up to fair value for the acquisition of TND by TIM Brasil in 1998 were R\$9,727 in each year.

-Customer list of R\$24,932 with annual amortization expense of R\$4,986 was fully amortized by December 31, 2002.

-Concession of R\$107,000 with annual amortization expense of R\$9,727 was fully amortized by December 31, 2008.

-Goodwill of R\$508,767 was amortized up to December 31, 2001 and in accordance with ASC 350 (ex-FAS No. 142), beginning in 2002 this goodwill was not subject to amortization.

Portion Acquired from Third Parties

For US GAAP purposes, the value of the shares issued for the portion acquired from third parties was determined based on the average market price of the Company's shares over the 2-day period before and after the terms of the acquisition were agreed to and announced (June 1, 2004). The purchase price for the acquisition of the interest held by third parties of R\$960,092 was calculated as follows:

Fair market value of the Company shares issued to third party shareholders (198,519,351 preferred shares x R\$3.843 per share, and 59,353,273 common shares x R\$3.148 per share)	949,755
Fair value of options held by TND employees	1,780
Acquired business acquisition costs	8,557
Purchase price	960,092

The purchase price of the transaction related to the third parties was allocated as follows:

Fair value increments:	
Property, plant and equipment	58,264
Concession	121,319
Customer list	156,685
Deferred tax liability	(114,331)
Adjustments to fair value	221,937
Remaining net book value of identifiable net asset acquired and liabilities assumed which approximates fair value	738,155
Purchase price	960,092

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The balances of the fair value increments and the related deferred income taxes at December 31, 2008 and December 31, 2009 were:

	2008			Total
	Property, plant and equipment	Concession	Customer list	
Cost	58,264	121,319	156,685	336,268
Accumulated amortization/depreciation	(42,088)	(116,825)	(156,685)	(315,598)
	16,176	4,494	-	20,670
Deferred income taxes	5,500	1,528	-	7,028
	2009			Total
	Property, plant and equipment	Concession	Customer list	
Cost	58,264	121,319	156,685	336,268
Accumulated amortization/depreciation	(51,800)	(121,319)	(156,685)	(329,804)
	6,464	-	-	6,464
Deferred income taxes	2,198	-	-	2,198

The additional amortization and depreciation expense resulting from the write-up to fair value of the above-mentioned fair value increments under US GAAP was R\$75,844 (R\$50,057, net of tax), R\$62,785 (R\$41,439, net of tax), and R\$14,206 (R\$9,376, net of tax) for the year ended December 31, 2007, 2008 and 2009, respectively.

-Property, plant and equipment of R\$58,264 with annual depreciation expense of R\$9,712 is being amortized over its average useful life of 6 years.

-Customer list of R\$156,685 with annual amortization expense of R\$39,171, was totally amortized over its useful life of 4 years, finished in 2008.

-Concession of R\$121,319 with annual amortization expense of R\$4,494 was totally amortized over its useful life of 4.5 years, finished in 2009.

The Company incurred transaction costs of R\$11,220 associated with the merger. These costs include fees paid to investment bankers, attorneys and accountants. These costs were fully expensed for Brazilian GAAP purposes. For US GAAP purposes, the Company included those costs related to the portion of the transaction subject to purchase accounting, R\$8,557, in the acquisition cost.

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(ii) Acquisition of minority interests of TIM Sul and TIM Nordeste Telecomunicações:

The shareholders of the Company approved the acquisition of the minority interests of TIM Sul and TIM Nordeste Telecomunicações on May 30, 2005 (acquisition date), making the companies into wholly-owned subsidiaries of the Company. For Brazilian GAAP purposes the effects of the acquisition are reflected from April 1, 2005, in accordance with the Protocol and Justification of Merger agreement, and for US GAAP purposes from June 1, 2005.

The following is a summary of the Company shares issued to the minority interests of each of the subsidiaries:

	TIM Sul	TIM Nordeste Telecomunicações	Total
Preferred Shares	63,464,535	68,122,264	131,586,799
Common Shares	18,991,743	9,732,506	28,724,249
	82,456,278	77,854,770	160,311,048

For US GAAP purposes, the value of the shares issued was determined based on the average market price of the Company's shares over the 2-day period before and after the terms of the acquisition were agreed to and announced (April 27, 2005). The purchase price for the acquisition of R\$624,156 was calculated as follows:

Fair market value of Company shares issued to minority shareholders (131,586,799 preferred shares x R\$3.858 per share, and 28,724,249 common shares x R\$3.788 per share)	616,389
Acquisition costs	7,767
Purchase price	624,156

The purchase price of the transaction was allocated as follows:

Fair value increments:	
Property, plant and equipment	39,412
Concession	73,771
Customer list	135,823
Deferred tax liability	(84,662)
Adjustments to fair value	164,344
Remaining net book value of identifiable net asset acquired and liabilities assumed which approximates fair value	446,518
Goodwill	13,294
Purchase price	624,156

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The balances of the fair value increments and the related deferred income taxes at December 31, 2008 and 2009 were:

	2008			
	Property, plant and equipment	Concession	Customer list	Total
Cost	39,412	73,771	135,823	249,006
Accumulated amortization/depreciation	(23,542)	(72,982)	(121,675)	(218,199)
	15,870	789	14,148	30,807
Deferred income taxes	5,396	268	4,810	10,474
	2009			
	Property, plant and equipment	Concession	Customer list	Total
Cost	39,412	73,771	135,823	249,006
Accumulated amortization/depreciation	(30,112)	(73,771)	(135,823)	(239,706)
	9,300	-	-	9,300
Deferred income taxes	3,162	-	-	3,162

The additional amortization and depreciation expense resulting from the write-up to fair value of the above-mentioned fair value increments under US GAAP was R\$62,401 (R\$41,185 net of tax), R\$56,996 (R\$37,617 net of tax), and R\$21,507 (R\$14,195 net of tax) for the year ended December 31, 2007, 2008 and 2009, respectively.

-Property, plant and equipment of R\$39,412 with annual depreciation expense of R\$6,570 is being amortized over its average useful life of 6 years.

-Customer list of R\$135,823 with annual amortization expense of R\$14,148, was fully amortized over its useful life of 4 years, finished in 2009.

-Concession of R\$73,771 with annual amortization expense of R\$789, was fully amortized over its useful life of 3.4 years, finished in 2009.

The Company incurred transaction costs of R\$7,767 associated with the acquisition. These costs include fees paid to investment bankers, attorneys and accountants. These costs were fully expensed for Brazilian GAAP purposes. For US GAAP purposes, the Company included those costs related to the portion of the transaction subject to purchase accounting in the acquisition cost.

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(iii) Acquisition of TIM Celular

The Company acquired TIM Celular and its wholly-owned subsidiaries, TIM Nordeste, CRC and Blah on March 16, 2006. For Brazilian GAAP purposes, in the year of acquisition, the results of operations of the TIM Celular were included in the results of operations of the Company for the entire year, as required by the merger agreement.

For US GAAP purposes, as both the Company and TIM Celular are majority owned by TIM Brasil, a common controlling shareholder, the exchange of shares for the purpose of the merger of TIM Celular with and into the Company is considered a business combination of companies under common control and was accounted for in a manner similar to a pooling-of-interest. Accordingly, such exchange of shares was accounted for at historical carrying values. The merger was reflected from 2000, the year TIM Brasil formed TIM Celular and, consequently, had control of both the Company and TIM Celular.

TIM Celular acquired TIM Nordeste from TIM Brasil on October 28, 2004. For Brazilian GAAP purposes, TIM Celular recorded the acquisition of TIM Nordeste using the book value of the net assets acquired at September 30, 2004, in accordance with the merger agreement. The results of operations of TIM Nordeste were also consolidated by TIM Celular beginning on that date.

TIM Celular acquired CRC and Blah from TIM Brasil, on December 21, 2005. For Brazilian GAAP purposes, TIM Celular recorded the acquisition of CRC and Blah using the book value of the net assets acquired at November 30, 2005, in accordance with the merger agreement. The results of operations of CRC and Blah were consolidated by TIM Celular beginning on that date.

For US GAAP purposes, because the Company, TIM Nordeste, CRC and Blah are majority owned by TIM Brasil, a common controlling shareholder, the mergers of TIM Nordeste, CRC and Blah with and into TIM Celular are considered business combinations of companies under common control and were accounted for in a manner similar to a pooling-of-interest. Accordingly, such acquisitions were accounted for at historical carrying values. The mergers were reflected from 1998, 2001 and 2000, the date TIM Brasil formed TIM Nordeste, CRC and Blah, respectively, and, consequently, had control of the Company, TIM Nordeste, CRC and Blah.

For Brazilian GAAP purposes, TIM Celular recorded its acquisition of TIM Nordeste based on the net assets of TIM Nordeste as reflected in TIM Nordeste's books. For US GAAP purposes, the acquisition of TIM Nordeste was recorded based on the US GAAP carrying value of TIM Nordeste as reflected in TIM Brasil's books. The adjustments in the reconciliation relate to prior purchase price allocations related to TIM Brasil's minority interest acquisitions of TIM Nordeste.

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(iv) Effects of merger with Holdco/Intelig

On December 30, 2009 (“the acquisition date”), TIM Participações, acquired 100% of the outstanding shares and voting interest of Holdco Participações Ltda, which held 100% of the outstanding shares of Intelig Telecomunicações Ltda (Holdco Participações Ltda. and Intelig Telecomunicações Ltda. are collectively referred as “Intelig”).

The results of Intelig’s operations have not been included in the 2009 U.S. GAAP consolidated financial statements since the acquisition date was December 30, therefore only the balance sheet has been consolidated. Intelig is a provider of long distance and fixed line telecommunication services in Brazil. As a result of the acquisition, the Company will expand its long distance and fixed line services in Brazil. The Company expects to achieve significant synergies and cost reductions by eliminating redundant processes and facilities.

The acquisition-date fair value of the consideration transferred totaled R\$739,729, which consisted of the following:

Common stock (43,356,672 shares)	310,000
Preferred stock (83,931,352 shares)	429,729
Total	739,729

The fair value of the 43,356,672 common shares and 83,931,352 preferred shares issued was determined based on the closing market price of the Company’s common and preferred shares on the acquisition date.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

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At December 30, 2009:

Cash	1,682
Accounts receivable	163,071
Taxes Recoverable	23,919
Escrow deposits	33,452
Property, plant and equipment	742,754
Intangibles	130,842
Other assets	24,720
Total identifiable assets acquired	1,120,440
Current liabilities	(207,803)
Long term debt	(118,402)
Contingencies	(23,766)
Long term taxes payable	(5,157)
Other long term payable	(25,583)
Total liabilities assumed	(380,711)
Net identifiable assets acquired	739,729

Under Brazilian GAAP, the acquisition was recorded based on book value of the net assets, while for US GAAP the acquisition was recorded based on the fair value of the net assets acquired. The difference of net identifiable assets acquired based on book value and the estimated fair value of R\$239,706 was basically related to property, plant and equipment.

Acquired contingencies relate mainly to tax and regulatory lawsuits in which Intelig is the defendant.

The fair value of accounts receivables acquired is R\$163,071, with the gross contractual amount being R\$541,209. The Company expects that R\$378,138 to be uncollectible.

The Company recognized R\$10,000 of acquisition related costs that were expensed in the current period. These costs are included in the income statement as general and administrative expenses. The Company also recognized R\$100 in costs associated with issuing and registering the shares issued as consideration in the business combination.

Those costs were deducted from the recognized proceeds of issuance within stockholders' equity.

According to Brazilian GAAP, due to specific corporate rules, the acquisition of Holdco (and consequently consolidation of Intelig) was made as of November 30, 2009. The amount of R\$16,702 in the income reconciliation per Brazilian and US GAAP reconciliation table represents the reversal of the Intelig losses during December 2009, which was recognized by the Company in the Brazilian GAAP financial statements.

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We present below the consolidated pro forma financial data for the years ended December 31, 2008 and 2009, which are not audited, which were prepared based on the Company's historical financial statements, considering the merger discussed in Note 2.b had occurred on January 1, 2008. The pro forma financial statements were prepared considering the balances of TIM Participações, its direct and indirect subsidiaries and Intelig, and eliminating intercompany balances where applicable.

The pro-forma financial information does not intend to represent what the effect on the Company's consolidated operations would have been had the transaction in fact occurred at the beginning of each year, nor are they intended to predict the Company's results of operations.

	Unaudited pro forma consolidated information	
	2008	2009
Net revenues	13,668,184	13,641,500
Income from continued operating	732,709	450,080
Profit (loss) for the year	(141,806)	741,015

b. Capitalization of interest and the respective amortization

According to Brazilian GAAP applicable to the telecommunications sector through December 31, 1998, (i) the interest attributable to construction in progress was calculated at 12% per year on the balance of construction in progress (ii) the portion related to interest on third-party loans was credited to financial expenses on the basis of actual financial costs and (iii) the balance related to the Company's own capital was credited to shareholders' equity. Beginning in 1999, the Company and its subsidiaries started to capitalize interest on specific loans based on the respective interest rates that are specifically related to the financing of specific construction in progress.

For US GAAP purposes, interest on loans is capitalized up to the total of construction in progress. The credit is a reduction of financial expenses.

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The effects of these different criteria for capitalizing and amortizing capitalized interest are presented below:

	2007	2008	2009
Capitalized interest difference			
US GAAP capitalized interest:	31,631	18,496	20,916
Less Brazilian GAAP capitalized interest:	(11,347)	(2,647)	(2,145)
US GAAP difference	20,284	15,849	18,771
Amortization of capitalized interest difference			
Brazilian GAAP amortization of capitalized interest:	9,957	6,922	6,872
Less US GAAP amortization of capitalized interest:	(33,535)	(29,851)	(31,818)
US GAAP difference	(23,578)	(22,929)	(24,946)

c. Pre-operating expenses

Under Brazilian GAAP, pre-operating expenses incurred may be deferred until the commercial operations begin. Subsequently all costs related to the organization and start-up of a new business may be capitalized to the extent that they are considered recoverable. The amounts are amortized over a period of five to ten years.

Under US GAAP, the rules are generally more restrictive as to the costs that can be capitalized and the periods over which such costs are amortized and these expenses are normally charged to operations.

d. Pensions and other post-retirement benefits

As discussed in note 33, the Company and its subsidiaries sponsor pension plans and other post-retirement benefit plans. Through December 31, 1999 all plans were considered to be multi-employer defined benefits plans, in which the Company and its subsidiaries contribute towards the pension and other post-retirement benefits on the basis of a fixed percentage of salary, as annually recommended by independent actuaries. For the purposes of the financial statements under the accounting practices established by Brazilian GAAP and for US GAAP purposes, the companies recognized the expenses for the contributions to the multi-employer defined plans on the accrual basis and disclose their annual contributions.

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In December 1999, the Company announced its intention to withdraw from the plans sponsored by all the companies belonging to the TELEBRÁS system covering active employees while remaining jointly and severally liable solely for the obligations under the pension and health care plans covering retirees and their dependants. In the consolidated financial statements under Brazilian GAAP this change had no accounting impact and the contributions to the plans sponsored exclusively by the Company are still recognized as expenses on the accrual basis.

For US GAAP purposes, since the sponsors decided to split-off the total assets and related actuarial obligations for the multi-employer plan prior to December 31, 1999 the Company recognized a contingent liability, which was probable and estimable, for the accrued pension cost as of such date. The funded status of those plans was recognized as of December 31, 1999, in shareholders' equity and in net income for the year, as required by ASC 715 (ex-SFASs No. 87, 106, and 158) "Compensation – Retirement Benefits." The provisions of ASC 715 concerning the calculation of the funded status were applied with effect from January 1, 1992, since it was impossible to apply them from the effective date specified in the standard.

At December 31, 2008 and 2009, the liability of R\$1,946 and R\$3,187, respectively, related to multiemployer plans (PAMA) recorded under Brazilian GAAP was reversed for US GAAP purposes.

e. Goodwill amortization

The Company has recognized goodwill of R\$16,669 in 2000 related to acquisition of minority interest on TIM Sul (merged by TIM Celular). For Brazilian GAAP purposes such goodwill has been amortized up until 2008, according to its estimated useful life of 10 years. For US GAAP purposes, the goodwill is not subject to amortization beginning January 1, 2002. The amount of such amortization for the years ended December 31, 2007 and 2008 is R\$1,581 for each year. The goodwill was fully amortized in 2008.

For US GAAP purposes, as required by ASC 350 (ex-SFAS No. 142), the Company makes annual assessments of all goodwill amounts recorded, including the amount discussed above. Based on management's assessment of the fair value of the Company's recorded goodwill amounts, there was no impairment recorded for US GAAP purposes as of December 31, 2007, 2008 and 2009.

f. Corporate reorganization – acquisition of minority interest

In 2002 the Company started a corporate reorganization, which was concluded in 2003, in which TIM Sul (formerly Telepar Celular S.A) acquired the Company's and minority interests in the other two Company's subsidiaries, Telesc Celular S.A and CTMR Celular S.A, being the owner of 100% of those subsidiaries. Under Brazilian GAAP the accounting was a capital increase by the book value of the two subsidiaries at TIM Sul and a contra account in investments. For the consolidated financial statements purposes this investment was eliminated.

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For US GAAP purposes, the portion of such corporate reorganization related to the acquisition of minority interest was recorded using the purchase method in accordance with ASC 805 (ex-SFAS No. 141) and was recorded based on the fair value.

For the year ended on December 31, 2002, the Company recorded an asset of R\$14,520 and an increase in minority interest, on a consolidated level for US GAAP purposes. The effect on operating and net income was not significant.

g. Handset discounts

From 2004 to July 2006, the Company had combined sales, offering a discount on future telecommunications services to clients that purchased handsets and entered into a service contract (postpaid plan). The price of the handset and the discount were reflected in the clients' future invoices, in equal installments, based on the handsets' original prices. For Brazilian GAAP purposes, the handset sales revenue were recognized at the gross amount when sold and the discounts are recognized on a monthly basis as a reduction in the service revenues. Under US GAAP, in accordance with ASC 605-25 Multiple Element Arrangements (formerly EITF 00-21, "Revenue Arrangements with Multiple Deliverables"), the Company divides this arrangement into separate units of accounting and recognizes the discount on the handset when sold.

h. Capitalized interest and foreign exchange variation on concession financing

For Brazilian GAAP purposes, TIM Nordeste capitalized expenses related to interest and foreign exchange differences on the financing of its concession from 1999 to 2000. Under US GAAP, foreign exchange gains and losses may not be capitalized. In addition, because during the period in question TIM Nordeste was providing mobile telephony services under the concession to its subscribers, the asset would not qualify for the capitalization of interest. Consequently, the interest and foreign exchange differences recorded under Brazilian GAAP from 1999 to 2000, and the related amortization, have been reversed for US GAAP.

i. Earnings (loss) per share

Under Brazilian GAAP, earnings (loss) per share are determined based upon the total number of shares, common and preferred, outstanding as of the end of the period.

Under US GAAP, earnings per share are determined based upon the weighted average number of shares outstanding during the period. Entities whose capital structures include securities that may participate in dividends with common stock according to a predetermined formula should use the two-class method of computing earnings per share as described in ASC 260 (ex-SFAS No. 128), "Earnings per Share".

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Since the preferred and common shareholders have different dividend, voting and liquidation rights, basic earnings per share should be calculated using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for preferred and common shares according to the dividends to be paid as required by the Company's by-laws and participation rights in undistributed earnings. Under the Company's bylaws, if the Company is able to pay dividends in excess of the minimum requirement for preferred shareholders and the remainder of the net income is sufficient to provide equal dividends to both common and preferred shareholders, then the earnings per share will be the same for both common and preferred shareholders.

ASC 260 addresses the allocation of losses under the two-class method. If undistributed earnings must be allocated to participating securities under the two-class method, losses should also be allocated. However, ASC 260 limits this allocation only to situations when the security has: (1) the right to participate in the earnings of the Company, and (2) an objectively determinable contractual obligation to share in losses of the Company. Because the Company's preferred shareholders do not meet the latter requirement, in years of losses, such losses are entirely allocated to the Company's common shareholders. Therefore, basic loss per common share is computed by increasing loss by preferred dividends and dividing by the weighted-average number of common shares outstanding during the period.

The following table sets forth the computation of basic and diluted loss per common and preferred shares:

	Years ended December 31,		
	2007	2008	2009
Numerator:			
Net income for the year under US GAAP	92,043	151,515	281,164
Preferred dividends	(211,987)	(171,144)	(281,164)
Earning (loss) attributable to common shareholders	(119,944)	(19,629)	-
Denominator:			
Weighted-average outstanding shares (in thousand)			
Common	793,766	798,228	799,647
Preferred	1,536,600	1,545,238	1,547,984
Earnings/(loss) per share (basic and diluted)			
Common shares	(0.151)	(0.025)	0.000
Preferred shares	0.138	0.111	0.182

The original financial statements filed with the SEC on June 30, 2010 have been amended due to a computational error in the allocation of net income between preferred and common shares. The earnings per share for preferred shares changed from R\$0.132 to R\$0.182, and the earnings per share for common share from R\$0.096 to R\$0.000.

On May 30, 2007 the shareholders of the Company approved a 1,000 to 1 reverse stock split. The reverse stock split intended facilitate the trading of the Company's shares, which are now being traded through individual shares instead of lots of 1,000 shares.

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j. Incorporation of tax benefit of goodwill by subsidiaries

According to Brazilian GAAP, companies may assign the tax benefit of the goodwill to their subsidiaries in order to receive the tax benefit generated by the amortization of such goodwill. The goodwill is presented as deferred taxes with a contra account in a special reserve within shareholders' equity. The goodwill is subject to normal asset impairment tests. The tax benefit of the deduction of the amortization from the tax basis for income tax and social contribution generates a reduction of income tax and social contribution payable. Therefore, the amount recognized as an expense resulting from tax deductible amortization of goodwill is equal to the reduction in tax on taxable income. Such accounting generates a reduction in taxes payables.

Once the benefit is realized, shares will be issued to the controlling shareholder for the amount of the realized benefit; minority shareholders will be entitled to buy shares in proportion to their interests by paying them directly to the controlling shareholder.

Under US GAAP, goodwill generated internally is not recognized; however, the future tax benefit generated by the amortization of goodwill is recognized as a contribution from the controlling shareholder within additional paid-in capital, similarly to the accounting principles under the Brazilian GAAP. The realization of the tax benefit by the amortization of the goodwill is recognized as a decrease in the value of the deferred tax with a consequent decrease in the tax payable, and does not affect the determination of net income for the period, similar to the accounting principles under the Brazilian GAAP. The net balance of the goodwill and the related provision reversal are considered as deferred tax asset for Brazilian GAAP and US GAAP purposes. The additional capital paid is transferred to capital upon the issuance of the shares. The tax benefit related to this goodwill is subject to the US GAAP income tax recoverability valuation allowance analysis. Based on the projected income and the concession period, in the first two years the amortization was at 4% p.a., and the remaining balance was fully amortized in 2008.

k. Income taxes

Effective January 1, 2007, the Company and its subsidiaries adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (since July 1, 2009 were codified in ASC 740). The Interpretation prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken within an income tax return. For each tax position, the enterprise must determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is then measured to determine the amount of benefit to recognize within the financial statements. No benefits may be recognized for tax positions that do not meet the more likely than not threshold. The benefit to be recognized is the largest amount that is more likely than not to be realized upon ultimate settlement.

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As a result of implementing ASC 740 (former FASB Interpretation 48), the Company's financial statements did not have a material impact and did not result in a cumulative adjustment to retained earnings from the adoption of this interpretation. The Company will continue to recognize interest and penalties in interest expense for unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized income tax benefits is as follows:

	2008	2009
Balance at the beginning of the year	64,762	70,006
Additions based on tax positions	-	-
Interest and penalties	5,244	2,584
Settlements	-	(36,732)
Balance at the end of the year	70,006	35,858

The unrecognized tax benefits are related to several assessment notices against subsidiary TIM Nordeste. See note 19 for details on the assessments.

The Company and its subsidiaries file, separately, income tax returns in the Brazilian federal jurisdiction and are generally no longer subject to federal income tax examinations by tax authorities for years before 2002. As a large taxpayer, the Company and its subsidiaries are under continuous examination by the Brazilian federal tax authorities.

1. Inventories owned by the subsidiaries and provided free of charge to corporate customers

The subsidiaries have agreements with its corporate customers, through which handsets owned by the subsidiaries are provided free of charge to the customer for a period of 24 months, through a right-of-use agreement. Under Brazilian GAAP these handsets are recorded as property, plant and equipment and depreciated over a period of 24 months. The period of 24 months represents the estimated contractual relationship with our subscribers and also the estimated useful life of the handsets.

Under US GAAP the subsidiaries have deferred the inventoriable cost of the handsets provided for customer under this revenue arrangement, as required by ASC 330 Inventory (formerly Accounting Research Bulletin No. 43 – Restatement and Revision of Accounting Research Bulletins as amended by FASB Statement No. 151 – Inventory Costs, an Amendment of ARB No. 43, Chapter 4). Therefore, the cost of handsets under this type of agreement are reclassified from property, plant and equipment to costs of inventory subject to a deferred revenue arrangement, non-current, and amortized over the period of 24 months. The subsidiaries expect to recover the cost through the non-cancellable service arrangement.

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The amounts of inventoriable costs incurred by the Company and reclassified to non-current assets, net of amortization was R\$316,847 and R\$346,278 as of December 31, 2008 and 2009, respectively.

m. Cash equivalents

Under Brazilian GAAP, cash equivalents are investments with maturities of three months or less at the balance sheet date. For US GAAP, cash equivalents are investments with original maturities of three months or less as the time of purchase to be cash equivalents. There was no reclassification identified between Brazilian GAAP and US GAAP.

n. Reversal of common share dividends

Under the Company's by-laws, the Company is required to distribute an aggregate amount equal to at least 25% of the Company's adjusted net income of each fiscal year as a minimum mandatory dividend. Each preferred share is entitled to priority in the allocation of adjusted net income up to its non-cumulative dividend preference, equal to 6% p.a. on the total obtained from dividing the capital stock by the total number of shares issued by the Company.

The Company may refrain from paying the mandatory minimum dividend for a given fiscal year only if the managing bodies of the corporation (i.e., the board of directors and the board of executive officers report to the annual general shareholders' meeting that payment of the mandatory dividend would be "incompatible with the corporation's financial situation.").

Under Brazilian GAAP, the minimum mandatory dividend and any other discretionary dividends must be recognized in the year in which the related income is earned.

Under US GAAP, only the minimum mandatory dividend is recognized in the year in which the distributable profits are earned. Any other discretionary dividends are recognized in the period in which the dividends are approved by the Company's shareholders.

o. Liability related to reverse stock split

In 2007 the Company performed a reverse stock split of its shares. At that time, every group of 1,000 shares was converted to 1 share. As a result the reverse stock split, a liability of R\$20,669 was generated by the Company due to fractions of shares to refund the shareholders. Under Brazilian GAAP, such liability was classified in noncurrent liability, considering that it is not probable that an effective cash out will occur in the near future. Under US GAAP, the liability was classified as current liabilities since it is payable on demand.

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II Changes in shareholders' equity under US GAAP

Balances as of December 31, 2007	7,886,571
Net income	151,515
Preferred dividends (note 21-d)	(171,144)
Lapsed dividends	9,643
Balances as of December 31, 2008	7,876,585
Net income	281,164
Preferred dividends (note 21-d)	(204,149)
Capital increase with Holdco incorporation	739,729
Lapsed dividends	4,790
Balances as of December 31, 2009	8,698,119

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38. Additional disclosures required by US GAAP

a. Condensed Consolidated Balance Sheets and Statements of Operations – US GAAP

The following are the condensed consolidated balance sheets of the Company under US GAAP at December 31, 2008 and 2009:

ASSETS	2008	2009
Current assets		
Cash and cash equivalents	1,531,543	2,413,032
Short-term investments	23,048	146,145
Accounts receivable, net	2,635,355	2,480,143
Inventories	548,514	406,434
Recoverable taxes	603,353	906,153
Deferred tax and social contribution	59,356	55,105
Prepaid expenses	155,825	238,270
Operations with derivatives	260,925	49,237
Other current assets	26,839	94,398
Total current assets	5,844,758	6,788,917
Noncurrent assets		
Long-term investments	9,911	16,567
Accounts receivable, net	-	41,269
Recoverable taxes	226,975	221,738
Deferred tax and social contribution	131,463	231,879
Prepaid expenses	13,693	9,847
Judicial Deposits	143,924	227,521
Operations with derivatives	126,648	29,027
Other noncurrent assets	324,116	358,142
Property, plant and equipment, net	4,609,281	5,321,180
Intangibles, net	4,747,564	4,432,983
Goodwill	161,605	161,605
Total assets	16,339,938	17,840,675

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LIABILITIES AND SHAREHOLDERS' EQUITY	2008	2009
Current liabilities		
Accounts payable and accrued expenses	4,028,926	3,922,341
Loans and financing	1,482,705	1,417,363
Operations with derivatives	52,448	48,122
Deferred income tax and social contribution	14,703	14,582
Dividends and interest on shareholders' equity payable	193,365	224,652
Other current liabilities	134,086	142,719
Total current liabilities	5,906,233	5,769,779
Noncurrent liabilities		
Loans and financing	2,066,514	2,742,595
Operations with derivatives	10,814	113,200
Provision for contingencies	253,370	208,167
Deferred income tax and social contribution	10,141	12,700
Asset retirement obligations	211,802	237,094
Other noncurrent liabilities	4,479	59,021
Shareholders' equity	7,876,585	8,698,119
Total liabilities and shareholders' equity	16,339,938	17,840,675

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The following are the condensed consolidated statements of operations of the Company under US GAAP for the years ended December 31, 2007, 2008 and 2009. As mentioned in note 3.c, in order to follow a preferable classification of penalties charged from customers due to fidelity contracts termination, the Company and its subsidiaries reclassified R\$68,718 in 2008 and R\$43,733 in 2007, previously classified as other operating income, to gross operating revenue:

	2007 As adjusted	2008 As adjusted	2009
Net revenues	12,536,140	13,149,951	13,054,397
Costs of goods sold and services rendered	(6,752,292)	(7,084,445)	(6,739,375)
Gross profit	5,783,848	6,065,506	6,315,022
Operating income (expenses):			
Selling, general and administrative	(4,900,346)	(5,203,793)	(5,464,141)
Other operating expenses	(413,856)	(450,517)	(352,474)
	(5,314,202)	(5,654,310)	(5,816,615)
Operating profit	469,646	411,196	498,407
Financial expenses, net	(261,216)	(359,126)	(236,074)
Income before taxes	208,430	52,070	262,333
Income tax benefit (expense)	(116,387)	99,445	18,831
Net income for the year	92,043	151,515	281,164

b. Pension and other post-retirement benefits

As discussed in note 33, the Company, and practically all other companies belonging to the TELEBRÁS system, participates in multi-employer defined post retirement pension and other benefits plans operated and managed by SISTEL.

In December 1999, the Company and the other companies participating in the plans identified in these consolidated financial statements as PBS-A-SISTEL and PAMA-SISTEL reached an agreement to remove the active employees from the pension plan and create a new plan for each one of the new holding companies, including the Company (plans as identified in note 33). The parties agreed to allocate the plan assets based on the reserves under the Brazilian GAAP. The allocation of the initial transition liabilities and non-amortized gains and losses was based on the projected benefit liability (PBO) of each individual employer divided by the total SISTEL PBO in December 31, 1999, under ASC 715 (ex-SFAS No. 87). Retirees of the new holding companies participating in the SISTEL-defined pension plan would remain as part of the SISTEL multi-employer

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defined plan. The post-retirement health benefit plans would also remain as multi-employer defined plans; SISTEL, however, no longer subsidizes life insurance premiums for retirees.

The change in benefit obligation and plan assets, as well as the funding status on December 31, 2008 and 2009 for the pension plans for the active employees of TIM Celular and the annual pension cost of the active employees Company's sponsored defined benefit plan pension in accordance with US GAAP, are summarized below:

	2008	2009
Projected benefit obligation at beginning of year	25,948	24,445
Service cost	25	(8)
Interest cost	2,693	2,770
Actuarial (gain) loss	160	27
Benefits paid	(1,902)	(2,017)
Projected benefit obligation at end of year	26,924	25,217
Change in plan assets		
Fair value of plan assets at beginning of year	45,122	46,547
Actual return on plan assets	3,266	6,077
Contributions	60	-
Benefits paid	(1,902)	(2,017)
Fair value of plan assets at end of year	46,546	50,607
Funded status	22,102	24,401
Unrecognized net actuarial gains	(9,445)	(8,744)
Unrecognized net transition obligation, net	94	-
Net amount recognized	12,751	15,657

Amounts to be recognized in the statement of financial position consist of (*):

	2008	2009
Prepaid benefit cost	22,102	24,401
Accrued benefit cost	-	-
Intangible assets	-	-
Net amount recognized	22,102	24,401

(*) No asset was recognized by the sponsors because this amount is not refundable to the participants and because future sponsor contributions will not be reduced.

The accumulated benefit obligation for all defined benefit pension plans was R\$24,418 and R\$26,179 at December 31, 2008 and 2009, respectively.

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The components of net periodic benefit cost for the TIM Celular plan for the years ended December 31, 2007, 2008 and 2009 are as follows:

	Years ended December 31,		
	2007	2008	2009
Service cost	49	25	10
Interest cost	2,358	2,693	2,770
Expected return on plan assets	(4,198)	(5,560)	(5,517)
Amortization of unrecognized gains	(340)	(268)	(245)
Amortization of transitional obligation	102	102	94
Expected participants' contributions	(44)	(35)	(18)
Net periodic benefit cost	(2,073)	(3,043)	(2,906)

The actuarial assumptions for December 31, 2008 and 2009 used in the computation of the funding status of the PBS-A-SISTEL, PBS-TIM Celular and the PBS-TIM Nordeste were the following:

	2008		2009	
		%		%
Discount rates to determine the projected benefit liabilities	11.82	%	11.08	%
Rate of growth in compensation levels	6.59	%	6.28	%
Expected long-term rate of return for the plan assets	12.11	%	9.88	%
Inflation	4.50	%	4.20	%

The expected long-term rate of return for the plan assets was set up based on the pension portfolio's past average rate or earnings, discussion with portfolio managers and comparisons with similar companies. The expected long-term rate of return is based on an asset allocation assumption of 15% to equities and 85% fixed income securities.

Plan Assets

TIM Celular and TIM Nordeste pension plans weighted-average asset allocations at December 31, 2008 and 2009, by asset category were as follows:

	2008		2009	
		%		%
Equity securities	4	%	6	%
Debt securities	96	%	94	%
Total	100	%	100	%

The SISTEL TIM Celular and SISTEL TIM Nordeste Benefit Plans Investment Policy's are addressed in the Equity Application Master Plan (PDAP), which sets forth the policy for application and management of funds supporting the

Plan, with a view to meeting the profitability and social security goals in accordance with the related actuarial liability.

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Based on the short, medium and long-term macroeconomic scenarios prepared by SISTEL, the PDAP sets out objectives, goals and restrictions as to the investment of plan funds, and determines and designs the strategic assignment of these funds in each segment and portfolio, as well as the assets that may be selected and the strategy to be adopted to manage these assets.

The assignment addressed in the PDAP sets forth the ceiling and floor limits to break down the asset portfolio into fixed-income and variable assets, as well as loans and financings to the members of the plan, taking into consideration the limits set forth in National Monetary Council Resolution No. 3121, apart from the criteria for selection of these assets.

The minimum actuarial rate forecast for the Plan consists of profitability at least equal to INPC (Brazilian Broad National Consumer Price Index) + 6% p.a.

Cash Flows

The Company expects not to contribute to its pension plans in 2010. The expected future benefit payments in 2009 can be summarized as follows:

	2009
2010	2,163
2011	2,243
2012	2,327
2013	2,412
2014	2,510
2015 to 2019	13,971

A summary of the funding status of the Sistel (PBS-A- SISTEL) pension plans on December 31, 2008 and 2009 for the multi-employer plan is presented below:

	2008	2009
Projected benefit obligation (PBO)	(8,312,412)	(8,415,960)
Fair value of the plan assets	13,656,383	13,315,713
Excess of assets over projected liabilities	5,343,971	4,889,753

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A summary of the funding status of the health plan (PAMA) on December 31, 2007 and 2008 for the multi-employer plan is presented below:

	2008	2009
Accumulated postretirement benefit obligation (APBO)	(2,337,587)	(3,078,508)
Fair value of the plan assets	1,109,190	1,145,516
Excess of benefit obligation over assets	(1,228,397)	(1,932,992)

c. New accounting standards

Recently Adopted Standards

In September 2009, the Accounting Standards Codification (“ASC”) became the source of authoritative U.S. GAAP recognized by the Financial Accounting Standards Board (“FASB”) for nongovernmental entities, except for certain FASB Statements not yet incorporated into ASC. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative U.S. GAAP for registrants. The authoritative guidance mentioned in these financial statements includes the applicable ASC reference.

In December 2007, FASB also issued new accounting guidance ASC 810 which clarifies that a non-controlling (minority) interest in an Operating Subsidiary is an ownership interest in the entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to include the amounts attributable to both the parent and non-controlling interest, with disclosure on the face of the consolidated income statement of the amounts attributed to the parent and to the non-controlling interest. This statement is effective for fiscal years beginning after December 15, 2008 (calendar year 2009), with presentation and disclosure requirements applied retrospectively to comparative financial statements. The adoption of this guidance did not have an impact on the Company’s consolidated financial position, results of operations and cash flows.

ASC 820 “Fair Value Measurement and Disclosures” defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require any new fair value measurements. This statement is initially effective for financial statements issued for fiscal years beginning after November 15, 2007 (calendar year 2008), and is to be applied prospectively as of the beginning of the year in which it is initially applied. For all nonrecurring fair value measurements of nonfinancial assets and liabilities, the statement is effective for fiscal years beginning after November 15, 2008 (calendar year 2009). The adoption of this guidance did not have a significant impact on the Consolidated Financial Statements.

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ASC 715 “Compensation-retirement Benefits” provides guidance on an employer’s disclosures about plan assets of a defined benefit pension or other post-retirement plans. This guidance is intended to ensure that an employer meets the objectives of the disclosures about plan assets in an employer’s defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of the following: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair value measurements using significant unobservable inputs on changes in plan assets; and significant concentrations of risk within plan assets. The Company has complied with the disclosure requirements.

ASC 350 “Intangibles-Goodwill and Other” amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, “Goodwill and Other Intangible Assets.” Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. This FSP “FASB Staff Position” is effective prospectively for intangible assets acquired or renewed after January 1, 2009. The adoption of this guidance did not have a significant impact on the Consolidated Financial Statements.

ASC 815 “Derivatives and Hedging” seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (i) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (ii) the disclosure of derivative features that are credit risk-related; and (iii) cross-referencing within footnote disclosures to enable financial statement users to locate important information about derivative instruments. The Company has complied with disclosure requirements.

ASC 805 “Business Combination,” as amended by FAS 141(R), establishes principles and requirements for how an acquiring entity in a business combination recognizes and measures the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. This statement is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (calendar year 2009), and was applied to the acquisition of Holdco/Intelig.

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Recently Issued Standards

In June 2009, the FASB issued Statement 166 (codified in ASC 860) that removes the concept of a qualifying special-purpose entity (“QSPE”) from former SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of former FASB Statement No. 125. The QSPE concept had initially been established to facilitate off-balance sheet treatment for certain securitizations. The new statement also removes the exception from applying the requirements of consolidation accounting for variable interest entities to QSPEs. This new standard has not been incorporated into ASC and is effective for fiscal years beginning after November 15, 2009. The Company does not believe that the adoption of this new standard will have a material impact on its financial statements.

In June 2009, the FASB issued Statement 166 (Codified in ASC 810) that amends former FIN 46(R) to among other things, require an entity to qualitatively rather than quantitatively assess the determination of the primary beneficiary of a variable interest entity (“VIE”). This determination should be based on whether the entity has 1) the power to direct matters that most significantly impact the activities of the VIE and 2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Other key changes include: the requirement for an ongoing reconsideration of the primary beneficiary, the criteria for determining whether service provider or decision maker contracts are variable interests, the consideration of kick-out and removal rights in determining whether an entity is a VIE, the types of events that trigger the reassessment of whether an entity is a VIE and the expansion of the disclosures previously required about Transfers of Financial Assets and Interests in Variable Interest Entities. This new standard is effective for fiscal years beginning after November 15, 2009. The Company does not believe that the adoption of this new standard will have a material impact on its financial statements.

In September 2009, the accounting standard regarding multiple deliverable arrangements was updated to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third-party evidence of selling price exists when evaluating multiple deliverable arrangements. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. The Company is currently evaluating the impact that this standard update could have on its consolidated financial statements.

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d. Segment information

Under US GAAP, ASC 280 (ex-SFAS No. 131), “Segment Reporting” sets forth the rules under which publicly traded companies are obliged to disclose financial and descriptive information on their business segments. Management is of the opinion that the Company and its subsidiaries operate in a single business segment as telecommunication services providers and, therefore, the disclosure of information requirements under US GAAP do not apply.

e. Comprehensive income

Comprehensive income is not different from net income under US GAAP for 2007, 2008 and 2009.

f. Termination benefits

The companies in Brazil are required to deposit 8% of the gross salary of each employee to an account under the employee’s name for Fundo de Garantia do Tempo de Serviço (FGTS - Workers’ Compensation Fund). No other contribution to the FGTS is required. Contributions are recorded as they occur. The contribution expense was R\$27,098, R\$28,429 and R\$28,947 for the years ended December 31 2007, 2008 and 2009. Brazilian labor law requires the Company to pay additional compensation to employees terminated without cause, equivalent to 50% (being 40% paid to employee and 10% paid to federal government) of the total amount of deposits already made by the Company to the individual employee’s FGTS account, for the period such employee worked for the Company.

g. Concentration of risks

The Company’s policy is to continually monitor the level of trade accounts receivable and limit the exposure to bad debts by cutting access to the telephone network if any invoice is approximately 15 days past due.

The Company maintains cash and cash equivalents with various financial institutions and, as a policy, limits exposure to any one institution.

In conducting its businesses, the Company is fully dependent upon the cellular telecommunications concession as granted by the Federal Government.

All employees are represented by state labor unions associated with the Federação Nacional dos Trabalhadores em Telecomunicações (“Fenattel”) and the Federação Interestadual dos Trabalhadores em Telecomunicações (“Fittel”) or the Sindicato dos Engenheiros do Estado do Paraná e Nordeste. The Company negotiates new collective labor agreements every year with the local unions. The collective agreements currently in force will expire in November 2010.

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There is no concentration of available sources of labor, services, concessions or rights, other than those mentioned above, that could, if suddenly eliminated, severely impact the Company's operations.

h. Income and social contribution taxes

Under US GAAP purposes, the deferred income and social contribution tax assets, with the corresponding valuation allowance, are comprised as follows:

	2008	2009
Tax loss carryforwards - income tax	1,649,882	1,719,136
Tax loss carryforwards – social contribution tax	593,924	619,081
Fair value increments from acquisitions of minority interests	(17,501)	(5,360)
Operation with derivatives – assets	(110,266)	28,240
Adjustment to fair value – 3G licenses	29,130	26,602
Pre-operating expenses	50,669	37,733
Interest and foreign exchange on concession financing	29,115	19,656
Allowance for doubtful accounts	123,115	231,931
Provision for contingencies	86,146	70,777
Pension plan	(661)	1,476
Accelerated depreciation of TDMA equipment	30,921	17,522
Provision for employees' profit sharing	11,431	9,482
Capitalized interest	(32,297)	(30,197)
Property, plant and equipment	-	70,143
Other provisions	26,954	38,858
Valuation allowance	(2,304,587)	(2,595,378)
	165,975	259,702
Current assets	59,356	55,105
Current liabilities	(14,703)	(14,582)
Noncurrent assets	131,463	231,879
Noncurrent liabilities	(10,141)	(12,700)

Income and social contribution tax expenses under US GAAP are as follows:

	2007	2008	2009
Income and social contribution tax expense (note 30)	(166,837)	64,254	(5,516)
Deferred tax on the US GAAP adjustments, net of valuation allowance	50,450	35,191	24,347
Total income tax and social contribution tax expense	(116,387)	99,445	18,831

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The effect of the income tax reduction resulting from the ADENE tax incentive, per both common and preferred shares, for 2007, 2008 and 2009, was as follows:

2007	2008	2009
0.000	0.014	0.038

The effective tax rate for the Company under US GAAP was 55.84, 190.98% and 7.18% for 2007, 2008 and 2009, respectively.

i. Fair value measurements (ASC 820)

The Company adopted ASC 820 (old SFAS 157) on January 1, 2008, which provides a definition of fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. The standard applies when GAAP requires or allows assets or liabilities to be measured at fair value; therefore, it does not expand the use of fair value in any new circumstance.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). Additionally, ASC 820 requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

ASC 820 establishes a three-level hierarchy to be used when measuring and disclosing fair value. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. Following is a description of the three hierarchy levels:

Level 1 - Inputs are quoted prices in active markets for identical asset or liabilities as of the measurement date. Additionally, the entity must have the ability to access the active market, and the quoted prices cannot be adjusted by the entity.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.

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Level 3 - Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best assumptions of how market participants would price the assets or liabilities. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

In accordance with ASC 820, the Company measures its cash equivalents, foreign currency and interest rate derivative swap contracts at fair value. Cash equivalents and short-term investments is classified within Level 1, because it is valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency, interest rate derivative swap contracts and loans and financing are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The estimated market value of financial instruments, mainly of cash and cash equivalents, accounts receivable and short-term financial instruments approximates the corresponding book value considering that maturity of these instruments is within short-term. The following table summarizes our financial assets and liabilities recorded at fair value as of December 31, 2008 and 2009, except for loans and financings, whose fair value differs from book value:

Description	December 31, 2009		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Book value	Fair value total			
Assets					
Cash and cash equivalents	2,413,032	2,413,032	2,413,032	-	-
Short-term investments – composed by Bank Deposit Certificates (CDB)	146,145	146,145	146,145	-	-
Derivative contracts	78,264	78,264	-	78,264	-
Foreign currency derivative contracts	62,982	62,982	-	62,982	-
Interest rate derivative contracts (fixed interest x CDI)	9,283	9,283	-	9,283	-
Interest rate derivative contracts (TJLP x CDI)	5,999	5,999	-	5,999	-
Total assets	2,637,441	2,637,441	2,559,177	78,264	-
Liabilities					
	4,159,958	4,156,673	-	4,156,673	-

Loans and financings, with accrued interest					
Derivative contracts	161,322	161,322	-	161,322	-
Foreign currency derivative contracts	156,555	156,555	-	156,555	-
Interest rate derivative contracts (fixed interest x CDI)	-	-	-	-	-
Interest rate derivative contracts (TJLP x CDI)	4,767	4,767	-	4,767	-
Total liabilities	4,321,280	4,317,995	-	4,317,995	-

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Description	December 31, 2008		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Book value	Fair value total			
Assets					
Cash and cash equivalents	1,531,543	1,531,543	1,531,543	-	-
Short-term investments – composed by Bank Deposit Certificates (CDB)	23,048	23,048	23,048	-	-
Derivative contracts	387,573	387,573	-	387,573	-
Foreign currency derivative contracts	373,480	373,480	-	373,480	-
Interest rate derivative contracts (fixed interest x CDI)	8,200	8,200	-	8,200	-
Interest rate derivative contracts (TJLP x CDI)	5,893	5,893	-	5,893	-
Total assets	1,942,164	1,942,164	1,554,591	387,573	-
Liabilities					
Loans and financings, with accrued interest	3,549,219	3,495,308	-	3,495,308	-
Derivative contracts	63,262	63,262	-	63,262	-
Foreign currency derivative contracts	60,640	60,640	-	60,640	-
Interest rate derivative contracts (fixed interest x CDI)	10	10	-	10	-
Interest rate derivative contracts (TJLP x CDI)	2,612	2,612	-	2,612	-
Total liabilities	3,612,481	3,558,570	-	3,558,570	-

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TIM PARTICIPAÇÕES S.A AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007, 2008 and 2009

(In thousands of Reais, unless otherwise stated)

The valuation method used for the calculation of fair value of loans, financing and derivative instruments (foreign currency and interest rate derivative swap contracts) was the discounted cash flow considering the expected settlements and realization of such financial assets and liabilities at the market rates prevailing at balance sheet date. For derivative instruments the method used for the calculation of fair value is presented in greater detail in Note 29.

In order to minimize its exposure to the local variable interest rate (CDI), the Company invests its excess cash, amounting to R\$ 2,559,177 (R\$ 1,281,674 in 2008), substantially in cash and cash equivalents and short-term investments (Bank Deposit Certificates) based on the CDI rate variation. The book values of these instruments approximate market values, since they may be redeemed in the short term.

For the year ended on December 31, 2009, short-term investments generated income of R\$70,210 (R\$96,341 in 2008 and R\$24,516 in 2007), which was recorded as financial income.

Also, until December 30, 2009, our interest rate derivative swap contracts (CDI x prefixed and TJLP) generated a gain of R\$2,395, which have been included in results of operations.

j. Subsequent events (unaudited)

On April 27, 2010, the Shareholders' Meeting of TIM Participações approved the renewal of the cooperation and support agreement with Telecom Italia S.p.A. and TIM Celular effective between January 3, 2010 and January 2, 2011 up to the approximate amount to R\$ 20.700 (note 31).

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